THE POWER TO PERSUADE

Superannuation and Covid-19: What does early access mean for women?

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In partnership with the National Foundation for Australian Women (@NFAWomen), we are running a series of pieces that analyse how the Covid-19 pandemic is differentially impacting on women. In today's analysis Helen Hodgson, of Curtin University (@CurtinUni), provides a helpful explainer of changes to early access to superannuation and the differential impacts on women who choose to access these funds.

Early access to superannuation has been as argued to be a lifeline for people who are not eligible for either the JobSeeker allowance or the JobKeeper program, both introduced to support those whose jobs are at risk during the Coronavirus pandemic. As of 9th April, 618,000 Australians had registered their interest in early access to their superannuation. However, not all accounts are equal: women should think carefully about the long-term consequences.

In its Coronavirus support package, the Government introduced two measures that apply to superannuation. The first, and the one that has received most attention, is the early release mechanism and the second, which targets older Australians, reduces the required drawdown rate from a superannuation account in retirement phase.

This paper will discuss how each of these programmes work, then consider each through a gendered lens.

Early Release of Superannuation

The early release package allows an eligible person to withdraw up to $10,000 in the current financial year, and an additional $10,000 up to 24 September 2020. The superannuation regulations already allow hardship drawdowns in specific circumstances, and COVID drawdowns have been included on those grounds. An applicant must meet one of the following criteria:

- Be unemployed or eligible to receive income support payments, including JobSeeker

allowance, Youth Allowance for jobseekers, Parenting Payment or Special Benefit;

- The applicant must, since 1 January 2020, have been made redundant or lost at least 20% of their working hours or, if a sole trader, must have suspended their business or lost 20% of turnover;
- A temporary resident on a skilled work visa must have had their hours reduced to zero and remain engaged with their employer; or
- Other temporary resident visa holders must be unable to meet immediate living expenses and, if a student, have held a student visa for at least 12 months.

This builds on the existing hardship measures in two important ways: it removes the requirement to be on income support for at least 39 weeks to be eligible, and the payment becomes non-taxable.

Under normal circumstances a person under their preservation age (which varies between 55 and 60 based on their birthdate), is liable for tax on a lump sum withdrawal from superannuation. A withdrawal made under the COVID hardship provisions is tax free.

It also extends hardship measures to some temporary residents, although the grounds are more restrictive than for residents. In normal circumstances the superannuation regulations do not allow a temporary resident to access the hardship provisions, limiting access to death or terminal illness, permanent or temporary incapacity, amounts under $200 or payment of specified taxes. A temporary resident can also access their superannuation if they are leaving the country, but the tax rate payable ranges from 35% to 65% depending on visa type and whether the superannuation is a taxed or untaxed element.

Applications open on 20th April through the MyGov app, and only one application of up to $10,000 can be made in each financial year. The ATO will assess the application and advise the applicant's superannuation fund of the amount to be released.

Halving Minimum Drawdown from Superannuation

The second measure introduced will assist older Australians who have reached their preservation age, by halving the minimum pension drawdown. Superannuation regulations require that a person who is drawing a pension from their superannuation must withdraw a certain amount each year, commencing at 4% per annum of the balance at 1 July for a person under the age of 65 and increasing to 14% per annum for a person over the age of 95.

In the current environment, with volatile share markets and low interest rates, many superannuation funds are making losses. The requirement to draw down a minimum pension places pressure on superannuation funds to sell shares to ensure that the fund has sufficient liquid funds to be able to meet their payments to members, locking in those losses.

Members receiving superannuation pensions can choose to reduce their payments by contacting their superannuation fund directly. It is important to note that these are

minimum amounts, so a person is not required to reduce their pension payments.

This option is more likely to be accessed by a person with a higher superannuation balance. For example, a person with a balance of $500,000 who is drawing 4% per annum, thereby receiving $20,000 per annum, may decide not to reduce their payments, whereas a person with a balance of $1,500,000, currently drawing down $60,000 per annum, may decide that they can reduce their pension withdrawals. Note that superannuation balances remain assessable in the Age Pension means test, although deeming rates have been reduced.

