



RETIREMENT CONTRIBUTION SCHEME



Home truths

The case for rebalancing toward better means testing

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FULL REPORT

[Read the full report](#) →

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1 Proposed changes

Policy Institute Australia's latest report, *Home truths: The case for rebalancing toward better means testing*, proposes a new direction for reform for means testing of social transfers in Australia – including the Age Pension and Aged Care.

Our preferred option to better target the Age Pension and Aged Care provides more equitable treatment of households with substantial equity in owner-occupied housing. This is primarily by including the net value of owner-occupied housing above \$500,000 in the assets test.¹ Please read the full report to see more details on the proposed changes: <https://www.policyinstitute.org.au/home-truths/>

2 Retirement Contribution Scheme (ReCS)

Using wealth to support retirement living standards

Under our proposed changes, pensioners residing in modest homes with modest means will find it easier to meet the assets test, with some receiving higher pension payments. Pensioners residing in high value homes will see that asset treated more like other forms of wealth. Around 80% of full pensioners would continue to receive the full pension, and around 75% of part pensioners will continue to receive a part pension. Non-homeowners would experience no change.

There are some retiree households who live in relatively high value homes, but do not have other assets with which to support their standard of living. Under our preferred option, these retirees may not qualify for a full pension, and therefore may need assistance to support a standard of living at the full pension rate.²

Specifically, we estimate that about 5% of current retiree households³ *would* need assistance to maintain the full pension standard of living (Figure 1). A further 14% of older households *may* need assistance at some point in their retirement because the value of the assets they hold would rise over time, eventually equal to the above threshold test – either because their home appreciates in value, or they sell non-home assets to meet living expenses, or both.

Design features

To address the needs of these households, and support the wellbeing of other retiree households, Policy Institute Australia suggests the 'Retirement Contribution Scheme', ReCS, based on the Higher Education Contribution Scheme (HECS), which allows eligible students to defer university tuition fees.

This new idea would allow retired Australians to defer the cost of self-funding their retirement. In this way, older Australians would be able to retain their existing assets, including their home, as well as a full or part pension if they are eligible.

ReCS adopts several design features of the existing HECS:

¹ Automated Valuation Models, which value properties based on large datasets, are already used in mortgage valuation processes in Australia, and could be used for valuing properties for assets tests (Derwin, 2026).

² Currently about \$31,200 a year for singles, and \$47,100 a year for couples.

³ 106,000 households.

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1. It is a concessional loan, with the value of the loan indexed to inflation.⁴
 2. It is income-contingent, and repayment is deferred until the recipient has the capacity to do so. For ReCS, this would likely occur when assets are sold. There would be no forced asset sales, with repayment triggered by the borrower's own decisions or by the eventual transfer of their estate.
 3. The scheme is optional, but with administrative arrangements that make it as simple and straightforward as possible to opt-in.
 4. The scheme is provided by the Commonwealth Government.

ReCS would have broad eligibility. It would be open to any Australian above the Age Pension age of 67, with sufficient assets against which to secure the loan — such as owner-occupied housing, superannuation or other financial assets. The loan would be secured against assets, instead of future income earnings as is the case with HECS.

How it can be used

Recipients would be able to access any amount up to 150% of the full pension rate for singles or couples, minus any pension amount currently received. The current full rates (annualised) are equal to about \$31,200 for singles and \$47,100 combined for couples in 2025–26.

Recipients would also be able to use ReCS to fund *any* out-of-pocket Aged Care fees, including accommodation costs (either daily or lump sum), clinical care, hotelling contributions, non-clinical care contributions, daily fees, or higher everyday living fees. For some retirees, this could lead to significantly larger annual borrowings than if ReCS was used only to fund up to 150% of the pension.

