

# Home truths

## Policy snapshot: Better targeting the Age Pension

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Read the full report: [www.policyinstitute.org.au/home-truths](http://www.policyinstitute.org.au/home-truths)

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### KEY POINTS

- › The Age Pension assets test treats owner-occupied housing differently from other assets, creating horizontal inequity between homeowners and non-homeowners with similar total wealth.
- › All homeowners have the value of their home treated the same regardless of whether it is worth \$500,000 or \$5 million.
- › We are proposing fairer treatment of owner-occupied housing in the Age Pension assets test.
- › Our preferred option excludes the first \$500,000 of owner-occupied housing equity and includes equity above that amount in the assets test.
- › A retiree with a \$1.1 million home and few other assets still receives the full Age Pension – above both the national (\$930,000) and capital city (\$1.0 million) medians.
- › Homeowner asset-test thresholds would be lifted by about \$258,000 to match non-homeowners.
- › These changes would save around \$10 billion a year, mostly from households in the top 20% of the wealth distribution.
- › Around 80% of full pensioners would continue to receive the full pension.

# 1 Better targeting the Age Pension

## 1.1 How to better target the Age Pension

In 2024–25, 2.7 million Australians aged 67 years and older (or 60% of retirees) received a full or part Age Pension.<sup>1</sup> The full Age Pension is paid at a rate of \$31,200 per year for singles and \$47,100 per year for couples (combined).<sup>2</sup>

As discussed in the full report, a pensioner's owner-occupied home is effectively counted in the assets test thresholds for means testing the pension. However, all homeowners have the value of their home treated the same — with an effective value of \$258,000 — regardless of whether their home is worth \$500,000 or \$5 million. Owners of both modest and lavish homes are treated more favourably than a non-homeowner under current settings.

Our preferred option to better target the Age Pension aims to address this inequity.

- It provides more equitable treatment of households with substantial equity in owner-occupied housing, by including the net value of owner-occupied housing above \$500,000 in the assets test.<sup>3</sup>
- It lifts homeowner asset-test thresholds by \$258,000 to match non-homeowners, removing the current automatic treatment of the home.

<sup>1</sup> [australian\\_institute\\_of\\_health\\_and\\_welfare\\_income\\_2025<empty citation>](#).

<sup>2</sup> The rate is indexed twice yearly to the highest out of wages and prices. In addition to the base rate, pensioners may receive supplementary payments including Pension Supplement, Energy Supplement, and Rent Assistance (for non-homeowners). [services\\_australia\\_how\\_2026<empty citation>](#).

<sup>3</sup> 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\\_budget\\_2026](#)).

TABLE 1

### Age Pension asset test: current vs preferred option

FEATURE	CURRENT ASSETS TEST	PREFERRED OPTION
<b>Owner-occupied home</b>	All owner-occupied housing is accounted for but effectively valued at <b>\$258,000</b>	The first <b>\$500,000</b> (indexed to inflation) of owner-occupied housing equity is excluded. Housing equity above this amount is included
<b>Single full-pension threshold</b>	Homeowners is <b>\$321,500</b> , while non-homeowners is <b>\$579,500</b> .	<b>\$579,500</b> for all, regardless of homeownership status (with the first <b>\$500,000</b> of home equity excluded).
<b>Single part-pension cut-off</b>	Homeowners is <b>\$714,500</b> , while non-homeowners is <b>\$972,500</b> .	<b>\$972,500</b> for all, regardless of homeownership status (with the first <b>\$500,000</b> of home equity excluded).
<b>Couple full-pension threshold</b>	Homeowners is <b>\$481,500</b> , while non-homeowners is <b>\$739,500</b> .	<b>\$739,500</b> for all, regardless of homeownership status (with the first <b>\$500,000</b> of home equity excluded).
<b>Couple part-pension cut-off</b>	Homeowners is <b>\$1,074,000</b> , while non-homeowners is <b>\$1,332,000</b> .	<b>\$1,332,000</b> for all, regardless of homeownership status (with the first <b>\$500,000</b> of home equity excluded).

Source: Policy Institute Australia analysis.

## 1.2 How would this change affect who receives the pension?

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.

The changes would save around \$10 billion a year, with most of the savings coming from households in the top 20% of the wealth distribution.

The main beneficiaries of our alternative approach are retirees with homes of modest value, who are around the middle of the wealth distribution. Homes valued at less than \$500,000 will not count toward the asset base. Households in this group (accounting for about 420,000 people, or about one in six pensioners) will be able to hold an additional \$258,000 in assets compared to the current assets test and still receive the full pension, or receive a larger part pension.