Superannuation is not gender equitable

Women have significantly lower superannuation account balances than men at all stages through their life. These differences are already substantial by the time women are 30, with the average balance around $8,000 less than men of the same age, and the median balance at $5,000 less. By the time women reach age 60 the superannuation gap is around 20%. (Clare, 2019)

When looked at in actual dollars, the effect of withdrawing funds is even more stark. Between ages 30 to 34 the median account balance for women is $30,129. Withdrawing $10,000 is 1/3 of the balance of the member's account, and withdrawing a second amount would leave the member with around $10,000 in their account. The average (median) balance of members under 30 is less than $20,000, which leaves them accruing their balance afresh.

Women should think twice about accessing their superannuation early, since the long-term consequences are much greater for them. Photo credit: Pixabay.

Superannuation balances have also been eroded by the current market conditions. A balanced fund will typically have around 50% of the assets invested in shares, reflecting a mix of Australian and internationally listed companies; 20% in fixed interest; and 24% in property and other assets with 6% held in cash. While APRA and ASIC have stated that they do not believe that superannuation funds will experience liquidity problems, if funds have to sell shares to meet withdrawals this will have an effect on fund balances as shares are sold at lower values. So, for example, if a member with an account balance of $30,000 has seen a 10% decline in the value of her portfolio, the balance of her account after withdrawing $10,000 will be reduced to $17,000.

Over time, as the economy recovers, the current losses in superannuation are likely to be recouped, if the funds have not been withdrawn.

Age matters too

It seems that many people who are considering accessing their superannuation are younger people. The industries that are most severely affected by the COVID shutdowns include hospitality, retail and entertainment, which are also industries that rely heavily on casual, contract and free-lance workers. Women are over-represented in these industries. The long-term effect of withdrawing $10,000 is more substantial for younger people as superannuation growth is based on compounding returns: $10,000 in 2019 would grow to $70,000 in 2059 (based on net return, after fees, of 5% per annum with no withdrawals). In contrast, if a 50-year-old withdrew $10,000 the accumulated effect after 10 years would be $16,000.

The second measure, the reduction of minimum drawdowns, is also more likely to benefit men as they have higher superannuation balances. The median balance of a woman aged 60 - 64 is $122,848, so a 2% drawdown would be $2,450 per annum, while 2% of the median male balance would be $3,080. The APRA Annual Superannuation Bulletin shows that in the year ended 30 June 2019 the average pension withdrawn from superannuation is around 6% ($17,611) for an account based pension and slightly higher at 7% ($23,513) for an allocated pension. Women withdrew 39% of total pension payments in that year.

It could be a useful strategy for a person who has met conditions of release - that is, aged over 65, or over 60 and having lost their job. In such circumstances accessing 2% per annum of their fund may supplement any other entitlements, although they will need to consider the effect of a payment on means testing for JobSeeker or other social security entitlements. They can return to work if circumstances change, although a person under the age of 65 receiving JobKeeper payments is unlikely to be considered to have retired.

Other issues to consider

Early withdrawal of superannuation is, generally speaking, not a good idea. It can lead to an increased risk of poverty and heavier reliance on the age pension after retirement. Women are already at a higher risk of poverty and homelessness in retirement, with a higher rate of reliance on the age pension than men.

Another consequence of withdrawing superannuation includes losing insurance provided through superannuation funds. Under amendments made in 2019, accounts less than $6,000 and inactive accounts are no longer covered by default insurance policies within superannuation. Reapplying for cover may require a reassessment of risk, with higher premiums.

Early withdrawal of superannuation should be a last resort, after considering JobSeeker and JobKeeper for income support; and approaching banks, landlords and other creditors to renegotiate payments.

If early withdrawal does become necessary to stay afloat, it could be regarded as a loan to be repaid, by making additional contributions once we get to the other side.

Early withdrawal of superannuation should be a last resort, after

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considering JobSeeker and JobKeeper for income support; and approaching banks, landlords and other creditors to renegotiate payments. A financial counsellor can help you to work though these options.

This post is part of the Women's Policy Action Tank initiative to analyse government policy using a gendered lens. View our other policy analysis pieces here.

Posted by @SusanMaury @GoodAdvocacy

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