



EXECUTIVE SUMMARY



Home truths

The case for rebalancing toward better means testing

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FULL REPORT

Read the full report →

June 2026

Australia's social safety net has long reflected a simple idea: taxpayer funded support from government should go to those who need it most. That idea, grounded in our national values of fairness and equity, is quietly losing ground.

Our social safety net is growing faster than the economy, and a substantial share of this growth has flowed to Australia's most well off households. Our safety net is becoming both more expensive, and its distribution less equitable. Today, a retired couple with a \$5 million home in Sydney can qualify for the full Age Pension worth almost \$50,000 a year, and up to \$150,000 for one spouse in Aged Care. Their neighbours who rent a modest home and hold \$1.5 million in super receive no pension at all and roughly half the Aged Care support. Just 1% of households have income too high to qualify for either the Child Care Subsidy or Parental Leave Pay; a family earning \$400,000 a year may qualify for around \$20,000 in Child Care Subsidy and a further \$20,000 in government Parental Leave Pay.

These outcomes are the predictable result of means testing rules that have not kept pace with a wealthier and older Australia. This is a concern for the fairness of our social safety net today, as well as for its sustainability in the years to come. Policy Institute Australia has crunched the numbers, and found that across four programs — the Child Care Subsidy, Parental Leave Pay, Aged Care and the Age Pension — the 20% most well off households will receive about \$25.6 billion in support this financial year, or around 20% of all expenditure in these programs.

We have developed alternative and better targeted means testing arrangements. These would free up \$21 billion, which could:

- Provide an additional \$5,000 each in benefits to the 4.4 million households in the bottom 40% of households by income or wealth;
- Cut the tax rate for all income tax thresholds by 1.7 percentage points, which would reduce personal income taxes by up to \$2,000 for Australians in the middle income bracket and up to \$8,000 for those in the top brackets;
- Increase support through other programs such as JobSeeker (which currently costs \$16 billion) or Rent Assistance (which currently costs \$7 billion); or
- Eliminate 70% of this year's fiscal deficit.

We have developed an alternative approach to means testing across four programs that improves equity by better targeting support. It builds on existing frameworks rather than replacing them, making reforms practical to implement. Built into our approach is fairer treatment of owner-occupied housing as a recognition of wealth, alongside a principled stance that the most well off Australian households have financial capacity to pay for more of the services they receive, and should do so.

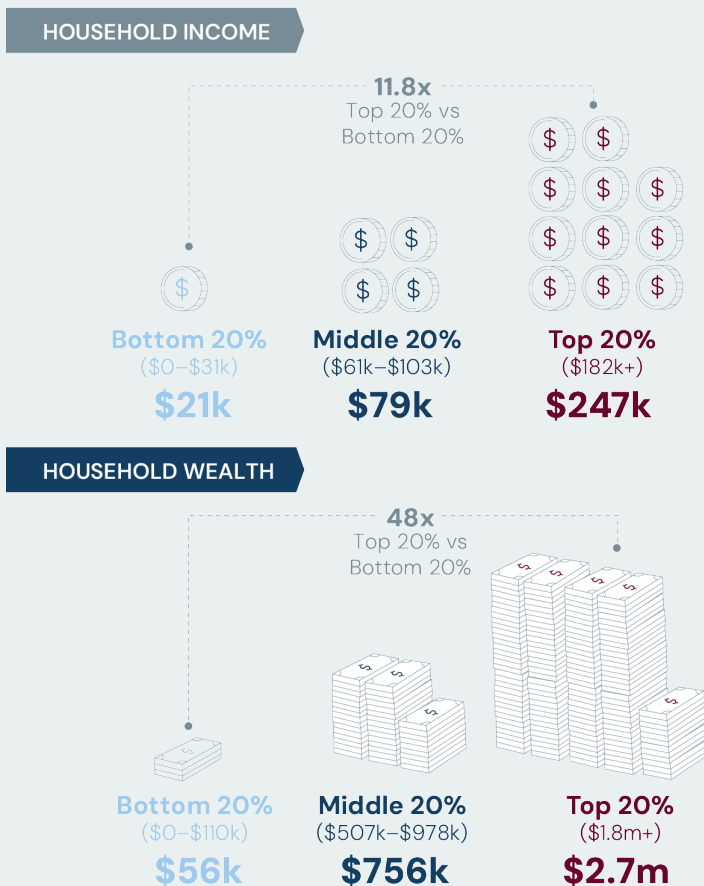
Recognising that some retired households primarily hold their wealth in their owner-occupied home, and may be unable to fund living expenses at the full pension, we have proposed a new policy: the 'Retirement Contribution Scheme' or ReCS. Like HECS, ReCS is an opt-in scheme that would enable retirees to defer the cost of self-funding their retirement.