Its principal target would be the two cohorts identified above, but for others, ReCS offers the opportunity for some older Australians to increase their standard of living or to defer the cost of self-funding part or all of their retirement. The cap provides certainty over the drawdown rate of the loan and for high wealth households means growth in asset values will likely outpace drawdown rates over the life of the loan.⁵

Advocates

The Productivity Commission has previously advocated for a government-backed *Australian Aged Care Home Credit scheme* to be established (as well as for capturing owner-occupied housing in the Residential Aged Care means test), which would “help unlock their home equity so they could contribute to their care and accommodation costs while a partner or other ‘protected person’ could continue living in the home.”⁶

Similarly, COTA Australia — the peak body for older Australians — has previously supported a similar idea to enable older Australians to borrow against the equity in their home to pay for aged care services costs. The scheme proposed by COTA would also be HECS-like in its design, in the sense that as people incurred their bills, they would be set against the equity in their home.⁷

⁴ Note that HECS is indexed to the lower annual growth rate of the Wage Price Index or Consumer Price Index. ReCS would be indexed to the Consumer Price Index.

⁵ In addition, any person receiving Aged Care services of any type — such as Residential Aged Care, Support at Home, or Commonwealth Home Support Programme — should be able to access ReCS for any contribution they are required to make for the Aged Care services they receive, as long as they had sufficient assets against which to secure the loan.

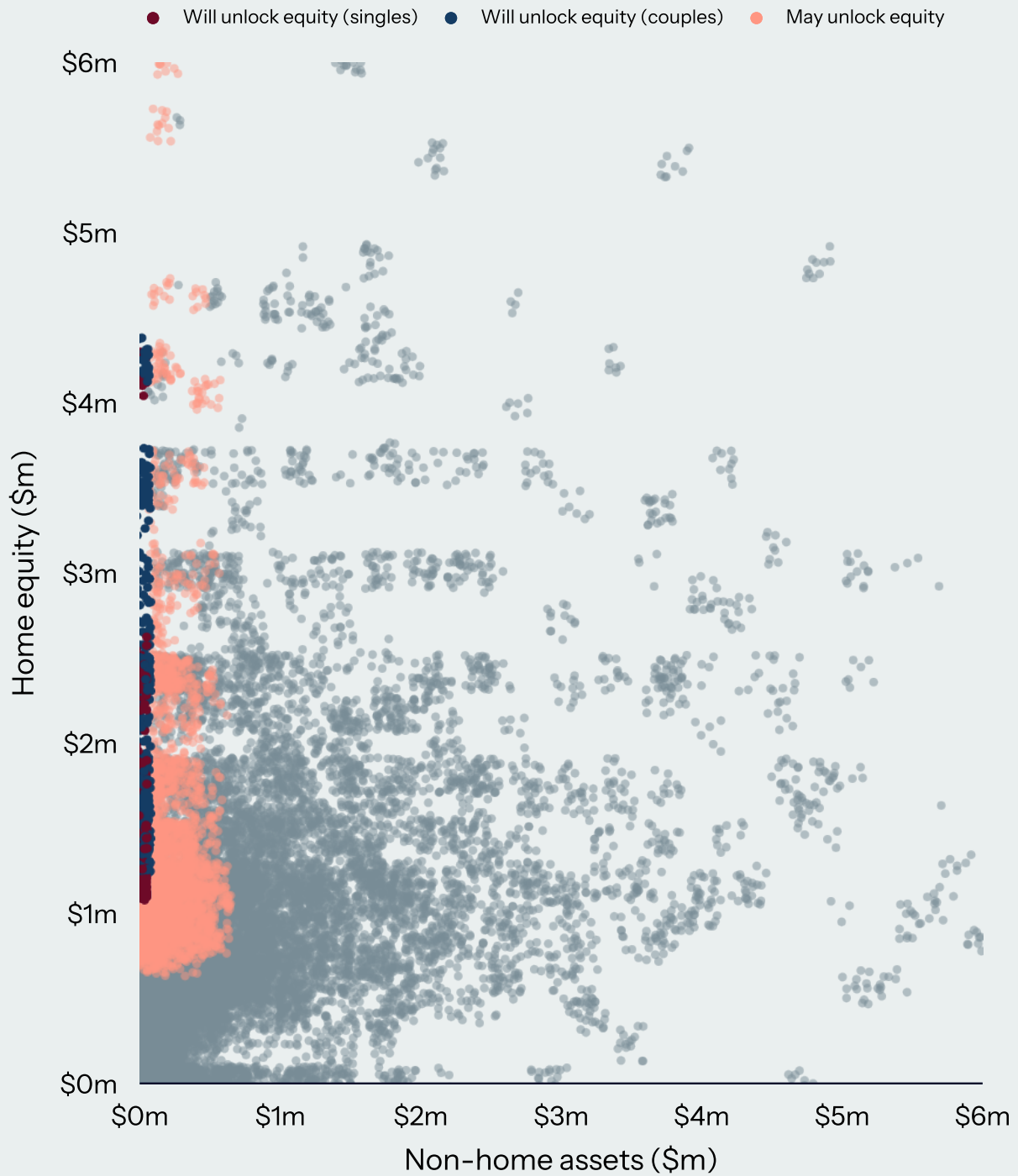
⁶ Productivity Commission (2011).

