

1. What are Clean Energy Bonds?

Clean Energy Bonds (CEBs) will help Australia meet its 2050 Net Zero emissions target and provide all older Australians (pensioners and self-funded retirees) with a safe return directly linked to investment in clean energy projects through the Future Fund. Surplus returns from the fund would be used by government for renewable energy infrastructure projects. These bonds are part of a global movement to Net Zero emission by 2050 e.g. [Climate Bonds](#), [Green Bond Fund](#) and [QTC Green Bonds](#) (which currently offer 1.25% to investors).

2. Policy benefits:

Benefits for retirees

- Provides a way for older people to take action on climate change (see [NSA research](#))
- Uses retirees' savings to deliver climate-friendly investment returns
- Provides all retirees with access to a safe savings option
- Gives all retirees access to higher yielding markets
- Creates a simple way for retirees to invest savings (via Australia Post)
- Provides all retirees with liquidity for unexpected costs (e.g. health and ageing)

Environmental benefits

- Boosts construction of clean energy infrastructure and helps Australia meet its climate targets

Economic benefits

- Creates jobs and stimulates economic development, particularly in regional Australia
- Stabilizes energy supply and reduces electricity prices (a major concern for all Australians)
- Boosts profitability and financial sustainability of Australia Post

This policy has multiple benefits. It will have popular support. It's a win for retirees (putting money in their pockets), a win for the planet (reducing emissions), a win for the economy (creating investment in jobs) and ultimately, a win for whoever is in government.

Relevant policy areas:

Climate Change; Industry; Emissions; Energy; Regional Development; Retirement Income; Seniors.

Relevant departments:

Treasury; Social Services; Industry, Science, Energy and Resources; Agriculture, Water and Environment; Regional Development; Infrastructure.

3. How do Clean Energy Bonds work?

- The Federal Government would issue Clean Energy Bonds (CEBs) through the Future Fund
 - Their sale is limited to all Australian citizens of Age Pension age.
 - A single bond would be sold for \$5,000 (allowing those with limited savings to partake).
 - Eligible participants can purchase CEBs up to a maximum value depending on take up.
 - Government would determine the amount of bonds issued based on demand and need (it should be noted there are almost four million eligible retirees):
 - One million bonds would raise \$5 billion.
 - Five million bonds would raise \$25 billion
 - Ten million bonds would raise \$50 billion
 - CEBs would be guaranteed like bank deposits.
 - Unlike government bonds which require a broker, CEBs would be purchased via Australia Post which would vet the application.
 - Retirees receive their investment return fortnightly or monthly payment through Centrelink (not as an annual payment).
 - Retirees have the option of a lower market linked yield with liquidity or a higher fixed yield with a fixed term.
 - Retirees choosing the low-yield liquid option have the flexibility to sell CEBs back to Australia Post at any time and be given a market linked return.
 - Retirees are required to tell Centrelink of any purchase or sale, or an automatic notification system be established between Australia Post and Centrelink.
- The federal government creates a specific Better Future Fund (BFF) through the Future Fund to invest the capital raised.
 - As with other funds operating through the Future Fund, seed funding would be provided by the federal government. This would be topped up from capital raised from CEBs.
 - The BFF would invest in towards zero emissions and environmentally beneficial projects.
 - These include clean energy projects (hydro, solar, green hydrogen, battery etc.), but also the infrastructure required to support clean energy (e.g., transmission services to link clean energy projects) as well as other investments delivering environmentally sustainable outcomes.
 - The mix of investments depends on return on investment and related risk.

- Pooling retirees' money in the BFF allows them to invest in private sector clean energy projects. This is normally only available to institutional investorsⁱ. It also provides a “dividend” to fund government clean energy projects.
- The fund would also deliver a set investment return to government. This would be used to fund large-scale clean energy projects - with a strong focus on energy storage (e.g. Snowy Hydro 2.0, Battery of the Nation, Hornsdale Power Reserve, Green Hydrogen).

