



11 March 2008

By email: [homesaver@treasury.gov.au](mailto:homesaver@treasury.gov.au)

General Manager  
Personal and Retirement Income Division  
The Treasury  
Langton Crescent  
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Dear Sir/Madam

### **First Home Savers Accounts Consultation**

Consumer Action Law Centre (**Consumer Action**) welcomes the opportunity to comment on the consultation paper in relation to the Federal Government's proposed introduction of First Home Saver Accounts (**FHSAs**). FHSAs will provide a real and substantial benefit for many Australian consumers who wish to purchase a home. In our view, FHSAs are an innovative solution to some of the problems rising housing prices have caused Australian consumers. FHSAs are an excellent proposal because they encourage voluntary saving, and should contribute to maintaining Australia's high rate of home-ownership.

While we are generally supportive of the FHSA proposal, it is capable of improvement in a number of areas. We provide further comment on these below.

### **About Consumer Action**

Consumer Action is an independent, not-for-profit, campaign focused, casework and policy organisation. Consumer Action provides free legal advice and representation to vulnerable and disadvantaged consumers across Victoria, and is the largest specialist consumer legal practice in Australia. Consumer Action is also a nationally-recognised and influential policy and research body, pursuing a law reform agenda across a range of important consumer issues at a governmental level, in the media, and in the community directly.

### **Regressive nature of scheme**

The proposed tax concessions applying to consumer contributions to FHSAs are regressive in that they provide larger concessions to taxpayers with higher marginal tax rates (ie. tax brackets of 40% or 45%).

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While it is clear that the concessions are arranged in order to mirror the concessions applying to superannuation, we do not agree that consistency with superannuation concessions is necessary, or a sufficient reason for introduce regressive tax concessions.

While we applaud the Government for announcing that individuals on a zero to 15% marginal tax rate will still receive a government contribution, it is still the case that individuals on a marginal tax rate of 40% and 45% will receive up to double the concessions that those on a marginal tax rate of 30% or lower will receive.

Consumer Action does not think that consumers earning \$150,001 and over are a category of consumer that are most in need of Government assistance to purchase a first home.

To remedy the inequitable and regressive operation of the proposed government contribution, we recommend that the contribution be applied so that all income earners receive the same contribution. Under this recommendation, taxpayers on the 30% marginal tax rate would pay no tax on contributions of up to \$5,000 to FHSAs (thereby receiving the same government contributions, in dollar amounts, for contributions as individuals on the 45% marginal tax rate). Individuals on the zero to 15% marginal tax rate would receive a government contribution equal to the contribution individuals in the 30-45% marginal tax rates would receive.

Further, the concessional tax treatment of earnings from FHSAs should be similarly structured so that tax concessions do not advantage high income earners over and above medium and low income earners.

### **Simplifying account transfers**

Consumer Action recognises the Government's commitment to ensuring portability of FHSAs. In particular, the provision of a standard form to facilitate account transfers, and the requirements for transfer requests to be complied with within 30 days, improve the ease of transfer. This should go some way to improving competition amongst financial institutions for FHSA funds, and should maximise the returns for consumers.

However, in our view, given the inertia most consumers legitimately have,<sup>1</sup> more is needed to facilitate competition among FHSA account providers.

The insights of behavioural economics explain why consumers often do not always take advantage of the best available offer. For a number of reasons, consumers faced with the uncertainty and difficulty of changing to a new product will often make no decision, and remain with their existing product.<sup>2</sup> Given the inertia that behavioural economics tells us

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<sup>1</sup> Zhu-Jun Max Shen & Xuanming Su, Customer Behaviour Modeling in Revenue Management and Auctions: A Review and New Research Opportunities, *Production and Operations Management* 16(6), pages 713–728.