⁷ The Senate Economics References Committee (2015).

FIGURE 1

Only a fraction of retirees will need assistance to unlock equity

67+ population; each dot represents around 100 weighted people



Note: We define this group as: for singles, having net owner-occupied housing wealth greater than \$1.08 million, and non-home assets of less than \$50,000; for couples, having net owner-occupied housing wealth greater than \$1.24 million, and non-home assets of less than \$75,000. Jitter applied to show overlapping observations.

Source: Policy Institute Australia estimate using the HILDA dataset (Melbourne Institute, 2025).

Implementation considerations

ReCS should replace the Commonwealth Government’s existing Home Equity Access Scheme (HEAS). Table 1 outlines the critical ways in which ReCS differs from HEAS, as well as its similarities. The settings of ReCS are such that the private financial sector is unlikely to provide such a product on comparable terms.

The takeup rate of the existing HEAS has been low. There are several elements in the design of ReCS that increase its attractiveness compared to HEAS. Indexation of the loan as per HECS provides more certainty on the total draw down in equity that would result over the life of the loan. This plus the cap on withdrawal to 150% of the pension means the size of the loan is unlikely to grow as rapidly as the value of assets it is held against, meaning that the value of the estate will very likely still be higher than it was at the commencement of retirement. Additionally, the offering of one consistent scheme to support income needs across the pension and aged care systems would simplify an incredibly complex system.

This may reduce the tendency for precautionary savings now observed among early-retiree households.

It could also greatly reduce the uncertainty and stress many families experience when making financial arrangements for aged care, where arrangements often need to be made at relatively short notice. The support for these families would be immediate and at a level equal to those received by retirees on lower incomes, but ultimately repaid and therefore at lower cost to taxpayers.

There are some implementation considerations that would need to be worked through for ReCS. However, this paper aims to outline a broad direction for reform and does not intend to solve all implementation issues, although this could be an area for further Policy Institute Australia research.

TABLE 1

Comparison of HEAS and ReCS

DESIGN	HOME EQUITY ACCESS SCHEME (HEAS)	RETIREMENT CONTRIBUTION SCHEME (RECS)
Interest rate	Set at ministerial discretion, currently 3.95% .	Set as the annual growth in the Consumer Price Index.
Maximum amount to borrow	Up to 150% of the applicable pension amount per year, minus any pension received.	Up to 150% of the applicable pension amount per year, minus any pension received, plus any Aged Care contributions.
Eligibility	Open to pensioners and self-funded retirees.	Open to pensioners and self-funded retirees.
Security	Australian real estate	Any asset type, including shares, superannuation, investment properties and owner-occupied housing.
Safeguards	No negative equity guarantee	No negative equity guarantee
Payment	Lump sum or regular payment	Lump sum or regular payment
Take-up	19,426 participants in 2026.	Estimated take-up of around 126,000 households in 2025–26

Note: Estimated ReCS take-up for 2025–26 comprises 106,000 households with immediate need for assistance unlocking equity plus around 20,000 current HEAS participants. Source: Policy Institute Australia analysis. Department of Social Services (2026).

