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Robbing Peter to pay Paul? The Australian federal government's covid-19 superannuation early release scheme

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In response to the impact of the covid-19 pandemic on the Australian economy, and the labour market in particular, on 22 March 2020 the Federal Government announced a temporary superannuation early release scheme for affected individuals. Using this scheme, eligible individuals were able to access up to $10,000 from their superannuation between 20 April and 30 June, and a further $10,000 between 1 July and 24 September.

The scheme was initially available only to Australian and New Zealand citizens and permanent residents, and eligibility criteria restricts access to the scheme to those who are unemployed; those receiving a number of other forms of government support (including support schemes such as 'Jobseeker' and 'Jobkeeper' developed in response to the economic effects of the pandemic); those who were made redundant on or after 1 January 2020; those who have seen their hours reduced by 20% or more on or after 1 January 2020; and sole traders whose businesses have been suspended or seen a reduction in turnover of 20% or more. The eligibility criteria were also amended in April to allow some temporary visa holders to access a single release of up to $10,000 from their superannuation prior to 1 July 2020.

Superannuation in Australia

Superannuation forms an integral component of Australia's 'three pillar' approach to retirement income which includes compulsory superannuation, voluntary retirement savings, and the age pension. Under the Australian federal government's superannuation scheme employers pay a minimum of 9.5% of an employee's base wage into their elected superannuation fund (referred to as the Superannuation Guarantee Contribution, introduced in 1992 at 3-4%, before moving up to 9% in 2002 and 9.5% in 2014). Individuals may also elect to make additional salary sacrifice contributions (termed 'concessional contributions') which are taxed at a rate of 15% for contributions of up to $25,000 per annum. In normal circumstances superannuation can only be withdrawn once an individual either reaches their 'preservation age' of 55-60 (dependent on their year of birth) and is retired, or reaches the age of 65 even if they continue working. Early access to superannuation is possible only on the grounds of incapacitation, severe financial hardship, compassionate reasons, and in the case of a terminal medical condition (with the only other recent exception being the withdrawal of concessional contributions allowed through the First Home Super Saver scheme introduced in the 2017-2018 federal budget). Once it is placed into a superannuation fund an individuals' superannuation balance is pooled with that of other members and invested on their behalf. Due to the returns of this investment, combined with the preferential tax treatment of superannuation funds, $10,000 of superannuation at the age of 25 can be worth as much as $60,000 by the time an individual accesses the fund at the age of 65.

Uptake of the scheme

During the first tranche of the scheme (20 April to 30 June) the Australian Taxation Office (ATO) received 2.4 million applications for early release of superannuation funds, and approximately $15 billion was withdrawn from superannuation. The second tranche of the scheme began on 1st July, meaning that full uptake is not yet clear. However, early data from APRA (the statutory authority that oversees the majority of superannuation funds) shows that by the 12th of July 800,000 repeat applications had been lodged by those who already accessed the scheme in the 2019-2020 financial year. Additionally, by 19th July approximately $29.3 billion in superannuation had been requested for release.

Potential implications

Impact on young adults

During the first tranche of the scheme 40% of the applications were lodged by individuals aged under 30, with this cohort applying for an average of $7,500. For context, in the 2017-2018 financial year the mean superannuation balance for those in the 25-34 age cohort was $41,700 for men and $31,600 for women (ASFA 2020). The disproportionate uptake of the scheme by this age cohort is not surprising, as it reflects the disproportionate economic impact of the pandemic on young people. The detrimental impact that economic downturns typically have on younger workers' employment rates has combined with the disproportionate impact of the pandemic on the sectors that young workers are concentrated in (hospitality, tourism, sport and entertainment) to create an extremely challenging economic environment for young people. However, the long-term implications that uptake of this scheme may have for young people is unclear. On the hand young adults are likely to have lower than average super balances and stand to gain the most from the growth of this investment over time due to their distance from retirement age, while on the other hand they have comparatively more time than individuals in other age groups to make up for a decline in their superannuation balance.

Impact on women

Prior to the pandemic several organisations including APRA highlighted the gender gap in superannuation balance as an area of policy concern. The average member super fund balance has grown relatively steadily since the early 2000s for both men and women (aside from a slight decline in 2008-2009 related to the GFC). Additionally, the gender gap has decreased over time, with women's account balances growing from 62% of men's balances in 2004 to 81% in 2018. Although overall figures about gender division in uptake of the super early release scheme are not yet available, early analysis conducted by financial services company AMP suggests that women are withdrawing a larger proportion of their starting superannuation balance than men, and that they are more likely than men to clear their entire super balance as a result of these withdrawals. Even without these early indications the scheme poses a risk of widening the existing gender gap in superannuation balance as women accessing this scheme are, on average, starting from a lower balance, and women are overrepresented in the most affected sectors.