This paper is not intended to provide a definitive answer on how means testing should be designed for these programs, but rather to demonstrate there are options for a more equitable and sustainable means testing approach that could be applied to these and other programs. In doing this work, we aim to kick start a conversation on who needs what from our social supports system, and how much taxpayers should be called upon to provide, both now and into the future. Our social compact depends on it.

You can read our full report here: <https://www.policyinstitute.org.au/home-truths/>

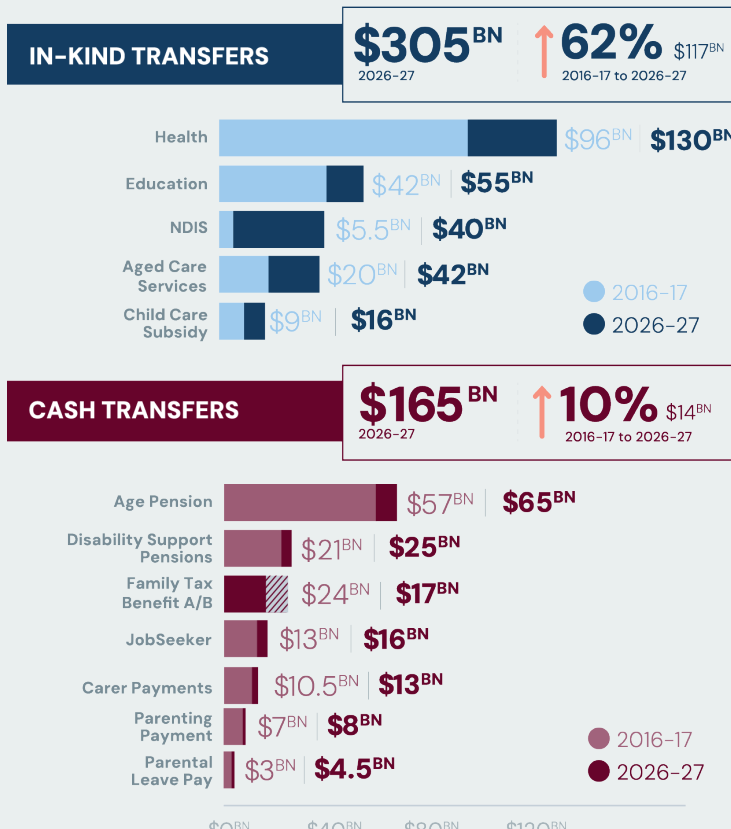
Household pre-tax income and wealth distribution, by quintile

Income has a much more equitable distribution than wealth in Australia



Commonwealth Budget expenditure, real \$2025

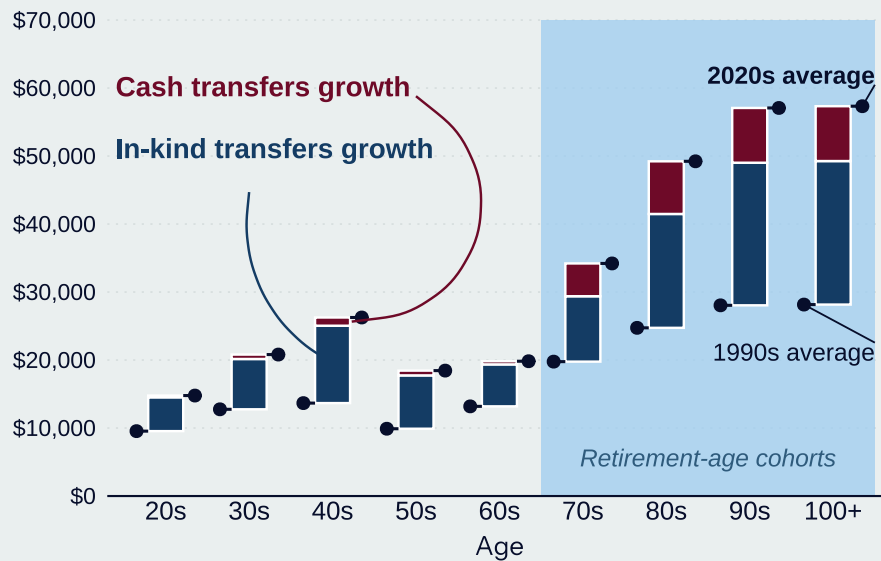
In-kind transfers are growing rapidly



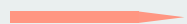
Sources: Policy Institute Australia estimate using the HILDA dataset; Policy Institute Australia analysis of Commonwealth Budget and Portfolio Statements

For older Australians, transfers have increased by around \$25,000 per capita in real terms since the 1990s