4. Why the policy is needed.

To meet the Net Zero emissions target by 2050 Australia will significant investment in new clean energy infrastructure

- The International Energy Agency (IEA) has estimated that global annual energy investment to reach Net Zero by 2030 alone will be USD 5 trillion.ⁱⁱ
- Australia's future energy needs require large-scale clean energy generation to replace carbon intensive energy production.
- Increased energy storage capacity is also required to overcome intermittent supply issues from renewables.
 - Infrastructure projects, like Snowy Hydro 2.0 and the Battery of the Nation, are being built now.
 - Projects are being financed by government through the Australian Renewable Energy Agency (ARENA) and the Clean Energy Finance Corporation (CEFC).

Older people believe climate change is occurring and want action

- Two recent National Seniors surveys show (sample size for both surveys was > 3,500):
 - 85% of older people believe climate change is occurring (2021)
 - Two thirds of these people want action – **even** if it comes at a cost.
 - 60% have invested in one or more types of renewable energy (e.g. rooftop solar, solar hot-water renewable projects etc.)
 - however, the majority have chosen to invest in rooftop solar rather than large-scale projects, mainly because of the subsidies and generous feed-in tariffs available (and because rooftop solar is exempt from the means test) – our research found investment in rooftop solar was eight times higher than in renewable energy projects.
 - Full results are contained in this infographic - [Older Australians' views on climate change](#)

Retirees are looking for a modest return from a safe, simple investment.

- Twelve-month term deposit rates are currently between 0.25 and 1%ⁱⁱⁱ. In contrast, the current inflation rate is 3.8% and has averaged almost 2% over the past 5 years.
- Despite term deposit rates being unattractive significant money is invested in this market.
 - At the end of March 2021, ANZ (which has a 12.5 per cent share of all household deposits) reported term deposits made up \$20 Billion of its Australian retail deposits (therefore \$160 billion is invested in the term deposit market).^{iv}
 - A significant proportion of people holding term deposits are retirees attracted to their safety and simplicity.
 - Others will be invested in term deposits because they do not wish to invest in riskier investment options.
 - Many older investors are not be able to invest in superannuation because they do not have a superannuation account or have passed the age they can contribute.

Older people need safe, simple and liquid investment options.

- Many older Australians are risk averse and put a sizeable portion of their savings in low-yielding options, such as term deposits and government bonds. They do this because:
 - they offer a guaranteed return over a set time
 - they provide a level of liquidity to meet unexpected costs and market downturns
- Many retirees are not active investors. They may not have the financial literacy or confidence to seek investment options for fear of being ‘ripped off’.
 - Retirees often choose options such as term deposits because they are simple and easily accessed over the counter through a bank or building society.
 - They are likely to have greater trust in government or quasi-government organisations like Australia Post and the Future Fund, which are well known and trusted.

Investment in large-scale clean energy projects is disadvantageous due to the pension means test exemption for roof-top solar

- The Clean Energy Bond concept has been developed, as a result of the unequal treatment of investments via the Age Pension means test.
 - Assets exempt from the means test effectively provide a return-on-investment of 7.8%.

- There are several situations where a retiree's assets are exempt from the means test. These includes:
 - Rooftop solar
 - Pre-paid funerals and burial plots
 - Refundable Accommodation Deposits for residential aged care
 - Other household improvements.
- National Seniors research shows older Australians have invested in roof-top solar eight times more than in renewable energy projects. This is because:
 - Rooftop solar is exempt from the means test because the family home is fully exempt.
 - Rooftop solar also benefits from a range of state and federal government subsidies, including generous feed-in tariffs, many of which will end soon.
 - However, large-scale renewable projects have advantages over rooftop solar because they are generally more efficient and do not cause the same level of problems for the grid.

5. Costings.

- Using the Future Fund to pool the capital raised from CEBs will cover the return to investors while also giving government surplus funds for clean energy infrastructure projects.
- The return on investment to government would depend on:
 - the return on investment offered on CEBs,
 - the return to government to fund clean energy projects, and
 - the returns available to the Future Fund from operating the BFF.
- The following sections examine some of the considerations in this regard:

Return on CEBs

- A return to Bond holders would be paid directly to retirees fortnightly or monthly. The return would be set by the BFF considering market conditions, including assessment of interest rates, inflation, investment returns etc.
- The following outlines the return to an investor for different scenarios.
- A **3.9%** return on CEBs
 - This is equivalent to a 50% exemption from the assets test.