Concerns about the assessment of eligibility

Although the super early release scheme is restricted to those who meet its eligibility criteria (outlined above) in late July the Australian Taxation Office confirmed that it had only just begun preliminary examination of the eligibility of those who had accessed the scheme. While reporting to the Senate covid-19 committee ATO second commissioner Jeremy Hirschhorn confirmed that while some applicants had been prevented from withdrawing money because they had already done so, no one had been prevented from withdrawing funds on the basis of broader questions about whether they met the eligibility criteria. Applicants were instead left to self-assess their eligibility. While this approach allowed for expedient delivery of funds, it has caused concern that some of the applicants who have already accessed the scheme may have either misunderstood or ignored the eligibility criteria, and questions about what action should be taken in such instances.

Impact on the federal government's pension scheme and super funds

Although this brief focuses on the potential impact of the superannuation early release scheme on individuals, it is also important to note that individuals' uptake of the scheme has the potential for knock-on effects on the federal government's pension scheme and on superannuation funds. The federal government's pension scheme is means tested, and for this reason some economists have raised concerns that the use of early release of super funds to minimise the need for the federal government to provide further supplementary income in the present may result in increased reliance on the pension scheme in years to come. Concerns have also been raised about the potential effects that the withdrawal of almost $30 billion that would otherwise have been invested by superannuation funds may have on the economy.

Case studies of young adults

The following case studies are developed from interviews conducted with young adults (aged 18-34) living in the Australian cities of Melbourne and Newcastle who worked in the hospitality industry and either lost shifts, were temporarily stood down or lost their jobs due to the pandemic. The interviews were conducted in late May-early June of 2020, and the case studies depict some of the participants who accessed the super early release scheme, showing some ways that individuals responded to and navigated this policy.

The precautionary applicants

Megan

Prior to the pandemic Megan, 30, worked casually in a bar and had recently begun the second year of an undergraduate degree. She also received Austudy: the federal government's income support available for individuals aged over 25 and studying full time. Megan's workplace closed in mid-March with no warning, leaving her concerned about how she would support herself until it reopened. Although she received income support from the government, this payment was not sufficient to fully cover her living expenses. While reflecting on her decision to access $10,000 of her superannuation she stated:

> *I was thinking $500 a fortnight and my rents $200 a week, I can't live on that. So I'd just take it out as a precautionary measure, but luckily for me, I am 30, I have a little bit of funds, I have a little bit more education. That's a very generalised statement, but yeah, I think for me, it was more of a decision that I had to make. It was like, how is this going to impact my future, and not just like, oh, $10,000, awesome.*

When asked more about her motivations for accessing the funds Megan went on to say:

It was the fact that I live in a shared house and so I didn't want my housemates to be impacted if I couldn't pay my share of the rent. My payment [Austudy] was $550 a fortnight, there was no way I was going to be able to contribute to my bills and my rent and have any money left or even have enough to do all of that. So, as a precautionary measure, I did have a small amount of savings, but with no prospect of any sort of job in that period, it was kind of like, well, this is what I have to do.

However, after Megan had accessed $10,000 of her superannuation funds the federal government announced that they would be doubling several income support schemes, including Austudy, to support those who had lost income as a result of the pandemic. As a result, Megan's use of the scheme was ultimately precautionary and, in hindsight, not financially necessary for her (although it represents a reasonable reaction to an extremely uncertain situation). Although Megan did not need to use the full $10,000 that she withdrew and has kept a large portion of it in savings, she does not plan to raise her voluntary superannuation contribution to compensate for this loss. The loss of $10,000 of superannuation at the age of 30 is thus likely to have a negative impact on Megan's long-term retirement saving.

Joshua

Joshua, 24, worked at a café while study, and was in the second year of an undergraduate degree. By mid-March he had lost half of his usual weekly hours, and he lost his job in late March. He was relieved to hear about federal government stimulus packages that he would benefit from, but was nevertheless concerned about waiting for this financial assistance to arrive. While reflecting on this period he stated:

Even though that money didn't come for about six to eight weeks, so I was broke for a very long period of time, it was very, very comforting knowing that there was support coming and that it would be enough to get me through it. But yeah, the first two weeks were horrible. I was a mess, I was crying every day, I just thought I don't know what I'm going to do to make money and get through this.

As a result of the lack of income for 6-8 weeks Joshua accessed some of his superannuation to pay bills that were due prior to his receipt of the stimulus funds. When asked how he felt about accessing the super early release scheme he stated:

I mean preparing for retirement, being 24 in this world and watching how it's constantly changing and going, to put a whole lot of money away until I'm 70, I can't help – the nihilist in me thinks it's pointless and will I even get to that point? Unlikely. So it really wasn't a fear for me. Also, the way I see it, I plan to do well in life. My only goal is to do well in life and to be able to take care of myself into *my retirement. I'm not relying on super for my retirement because I think if I can't pull it together myself, then what's in my super will probably not be enough to get me through either.*

Later in the interview he acknowledged that this choice may not have been financially conscious, stating:

I was like 100 per cent, let's clear that, let's empty that out. But I'm sure there are more financially conscious people that were very stressed and sad about the prospect of having to do that to get by. Finances are not an area I excel in.