Benefits received, per adult, by age group, cash and in-kind, real \$2025

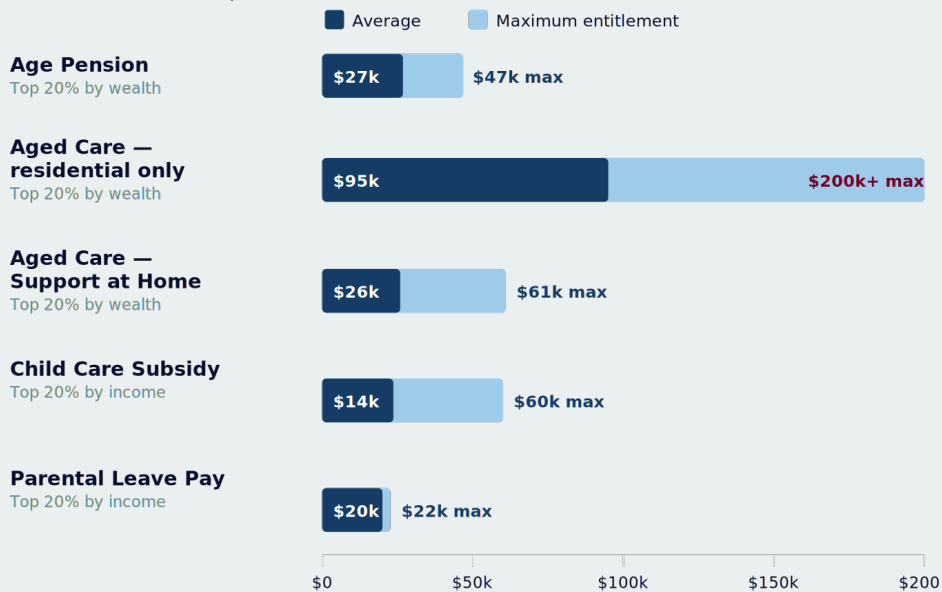


Source: Varela et al. (2025)

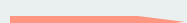


Average and maximum annual payment to top 20% households, by pre-tax income and wealth, selected social transfers

Current means testing provides substantial benefits to the top 20% of households by wealth or income

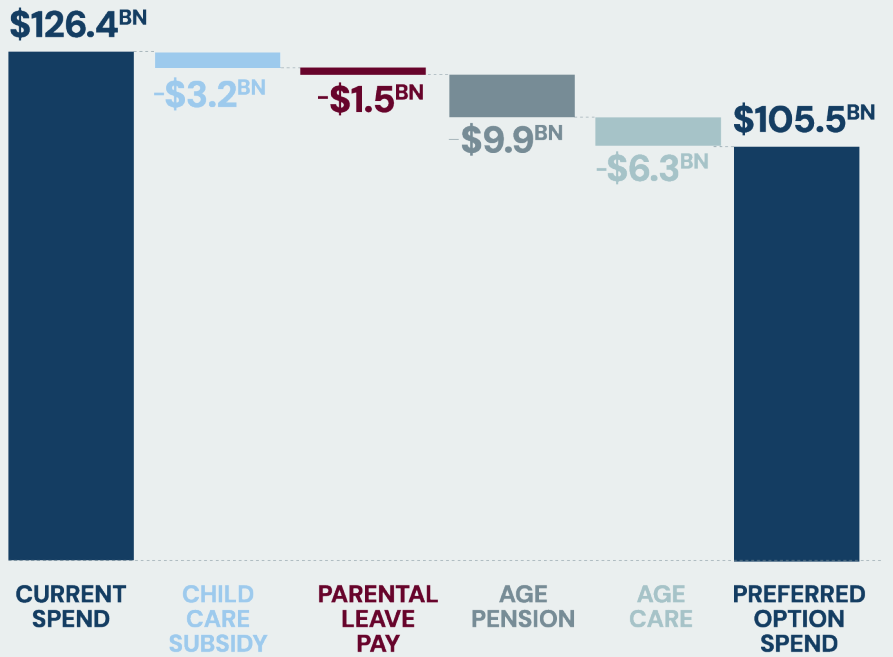


Source: Policy Institute Australia analysis.