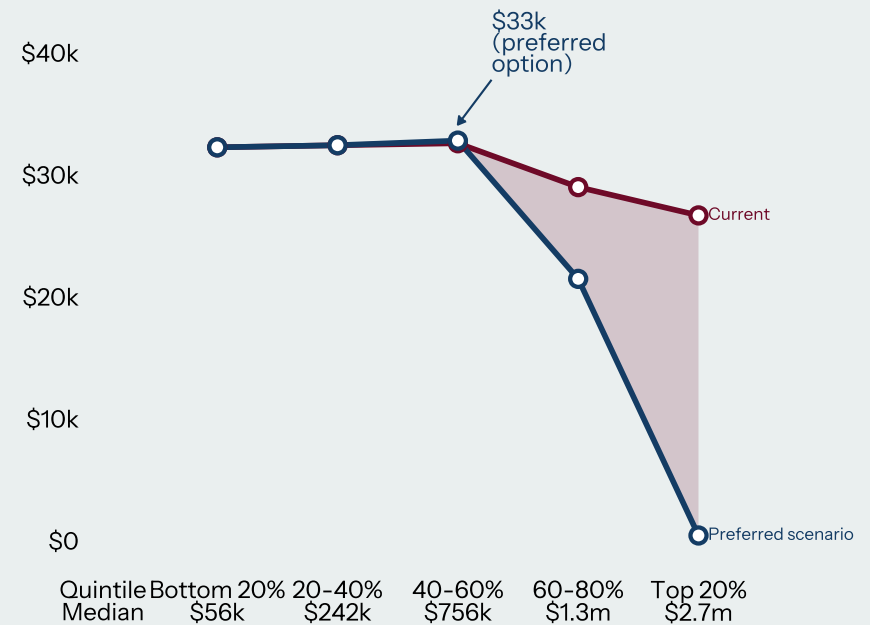
A single retiree living in a home valued at a bit over a million dollars, or a retiree couple in a home valued at up to around \$1.2 million, would still be eligible to receive the full pension if they didn't have substantial other assets. These values are higher than the Australia-wide median dwelling value of \$930,000 and capital city median dwelling value of \$1.0 million.<sup>4</sup>

<sup>4</sup> `cotality_home_2026`<empty citation>.

FIGURE 1

### Reform would see the Age Pension shift away from top 20% by wealth

Average annual Age Pension payment per current recipient household, by wealth



Source: Policy Institute Australia Microsimulation Model (PIAMM).

Retiree homeowner households with total assets above \$1.47 million for singles, or \$1.83 million for couples, including the total net equity of their owner-occupied housing, would no longer be eligible for a pension. Those with assets above \$1.08 million for singles, or \$1.24 million for couples, would remain eligible for a part pension, but not a full pension.<sup>5</sup>

Figure 1 shows that, for Age Pension recipients in the top 20% of the wealth distribution (with wealth above \$1.8 million), the *average* pension reduction would be about \$26,000 a year. Outcomes would vary between households, depending for example on their housing equity and other assets.

Figure 2 shows the impact on the roughly 450,000 retiree households that would receive reduced benefits.<sup>6</sup> This represents about 17% of retiree households, all sitting in the wealthiest 40% of Australian households.

For Age Pension recipients in the 60–80% wealth quintile, with wealth roughly between \$1.0 million and \$1.8 million, the average annual Age Pension receipt falls from around \$28,990 to around \$21,467. This is an average reduction of about \$7,500 a year, much smaller than the reduction for the top wealth quintile.

While this group all have substantial means, some may benefit from assistance in accessing the equity in their assets to meet their living expenses. Section 1.3 proposes a new policy solution with this aim, with further detail available in our full report.

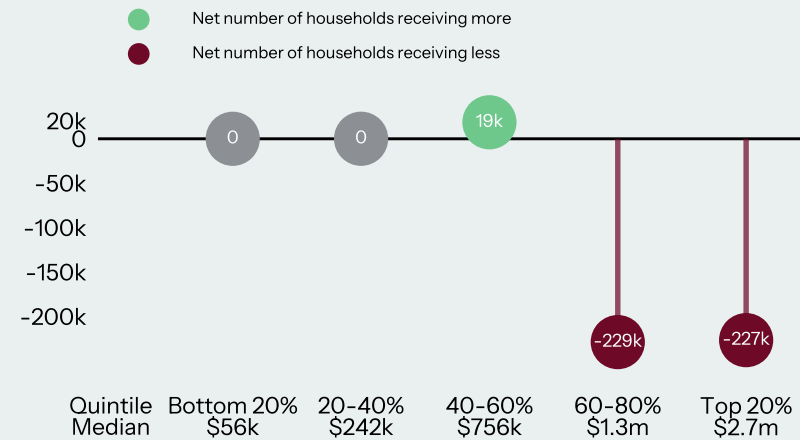
<sup>5</sup> These cutoffs assume net owner-occupied housing wealth above \$500,000.