<sup>2</sup> For example, consumer inertia is moderated by consumers' perceived switching costs (the greater the perceived time and difficulty in switching the lesser the level of switching). Wilson, Chris M & Price, Catherine Waddams, *Consumer switching errors: when more firms may mean less benefit*, ESRC Centre for Competition Policy, University of East Anglia, draft of March 2005, page 5

consumers rationally have, a policy approach over and above those suggested in the FHSA consultation is needed.

We note that the Government has recently announced a bank switching package in conjunction with the Australian Bankers' Association to assist consumers switch bank accounts thereby activating competitive pressure.<sup>3</sup> The proposed listing and switching service should apply to FHSAs and we would welcome these accounts being considered as part of the switching package. We believe, however, that more can be done to make it easier for consumers to switch accounts.

Joshua Gans, a Professor of Economics at the University of Melbourne, has suggested transferring ownership in bank account numbers to consumers as a means of easing switching bank and promoting competition.<sup>4</sup> This system would emulate the mobile and local number portability systems in the telecommunications industry. Under such an approach all a consumer would need to do to change their FHSA account to a new financial institution would be to supply their unique account number to that new financial institution and request transfer. This should enable all facilities (such as direct credit and debit authorities) linked to the account with the previous financial institution to be ported to the new financial institution. The consumer would be changing financial institution but retaining their account number.

Consumer Action further believes the above plan for simplifying account portability has such pro-competitive merit that the Government should consider its wider adoption in the banking sector generally.

### **Removal of the requirement for consumers to make a minimum \$1,000 contribution**

Consumer Action does not support proposals to require consumers to make contributions of at least \$1,000 per year in order to be eligible to take advantage of FHSAs. No rationale has been presented for this arbitrary requirement, and in our view its effect would be to remove the benefits of the scheme from low income earning consumers.

For many low income consumers, contributions of less than \$1,000 they may make toward a FHSA may be the first savings they have made in their lives. The existence of a FHSA and the goal of home ownership will encourage consumers who have never saved before to work toward saving for a deposit for a home – consumers should not be excluded simply because they are at the early stages of such a savings regimen and have less than \$1,000 to contribute in a given year.

### **Regulatory oversight**

The Government has made clear that financial institutions offering FHSAs will be subject to rigorous regulatory oversight including prudential requirements, Australian financial services licensing, disclosure and other requirements.

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<sup>3</sup> The Hon Wayne Swan MP, *Media Release 006 – Rudd Government makes it easier for Australian families to switch banks*, 9 February 2008.

<sup>4</sup> Gans, Joshua, *Switching banks a trying effort*, Herald Sun, 10 January 2008, <http://www.economics.com.au/?p=1252#more-1252>

Consumer Action envisages that there is a risk that some financial institutions will be tempted to use FHSAs as an exploitive source of revenue by imposing excessive fees and charges on such accounts. FHSAs are particularly vulnerable to profiteering because they hold funds the withdrawal of which is limited – in this case to use in purchasing a house. FHSAs are similar in this regard to superannuation (although the compulsory nature of superannuation obviously makes it very different). The problem of fees and charges being greater than returns on investment (thus leading to reduction in savings) was a significant problem in the superannuation industry before member preservation rules were introduced. While the problem has been largely addressed,<sup>5</sup> the fact that a problem with such a detrimental effect for low-income consumers persisted for several years provides a cautionary lesson.

In our view that some financial institutions will prey on vulnerable consumers by offering non-competitive FHSAs with excessive fees and charges and the Government needs to carefully consider this, and other risks, and plan and implement an appropriate policy and regulatory approach to combat them sooner rather than later.

## Conclusion

Should you have any questions regarding this submission please contact Neil Ashton on (03) 9670 5088.

Yours sincerely

**CONSUMER ACTION LAW CENTRE**



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<sup>5</sup> Starting when the first member protection rules came into force on 1 July 1995. ATO, *Protection of small superannuation accounts*.

<http://www.ato.gov.au/super/content.asp?doc=/content/12415.htm&pc=001/007/122/005&mnu=2213&mfp=001/007&st=tp&cy=1>