

# Note to super funds

## Re: An Information Sheet relating to early access to super

As you are aware the Government is allowing eligible individuals affected by COVID-19 to access up to \$10,000 of their superannuation in 2019–20 and a further \$10,000 in 2020–21.

A challenge for super funds is how best to assist their members be informed about early access to super.

One specific challenge for super funds is estimating the potential long-term impact of withdrawing from super on a member's retirement.

It is important that super funds provide guidance which is balanced and that any calculations are produced on a consistent basis with other related information provided to members.

Today ASIC released an [FAQ](#) which details some guidelines around the calculation of estimated retirement impacts relating to early access.

The Conexus Institute, Actuaries Institute and Super Consumers Australia have collaborated to produce an Information Sheet addressing early access to super.

This Information Sheet is designed to be consistent with ASIC's FAQ. It contains estimated retirement impacts which have been calculated in a manner we believe to be consistent with Class Order [CO 11/1227], the basis on which many funds provide retirement projections to their members in annual statements. It also details additional information we consider relevant to consumers.

You are welcome to use this Information Sheet in full or part. Please be aware that:

1. You need to determine whether you are providing financial advice by using this Information Sheet in full.
2. If you are using part of the Information Sheet the responsibility for the overall nature of your communication to your members is yours fully.
3. If you are using the two tables of calculations (either or both) then we recommend that you note the assumptions and disclaimers provided.

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# Information Sheet

## Early access to your super

### Background

The government is allowing individuals affected by COVID-19 to access up to \$10,000 of their superannuation in 2019–20 and a further \$10,000 in 2020–21.

Further information, including eligibility rules, is available from the [Australian Tax Office](#) and [ASIC's Moneysmart](#).

The purpose of this Information Sheet is to provide you with some basic information to help you decide whether to access your super.

### How much will accessing your super now impact your retirement?

Withdrawing from your super now can only reduce savings at retirement which means less income in retirement. The size of the impact is uncertain because it will depend on unknown factors such as the future rate of investment earnings on your super. We've made some reasonable assumptions to help you weigh up the impact on your retirement savings of withdrawing super now. All calculations are in today's dollars (price-adjusted).

The first table estimates the possible impact on your super savings at retirement of accessing \$20,000 now, assuming you retire at age 67 and excluding any impact on your age pension:

Current age	30	40	50	60
Reduction in retirement balance	\$50,000	\$39,000	\$30,000	\$24,000

The second table estimates the possible change in your income from super in retirement from accessing \$20,000 now, again assuming you retire at age 67:

Current age	30	40	50	60
Reduction in <u>fortnightly</u> income from superannuation	\$108	\$83	\$65	\$52
Reduction in <u>annual</u> income from superannuation	\$2,800	\$2,200	\$1,700	\$1,300

If you plan to redeem only \$10,000 then halve the amounts in the above tables.

These are estimates, not guarantees and are based on a range of assumptions. The actual impact may be very different from these estimates. Please read the assumptions and disclaimers at the end of this Information Sheet.

You may also be entitled to age pension payments in retirement. Eligibility for the age pension depends on your personal situation and for some people a reduction in super could be partially offset by a high age pension. To explore further, check if your super fund provides a retirement financial calculator. Otherwise you may find the [ASIC's Moneysmart retirement planner](#) useful.

## Other considerations

It may be useful to consider the following:

- Think about your household situation. An early access decision should be considered jointly with your partner (if you have one).
- If a release would use up all your super or leave a low balance, it could result in you losing any insurance cover attached to the account – check with your super fund before making a decision.
- Many people do not get to choose their retirement age (they often 'retire' because they can't find work).
- You will be pulling money out of superannuation at a point in time when asset prices are depressed. While true that shares and other investments are lower than a few months ago, it is not certain that prices of these assets will rise over the short to medium term.
- Although the benefits are tax-free under these arrangements, most super benefits received in retirement are also tax-free.
- You may have the ability to catch-up on your retirement savings plan in better times. However, this takes discipline so will need a plan for how you will achieve this.
- You should check that your withdrawal doesn't cause you to lose your insurance cover because your account balance falls below a level where your super fund switches off cover.

## Some sensible steps

It may make sense to work through the following:

- Assess your current level of financial stress – are you experiencing debt stress or don't have the income necessary to support living standards? If you don't have one already, consider creating a household budget to help you assess living standards.
- Can you make some adjustments to your lifestyle? Perhaps reducing some spending on non-essential items during the crisis could make your household budget more sustainable.
- Have you accessed all the assistance programs which are available to you? There are a range of [government support schemes](#) to help those experiencing financial difficulty in the present environment.
- Think about your retirement plans (lifestyle but also the age at which you would like to retire) and consider the amount of retirement income that is required to support that plan. It's also important to consider other parts of your life plan such as home ownership.

- Consider whether it is necessary to access your super once or twice (subject to the eligibility requirements, the early access program allows for two separate withdrawals of up to \$10k each).

Financial advice may help you make an informed decision. However, it may be expensive relative to your financial position. There are also free and independent [financial counselling services](#) available that can assist if you are experiencing financial hardship.

Super Consumers Australia at CHOICE has produced [consumer information on early withdrawal](#) which is freely available for you to use.

## Assumptions / Disclaimers

We estimate the impact of accessing your super now by making some assumptions about the key factors that will affect the size of the impact. The assumptions we have used are very similar to those used by many super funds to provide retirement estimates on annual member statements (and mostly set by industry regulator ASIC).

The retirement impact estimates in the tables above have been worked out using these assumptions:

- Investment earnings of 3% per year after price-inflation and investment fees and tax
- Annual administration fees and costs of 0.5% of your account balance per year
- You retire and start drawing down your super from an account-based pension at age 67
- You want your super to last for 25 years, that is until age 92. ASIC's guidance suggests that one in six men and one in four women who reach age 67 will live beyond age 92
- Current tax and superannuation laws remain unchanged

Additional disclaimers:

- This is not financial advice and should not be interpreted as personal advice.