Program spend, baseline compared to modelled outputs, 2025–26

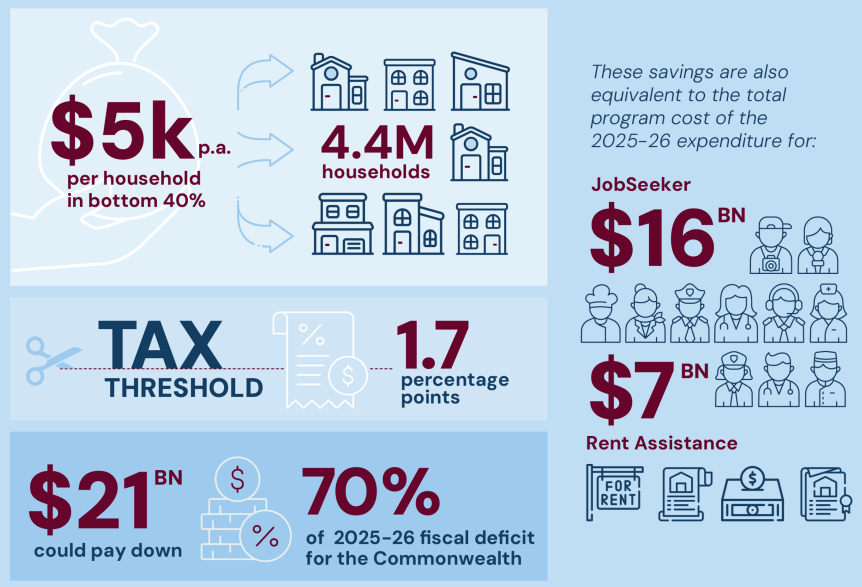
Reform could save around \$21 billion a year



Source: Policy Institute Australia Microsimulation Model (PIAMM)

What could \$21 billion fund?

\$21 billion in program savings could fund:

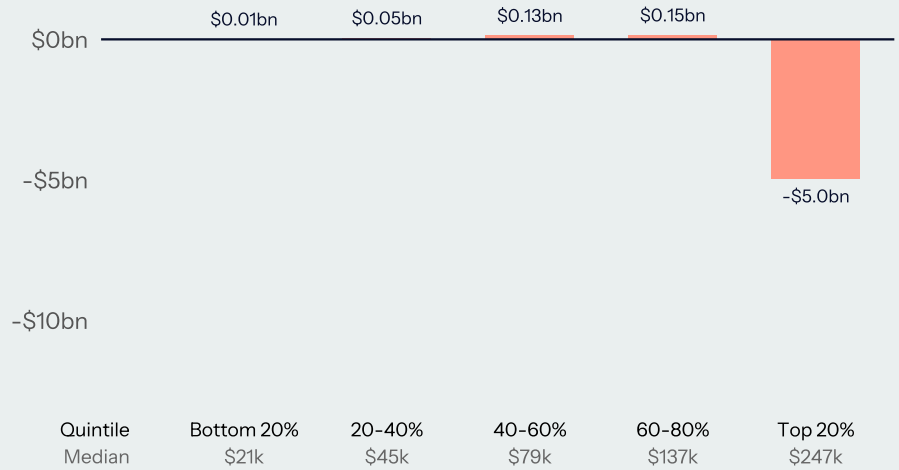


Source: Policy Institute Australia analysis.

**Policy Institute
Australia's
alternative
approach would
generate savings
from the top 20%
of the income
distribution for the
Child Care Subsidy
and Parental Leave
Pay**



Change in payments by income quintile, under preferred options for Child Care Subsidy and Parental Leave Pay

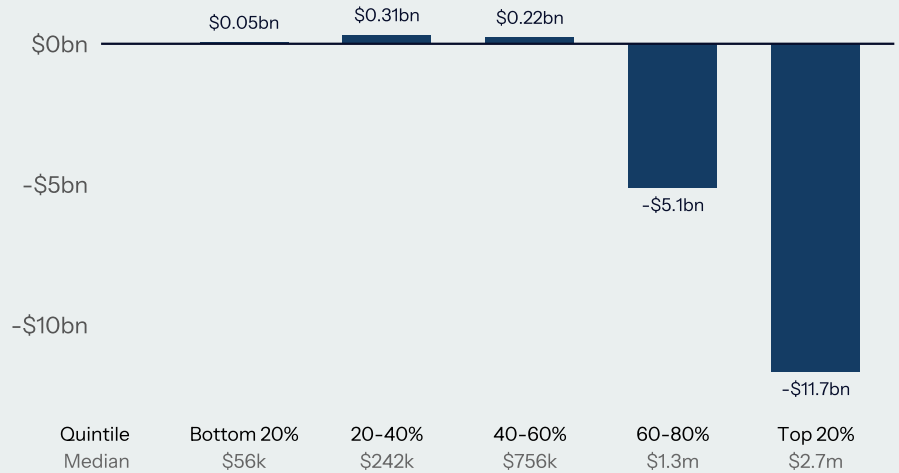


Source: Policy Institute Australia Microsimulation Model (PIAMM)

**Policy Institute
Australia's
alternative
approach would
generate the lion's
share of Age
Pension and Aged
Care savings from
the top 20% of the
wealth distribution**



Change in payments by wealth quintile, under preferred options for Age Pension and Aged Care



Source: Policy Institute Australia Microsimulation Model (PIAMM)