Much like Megan, Joshua appeared to access the super early release scheme as both a stop-gap between other forms of assistance and as a reaction to financial uncertainty. However, while this response is understandable, it is likely to have an adverse impact on his long-term superannuation balance, especially due to his distance from retirement age.

The student visa holders

Elena

Elena, 34, was an international student originally from Spain, and visited Australia on a working holiday before enrolling in tertiary study and staying in Australia on a student visa. Prior to the pandemic Elena worked casually at a hotel, as a disability support worker, and as a baby sitter. She lost all of her jobs in late March due to the pandemic, and found herself without any income. This challenging situation was compounded by the fact that she was unable to access any federal income support, which was limited to Australian citizens and permanent residents. As a result of this she accessed the super early release scheme. The conditions under which Elena accessed the scheme coloured her feelings about remaining in Australia. While discussing this she stated:

Maybe I'm going to stay until Christmas, but I don't think I'm going to stay long. I was not really happy with how things got. It was like 'oh, you're temporary. Go home. If you have money, you can stay, but if not, go home'. I say, look, I pay the same taxes as everyone Australian. Right now I pay 32 per cent. For every dollar, 32 cents go to the government and I don't think I have any help… We pay a lot and we don't receive anything… Well, finally, they say about the superannuation and I say, well, it's something. Thank you for letting me take my money, you know?

Although prior to the pandemic Elena was considering remaining in Australia to complete her studies and eventually attain permanent residency, her experience during the pandemic changed her plans, and at the time of the interview she planned to return to Spain before the end of the year.

Arjun

Arjun, 24, was an international student originally from India, and was in the final semester of a Master's degree. Prior to the pandemic he worked casually at a takeaway shop on his university campus and in a hospitality role at sporting events. Arjun was stood down from both of his jobs in late March, and had not resumed worked when he was interviewed in early June. Like Elena, Arjun was unable to access any federal income support as he was not a citizen or permanent resident of Australia. He therefore intended to access the super early release scheme. However, upon trying to lodge his application to the scheme Arjun found that his super balance was significantly lower than he had anticipated. He stated:

> *I didn't have a lot of amount in my super. I just had $300. When working at [takeaway shop], I don't know what happened, but I didn't get the super along with a lot of colleagues. The super wasn't put in our account and the case is still going in the court so right now I don't have any money from there.*

While Arjun withdrew the $300 available to him to cover part of his rent payment, the underpayment by one of his jobs and the unexpectedly low account balance that resulted from it left him in an extremely financially vulnerable position.

Another unpleasant discovery

Jacinta

Jacinta, 19, had recently begun her second year of tertiary study and lived rent-free in the family home. She was employed casually by a fast food chain at the time of the interview, although she had not been given any shifts from April-May, and had only recently begun to be offered an occasional shift. Although Jacinta's parents were willing to cover her expenses, meaning that she was somewhat buffered from the impact of her lost income, she nevertheless considered accessing the super early release scheme due to her desire for independent income. However, upon checking her superannuation balance she found that it was lower than she anticipated due to fees. She stated:

> *I think I have $20 in my super account, I don't have much money at all in there. It's just ridiculous, isn't it? Like it's not that much, but it's still if that's your entire super that you've saved it's kind of crap just seeing it all go away.*

Like Arjun, Jacinta was unpleasantly surprised when checking her superannuation balance. However, unlike Arjun, Jacinta was buffered from the ill-effects of this by co-residence with supportive parents.

Conclusion

These case studies, when read alongside emerging data on the uptake of the super early release scheme, indicate some of the potential implications of the scheme. Specifically, the experiences of Megan and Joshua suggest that some individuals may have accessed the scheme as a precaution, or as a response to financial uncertainty. The gap of approximately two weeks between the announcement of this scheme and the announcement of federal income support measures may have prompted some individuals to access their super when, in hindsight, this was not strictly necessary.

The federal government's extension of the super early release scheme to some temporary visa holders, seemingly as a response to criticism of the lack of other forms of financial support for international students, appears to have caused frustration for some of these individuals. For instance, Elena felt abandoned by the federal government, and as a result reconsidered her plans to remain in Australia after completing her studies. Australia is reliant on skilled migrants to maintain a sufficient working age population, and international students represent a key stream of skilled migrants. The reputational damage caused by the lack of income support for temporary visa holders facing financial hardship, when combined with the symbolic withdrawal of savings that may have eventually been used for retirement within Australia, poses a potential risk of putting skilled migrants off working and settling in Australia.

Finally, accessing the super early release scheme prompted Arjun and Jacinta to notice unanticipated issues with their superannuation accounts, such as underpayment of the superannuation guarantee contribution from an employer and excessive fees. Although these circumstances are extremely unfortunate, this scheme may have the unintended effect of prompting individuals to review their superannuation accounts and identify problems that may otherwise remain undetected.

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