Experience to date with the early release of superannuation

June 2020

ASFA is a non-profit, non-political national organisation whose mission is to continuously improve the superannuation system, so all Australians can enjoy a comfortable and dignified retirement. We focus on the issues that affect the entire Australian superannuation system and its $2.7 trillion in retirement savings.

Our membership is across all parts of the industry, including corporate, public sector, industry and retail superannuation funds, and associated service providers, representing nearly 90 per cent of the 16 million Australians with superannuation.

The Association of Superannuation Funds of Australia Limited (ASFA)
PO Box 1485, Sydney NSW 2001
T +61 2 9264 9300 or 1800 812 798 (outside Sydney)

ABN 29 002 786 290
ACN 002 786 290

Contents

Excecutive summary

The special early release of superannuation for those whose employment has been affected by COVID-19 linked economic developments has highlighted the importance of superannuation to the financial savings of Australians.

Nearly 2.5 million Australians are likely to access early release before 30 June, and there could be nearly as many requesting a new or additional early release after 1 July. This is a very high takeup rate for those eligible, with around 2.5 million Australians losing employment or having reduced hours of work since the start of April 2020.

The maximum of $20,000 available over two tranches per employee under early release exceeds the total maximum payments per employee under JobKeeper of $19,500 and is available sooner.

Over 15 per cent of the labour force and well over 10 per cent of the total number of individuals with a superannuation account are expected to receive early release payments from superannuation.

ASFA data indicates that around 25 per cent of applicants in the sample had a balance under $6,000 and around 40 per cent had a balance under $10,000 after accessing early release due to COVID-19. Between around 5 per cent and 10 per cent had a nil or very low balance. This has significant implications for the amount available for any further release after 1 July and for the eventual retirement savings of the individuals concerned.

Males, those aged under 35, and residents of Queensland, Western Australia and the Northern Territory each have a higher incidence of applying for early release of superannuation. In addition, employees involved in the retail and hospitality industries have had higher rates of applying for early release than employees in other industries, both reflecting developments in employment and their relatively young employees on average. Queensland has a higher than average exposure to inbound tourism while the ACT with a high proportion of permanent public sector employees has a low incidence of applications.

Superannuation funds have responded to the massive number of early release applications by ramping up their administration systems and boosting their cash holdings by running down holdings of fixed interest assets. Around 65 per cent of early release payments have been made by industry funds, followed by retail (29 per cent), public sector (5 per cent) and corporate funds (1 per cent). Data is not available for Self Managed Superannuation Funds but the number of payments are not likely to be large. Public sector and corporate funds have a large number of permanent employee members and this leads to lower rates of early release. However, such funds also have casuals and past employees as members. Some public sector funds are also open to the general public.

Without superannuation, the great bulk of Australian workers would not have any significant financial assets they could draw upon in times of economic adversity.

Less than 5 per cent of Australian wage and salary earners receive rent from an investment property and under 10 per cent have dividends from shares over $200 a year. About 25 per cent of households have less than $1,000 in cash savings.

For those aged under 35, superannuation is even more important as the main or only financial asset.

For female wage and salary earners aged under 35 only 5 per cent hold shares, with only 2 per cent having dividends over $200. Only 1.3 per cent received rental income. For males the figures again are similar. For male wage and salary earners only 6 per cent hold shares. Only 1.3 per cent received rental income.

In the absence of compulsory superannuation, the savings and financial assets of many Australians would be negligible. This would particularly be the case in regard to lower income and younger individuals.

In 2017-18 female wage and salary earners aged under 35 had a total of $53.5 billion in superannuation, while the equivalent figure for males was $69.8 billion. Taking into account a very modest reduction in other forms of savings by this age group, compulsory superannuation has resulted in these employees aged under 35 having additional savings approaching $100 billion in total, that is around $22,000 per person.

Compulsory superannuation has meant that through the early release provisions they have had access to significantly more savings at a time of need than would have been the case.

However, the erosion of retirement balances through early release reinforces the need to move as soon as possible to a Superannuation Guarantee rate of 12 per cent in order to provide adequate retirement savings for individuals and to provide financial security for individuals in times of extreme financial need.

1

The early release scheme

The Coronavirus Economic Response Package Omnibus Bill 2020 passed the House of Representatives on 23 March 2020 and received Royal Assent on 24 March 2020. Amendments to the regulations to enable certain temporary residents to access their super were registered on 16 April 2020.

The design and implementation of the Coronavirus - Early release of superannuation changes leverages off the existing Compassionate Release process for superannuation funds.

The legislative requirements came into effect from 25 March 2020 (with applications able to be lodged from mid-April 2020) and will remain in place until 24 September 2020.

The changes allow most eligible employees to submit two applications for up to $10,000 each from their superannuation fund, one application in the current 2019–20 financial year and one in the 2020–21 financial year.

Applications can be made up to 30 June 2020 for this financial year and from 1 July 2020 until 24 September 2020 for the next financial year.

A large volume of applications, in excess of 3 million over the two tranches, were expected by the Government when the measure was announced, given the current COVID-19 (coronavirus) impacts on the community. This number appears likely to be well exceeded, particularly given that a substantial number of temporary residents became eligible to receive a payment in the first tranche after the initial announcement.