Cameo 1: Josephine owns a median value home, and will continue to receive the Age Pension into retirement

Josephine is a single pensioner who owns a median value Australian home worth \$930,000.⁸ She has no other significant assets. She is currently receiving the full Age Pension, as her other assets fall below the current \$321,000 assets test threshold for single homeowners.

Our preferred option increases the applicable full pension assets test threshold to \$579,000, and excludes the first \$500,000 of owner-occupied housing from the assets test, meaning that Josephine will remain eligible for the full pension, as her assessable assets would be \$430,000.

Over time, the value of Josephine's asset will grow. After a number of years, she will lose eligibility for the full pension and will instead be eligible for a part pension. ReCS allows Josephine to maintain her standard of living at the same level by borrowing the difference between the full pension rate and the part pension she receives, at zero real interest, secured against her owner-occupied housing.

FIGURE 2

Josephine can top up her income with ReCS when she goes to the part pension

Josephine's balance sheet and assessable assets and debt, real \$2025–26, by age

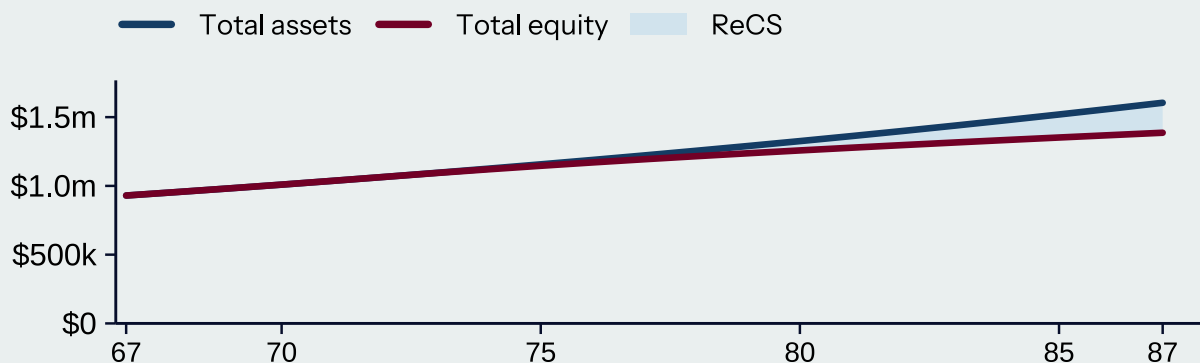
Age	Composition	House	Other	ReCS	Equity	Pension
67		\$930k	\$0	\$0	\$930k	Full
70		\$1.01m	\$0	\$0	\$1.01m	Full
75		\$1.16m	\$0	-\$10k	\$1.15m	Part
80		\$1.33m	\$0	-\$68k	\$1.26m	Part
85		\$1.52m	\$0	-\$167k	\$1.35m	None
87		\$1.60m	\$0	-\$218k	\$1.39m	None

ReCS House (exempt) House (assessed) Other assets

FIGURE 3

Josephine will be \$400,000 richer in 20 years despite losing full pension eligibility during her retirement

Josephine's balance sheet, real \$2025–26, by age



Note: Figures are projected over a 20-year horizon from age 67 in real \$2025–26. This assumes 2.5% annual consumer price inflation, 2.8% real annual home price growth (reflecting the 50-year average in Australia) and an assumed 4.0% real annual return on non-housing assets, including reinvesting any income from assets. Age Pension entitlements are modelled in line with the preferred option, with the asset test thresholds assumed to stay constant in real terms.

Source: Policy Institute Australia analysis.

⁸ Cotality (2026).

Cameo 2: David owns a modest home in regional Victoria, and will receive the full Age Pension for his whole retirement

David is a single pensioner who owns a modest \$400,000 home. He holds no other significant assets. He is currently receiving the full pension, as his other assets fall below the current \$321,000 assets test threshold for single homeowners.

Our preferred option increases the applicable full pension assets test threshold to \$579,000, and excludes the first \$500,000 of owner-occupied housing from the assets test, meaning that David will remain eligible for the full pension, as his assessable assets would be \$0.