- This is significantly higher than current bank deposit and bond rates, almost the same as the current inflation rate (3.8%) and above the upper deeming rate. (2.25%). Overall a very attractive investment, slightly ahead of inflation.
- Purchase of 6 CEBs (\$30,000), for example, would result in an annual pension increase / payment of **\$1,170 per year** or **\$45 per fortnight**.
- A **3.12%** return on CEBs
 - This is equivalent to a 40% exemption from the assets test.
 - This is significantly higher than current bank deposit and bond rates, below the current inflation rate and above the upper deeming rate.
 - Purchase of 6 CEBs would result in an annual pension increase / payment of **\$936 per year** or **\$36 per fortnight**.
- A **2.34%** return on CEBs
 - This is equivalent to a 30% exemption from the assets test.
 - Purchase of 6 CEBs (\$30,000) would result in an annual pension increase /payment of **\$702 per year** or **\$27 per fortnight**.
 - This is much higher than current bank deposit and bond rates but still significantly lower than the current inflation rate.
- A **1.56%** return on CEBs
 - Equivalent to a 20% exemption from the assets test.
 - Purchase of 6 CEBs (\$30,000) would result in an annual pension increase /payment of **\$468 per year** or **\$18 per fortnight**.
 - This is higher than current bank deposit and bond rates but far lower than the current inflation rate (3.8%)

Return to government

- The BFF would have a mandated rate of return. This return would be used by government to fund government clean energy projects (and would be separate from returns provided to bond holders). This would provide a stream of income to pay for renewable energy infrastructure.

		Value of Better Future Fund			
		\$5 billion	\$10 Billion	\$25 billion	\$50 billion
Mandated rate of return	0.5%	\$25 million	\$50 million	\$125 million	\$250 million
	1%	\$50 million	\$100 million	\$250 million	\$500 million
	2%	\$100 million	\$200 million	\$500 million	\$1 billion
	3%	\$150 million	\$300 million	\$750 million	\$1.5 billion

Table 1: Annual return to government from BFF

Cost of administering the scheme

- It is not possible for National Seniors to quantify exact administration costs of the bond scheme. However, it is likely to be relatively low. The main costs would be:
 - Cost of establishing an implementation and monitoring unit within Treasury (with cross departmental relations) to plan and manage the delivery of the scheme, including management of contracts for the delivery of CEBs through Australia Post.
 - Fees (including regulatory compliance costs) involved in administering the sale of CEBs through Australia Post.
 - Cost of providing seamless data transfer between Australia Post and Centrelink to track the purchase and sale of CEBs (this is optional).
 - Costs involved with staff training and changes to IT systems within Centrelink
 - Cost of promoting CEBs to the public.
- Using Australia Post as the institution to sell CEBs would minimise some of the costs.
 - Australia Post is required to pay a dividend to the Commonwealth of 75 per cent of its profit after tax^v
 - By providing Australia Post with an additional service offering, this will improve the profitability of Australia Post, strengthening its financial sustainability and capacity to provide a dividend to the Commonwealth.

Endnotes

ⁱ Australian Centre for Financial Studies. 2016 [Australian Debt Securities and Corporate Bonds, Infrastructure Bonds: A Missing Market For Retail Investors?](#)

ⁱⁱ <https://www.iea.org/news/pathway-to-critical-and-formidable-goal-of-net-zero-emissions-by-2050-is-narrow-but-brings-huge-benefits>

ⁱⁱⁱ Finder 2021 '[Compare 12 month term deposits](#)' Accessed online 25 August 2021

^{iv} Maley, K. 2021. '[Why savers are turning their backs on term deposits](#)' in *AFR*. 10 May 2021

^v Environment and Communications Legislation Committee 2013. [Performance, importance and role of Australia Post in Australian communities and its operations in relation to licensed post offices](#) Canberra: Parliament of Australia