<sup>6</sup> Note that this is a net change.

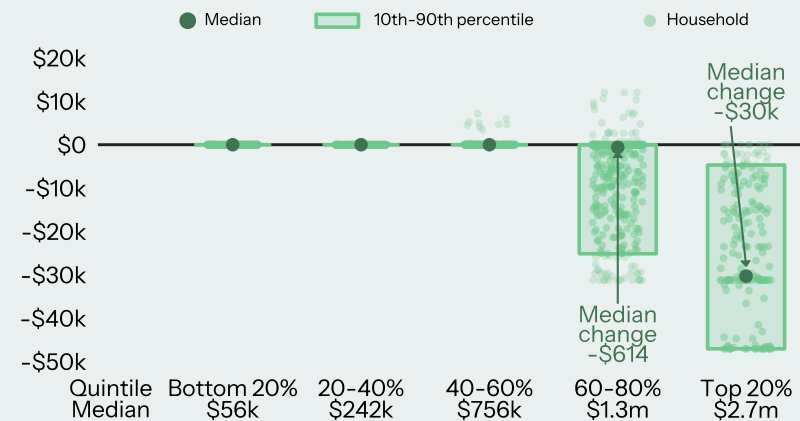
FIGURE 2

**About 17% of retiree households (all with wealth above about \$1.1m) would receive less**

*Net number of current recipient households receiving more/less Age Pension, by wealth quintile*



*Distribution of Age Pension payment changes among current recipient households, by wealth*



Source: Policy Institute Australia Microsimulation Model (PIAMM).

## Alternative options

Our preferred option aims to strike a balance between addressing the horizontal and vertical inequities identified above, while accounting for the particular characteristics of owner-occupied housing and the role of owner-occupied housing for older Australians.

We have modelled two alternative options, results for which are presented in Table 2.

The **Full Home Equity option** has the same increase to assets test thresholds for homeowners, but includes the full equity value of owner-occupied housing in the asset test. This option fully addresses the horizontal inequity between homeowners and non-homeowners, and the vertical inequity that follows from treatment of households with different value homes. It leads to a large reduction in pension payments for many households – with about twice as many households receiving less than under our preferred option, and savings in 2025–26 of more than \$23 billion. The savings are much less well targeted at the top 20% of the wealth distribution, compared to our preferred option.

The **Home Equity >\$1 million option** has the same increase to assets test thresholds for homeowners, but only the equity value of owner-occupied housing above \$1,000,000 is included in the assets test.<sup>7</sup> This option does less to address horizontal and vertical inequities, but with all of the savings coming from the top 20% of the wealth distribution. One option would be to set a higher threshold such as \$1 million but to fix it in nominal terms so a greater proportion of owner-occupied housing value is counted over time as house prices rise.

<sup>7</sup> Broadly equivalent to the Australia-wide median home price of \$930,000.

TABLE 2

### Age Pension asset test: alternative options compared

	FULL HOME EQUITY	PREFERRED: EQUITY >\$500K	EQUITY >\$1M
<b>Annual fiscal saving</b>	\$23.5 billion	<b>\$9.9 billion</b>	\$4.1 billion
<b>Full pensioners retaining full pension</b>	53%	<b>81%</b>	92%
<b>Share of savings from top 20% by wealth</b>	27%	<b>62%</b>	100%
<b>Ratio: bottom 20% to top 20% average pension</b>	306.8 (curr. 1.6)	<b>75.5</b> (curr. 1.6)	5.0 (curr. 1.6)
<b>Share of pensioners receiving less</b>	53%	<b>25%</b>	11%
<b>Home value where pension may reduce (single)</b>	Any home value	Above <b>~\$1.1m</b>	Above ~\$1.6m
<b>Median capital city couple*</b>	Reduced – home equity fully counted	Still eligible for <b>full pension</b>	Still eligible for full pension

\* Couple aged 67 owning a median capital city dwelling (~\$1,030,000) with \$200,000 in other assets.

Note: All options assume assets test thresholds for homeowners raised ~\$258,000 to match non-homeowners.

Source: Policy Institute Australia Microsimulation Model (PIAMM).

### 1.3 Retirement Contribution Scheme in brief

Some retired households primarily hold their wealth in their owner-occupied home, and may benefit from assistance in accessing that equity to meet their living expenses. To address this, 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.

ReCS would be a concessional loan, with the value of the loan indexed to inflation. It would be income-contingent, and repayment would be 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.

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. 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.

For a detailed breakdown of ReCS see our [policy snapshot](#).