While David continues to receive the same benefits, he *chooses* to use ReCS to supplement his income. He is eligible to receive an additional 50% on top of the value of his full pension, and chooses to access the full amount, giving him an additional \$600.45 a fortnight in 2025–26, equivalent to \$15,611.70 over the year.

FIGURE 4

David can boost his cash income while staying on the full pension

David's balance sheet and assessable assets and debt, real \$2025–26, by age

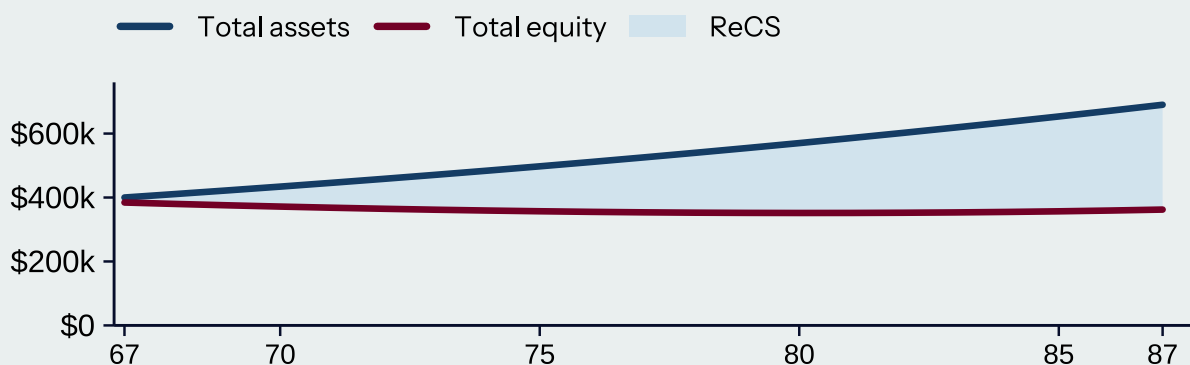
Age	Composition	House	Other	ReCS	Equity	Pension
67		\$400k	\$0	-\$16k	\$384k	Full
70		\$434k	\$0	-\$62k	\$372k	Full
75		\$498k	\$0	-\$141k	\$357k	Full
80		\$570k	\$0	-\$219k	\$352k	Full
85		\$653k	\$0	-\$297k	\$357k	Full
87		\$690k	\$0	-\$328k	\$362k	Full

ReCS House (exempt) House (assessed) Other assets

FIGURE 5

David's equity draws down slowly while using ReCS to give his income a 50% boost

David's balance sheet, real \$2025–26, by age



Note: Figures are projected over a 20-year horizon from age 67 in real \$2025–26. This assumes 2.5% annual consumer price inflation, 2.8% real annual home price growth (reflecting the 50-year average in Australia) and an assumed 4.0% real annual return on non-housing assets, including reinvesting any income from assets. Age Pension entitlements are modelled in line with the preferred option, with the asset test thresholds assumed to stay constant in real terms. Source: Policy Institute Australia analysis.

Cameo 3: Judy, who owns a \$3 million Sydney home, will no longer receive the pension, but can self-fund retirement and will still be richer in 20 years than she is today

Judy is a 67-year-old single pensioner who has \$3 million in owner-occupied housing, as well as \$200,000 in shares. She is currently receiving the full Age Pension, as her assets fall below the current \$321,000 assets test threshold for single homeowners.

Our preferred option increases the applicable full pension assets test threshold to \$579,000, and excludes the first \$500,000 of owner-occupied housing from the assets test, meaning that Judy will no longer be eligible for any pension.

However, Judy can continue to maintain her standard of living – receiving an income stream from ReCS equivalent to the value of her previous pension. At age 86, Judy needs to go into Aged Care. She can then use ReCS to help fund her Aged Care contributions. After 20 years, Judy would still be richer than she is today. Assuming 2.8% real annual home price growth (reflecting the 50-year average in Australia), she would see an increase in the real value of her *net* worth of about \$1.5 million⁹ – even with an entirely self-funded retirement.

FIGURE 6

Judy maintains her standard of living using ReCS

Judy's balance sheet and assessable assets and debt, real \$2025–26, by age

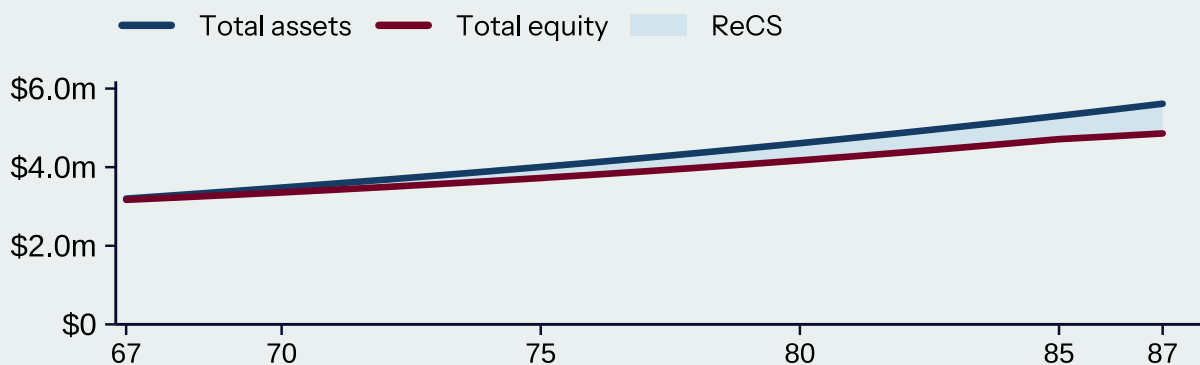
Age	Composition	House	Other	ReCS	Equity	Pension
67		\$3.00m	\$200k	-\$31k	\$3.17m	None
70		\$3.26m	\$225k	-\$125k	\$3.36m	None
75		\$3.73m	\$274k	-\$281k	\$3.72m	None
80		\$4.28m	\$333k	-\$437k	\$4.17m	None
85		\$4.90m	\$405k	-\$593k	\$4.71m	None
87		\$5.18m	\$438k	-\$756k	\$4.86m	None

ReCS House (exempt) House (assessed) Other assets

FIGURE 7

Judy's wealth is projected to rise by over \$1.5 million, due to the growing value of her significant assets

Judy's balance sheet, real \$2025–26, by age



Note: Figures are projected over a 20-year horizon from age 67 in real \$2025–26. This assumes 2.5% annual consumer price inflation, 2.8% real annual home price growth (reflecting the 50-year average in Australia) and an assumed 4.0% real annual return on non-housing assets, including reinvesting any income from assets. Age Pension entitlements are modelled in line with the preferred option, with the asset test thresholds assumed to stay constant in real terms. Source: Policy Institute Australia analysis.

⁹ Assuming the 50-year trend residential property price growth and an assumed 4.0% real annual return on non-housing assets, including reinvesting any income from assets.

2.1 What would be the cost to taxpayers?

ReCS would allow some retirees to defer their living expenses, by borrowing from the Commonwealth Government at a zero real interest rate. The loan is paid back, but only when assets are sold.

From the perspective of the Commonwealth Government, ReCS will in many cases represent a switch from annual budget expenditure to a loan provided to participants at a concessional rate. It will show up in the Commonwealth budget in three ways.

First, when an Australian of pension age decides to opt in to the scheme, the Commonwealth Government lends them *up to* 150% of the applicable full pension rate (less any pension they may currently receive, and plus any Aged Care contributions). This will appear on the Commonwealth's balance sheet as a loan, which is a *financial asset*.¹⁰

Second, the Commonwealth Government incurs the operational cost of carrying the loan. Borrowers pay zero real interest (the loan is indexed to inflation), while the Commonwealth Government will borrow at a higher nominal rate. Assuming average inflation of 2.5%,¹¹ and a Commonwealth Government borrowing cost of 5%,¹² the cost to the taxpayers of carrying the loan would be 2.5% of the loan value each year. This represents the major fiscal cost to the scheme.

Third, when retiree households' assets are sold or transferred, the loan principal (plus indexation) is repaid in full to the Commonwealth Government. There are no forced sales, with repayment triggered by the borrower's own decisions or by the eventual transfer of their estate. As the Commonwealth notes, all loans given out contain some element of credit risk that they will not be repaid in full,¹³ but for ReCS, this would be very low given that loans are secured against assets and the borrowing amounts are comparatively low.¹⁴

Forecasting the total future cost to taxpayers of ReCS would be a significant undertaking, and heavily dependent on assumptions, and is beyond the scope of this report.

Instead we present cameos (aligning with those presented above) to show the cost to taxpayers for several different household types and decisions, relative to the savings from reduced expenditure on Age Pension and Aged Care to these households (Figure 8).

To summarise, where ReCS is used to fund a reduced government benefit (as with Cameos 1 and 3), taxpayers can expect substantial overall savings. Where ReCS is used without any reduced benefit (as with Cameo 2), taxpayers can expect a more modest (although still significant) additional cost.

Estimated takeup

Earlier, we estimated that our proposed changes to the pension assets test would result in about 5% of current Australian retiree households requiring ReCS to meet living expenses equivalent to the full pension rate, and that an additional about 14% of this current cohort *may* need to use ReCS at some point during their retirement. All of these households would see reduced pension benefits.

¹⁰ There are many government loans currently like this on the Commonwealth's balance sheet. The existing HECS program is the largest, at over \$40 billion (Department of the Treasury, 2026).

¹¹ The midpoint of the RBA's target band.

¹² Representing the current 10-year Commonwealth Treasury rate (Trading Economics, 2026).

¹³ Department of the Treasury (2026).

¹⁴ The Department of Social Services advised that, for HEAS, the risk of non-recovery for loans is very low, due to requiring security against land and the Commonwealth's debt recovery powers.

This is a large group, and implies that ReCS loans could become a large asset on the Commonwealth Government's balance sheet. However, the overall savings to taxpayers would far outweigh the cost over time.

We expect that take-up of ReCS would be limited outside of this group, based on the fact that current take-up of the Home Equity Access Scheme (HEAS) is very low. As at March 2026, there were 19,426 participants using HEAS, representing less than 0.5% of the retiree population.¹⁵ While ReCS is likely to be more attractive to some retirees (Table 1), we expect that take-up would follow a similar pattern among retirees who have no need to borrow in order to support their living expenses while remaining in their home. Consequently, the cost to taxpayers of providing ReCS to this group is likely to represent only a small fraction of the overall savings. If take-up among this group was much higher than expected, especially among wealthy or high-income retirees, then safeguards could be introduced.

¹⁵ Department of Social Services (2026); Australian Bureau of Statistics (2025).

FIGURE 8

ReCS is likely to cost a fraction of expected savings

Estimated fiscal impact of ReCS across the three cameos, over twenty years, real \$2025-26

■ NET SAVING ■ NET COST scale: -\$100K · 0 · +\$600K

1 Josephine

ASSETS

Median home — \$930,000

SCENARIO

Retirement Contribution Scheme replaces the Age Pension she would otherwise draw.

NET COMMONWEALTH IMPACT

+\$187K

net saving to government



2 David

ASSETS

Modest home — \$400,000

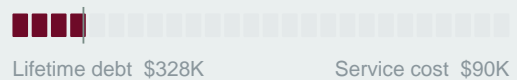
SCENARIO

Retirement Contribution Scheme boosts his full pension by 50%.

NET COMMONWEALTH IMPACT

-\$90K

net cost to government



3 Judy

ASSETS

\$3M home + \$200K shares

SCENARIO

Retirement Contribution Scheme replaces pension and funds aged care.

NET COMMONWEALTH IMPACT

+\$572K

net saving to government



Note: Figures rounded to the nearest \$1,000 (totals) and \$100 (annual averages). Operational servicing cost is the average annual cost to government of carrying the ReCS debt over the life of the debt. This is an estimated 2.5% per year.

Source: Policy Institute Australia estimates.