Individuals are required to apply via MyGov as the primary channel; however a manual option over the phone to the ATO is available for those who can't transact online" could be changed to "Individuals are required to apply via MyGov as the primary channel, however a manual option is available over the phone to the ATO

Funds receive a digitised determination regardless of the application being submitted online or manually.

The application process is mostly self-assessed. The ATO manages the eligibility criteria with guidelines and messaging for individuals to assess their eligibility. There are warnings about penalties for making false and misleading statements to deter inappropriate use. The ATO will be able to undertake post-issue compliance work based on data and other information held in ATO systems but it is not clear at this stage how extensive such compliance work will be.

The ATO online form displays all superannuation accounts a fund has for an individual. The member can the elect to claim a portion of each account up to the value of $10,000 – for example, $5,000 from one fund and a second $5,000 from another fund.

Where a member makes an application and the fund has insufficient money to fulfil the application, the member will not be able to make a second application for the balance from another fund/account in that financial year. They will also not able to seek the balance in the 2020–21 financial year above the $10,000 cap.

Members have been encouraged to check their account balances with their fund to identify if there are sufficient funds available to claim.

Who can apply?

To apply for early release, the applicant must satisfy one or more of the following requirements:

- They are unemployed
- They are eligible to receive one of a number of listed Centrelink benefits
- On or after 1 January 2020, either the applicant was made redundant, working hours were reduced by 20 per cent or more, or in the case of a sole trader, their business was suspended or there was a reduction in turnover of 20 per cent or more

Eligible temporary residents also are able to apply to access up to $10,000 of their super until 30 June 2020. No further application after 1 July is possible for this category of applicants. Those eligible are individuals who hold a student visa that they have held for 12 months, temporary skilled work visa holders who are still employed but unable to meet immediate living expenses, and temporary resident visa holders who cannot meet immediate living expenses.

The number of people who have been affected by COVID-19 linked labour market developments

The ABS Labour Force Survey for April shows that the total number of employed people fell by 590,000 (or 4.6 per cent) in the month. Around 900,000 people lost their job during April, while around 300,000 were employed . A further decline in total employment is expected in May (with labour force data due out on 16 June), however the Government's JobKeeper scheme is providing incentives for firms to retain workers and should help limit job losses.

Of the people who remained employed in April, around 1.8 million worked less hours than usual – which is an increase of around 1.4 million on normal levels. Of the additional 1.4 million, around 500,000 did not work at all (but were still retained by their employer). Together with 900,000 persons losing their job altogether, this suggests that in terms of the eligibility criteria for early release in excess of 2.5 million people were affected by job loss or a reduction of 20 per cent or more in hours in April.

At end May, taking into account further job losses and reductions in hours worked since end-April, the number of individuals eligible to apply for early release of their superannuation could have been approaching 3 million. During June there would have been further job losses but on the other hand reopening of businesses would have led to a reduced need for individuals to access their superannuation.

It is difficult at this stage to estimate any further developments in employment beyond June. Both the gradual opening up of allowable activities and the operation of the JobKeeper scheme will assist individuals and reduce the need for people to make further early release applications. However, it may take some time for economic activity to revert to pre-COVID 19 levels of activity. For some sectors, such as higher education and tourism which have relied to a substantial extent on customers from overseas, a full recovery in activity could be months or even years away.

The number of people who have applied for early release of superannuation

Applications are continuing to flow to the ATO at a substantial rate, currently around 150,000 applications a week. However, this is well down on the nearly 700,000 applications made in the first week.

Based on the current flow of applications, the total number made before 30 June might be in the order of 2.5 million, which would equate to total payments of around $18 billion for this financial year.

This suggests a relatively high takeup of early release by those adversely affected by recent labour market developments. If early releases reach 2.5 million this equates to nearly 19 per cent of the labour force.

APRA has published data for funds in regard to early release for the period ended 14 June 2020.

Despite having only 18 working days to prepare for one of the biggest system changes in 30 years, superannuation funds and administrators have been working hard to support members at this difficult time. Funds have worked cooperatively with government and regulators to change systems to process this unprecedented volume of transactions and ensure early release financial hardship payments have been made quickly and safely.

Over the week to 14 June, superannuation funds made payments to 148,000 members, bringing the total number of payments to 2.1 million since inception. The total value of payments during the week was $1.3 billion, with $15.9 billion paid since inception. The average payment made over the period since inception is $7,486.

Some payments were still to be processed, with funds receiving, since inception to 14 June, around 2.3 million applications. This is over 14 per cent of the number of people in Australia with superannuation.

Over the period from the inception of the scheme on 20 April to 14 June, payments that have been made to eligible members have taken an average of 3.3 business days to pay after receipt of the application from the ATO and 95 per cent have been made within five business days. In a small minority of cases payments take longer than average because of factors such as errors in bank account details supplied or the need for further identity checks to be undertaken on applicants in order to minimise the risk of fraud.

The value of early release payments in perspective

The maximum value of early release payments at $20,000 per person is quite large relative to other government measures that are available.

In comparison, the maximum JobKeeper payment per employee paid in instalments over the period May to October 2020 is $19,500.

To date the value of early release applications has been of a similar order of magnitude to aggregate JobKeeper and Coronavirus Supplement payments combined.

2

The impact of early release on funds

Three funds have had to process around 200,000 applications with one fund processing over 250,000 applications to date, with one large administration firm having to process more than half a million applications. This has put considerable strain on administrative systems. It also has resulted in a need for funds to adjust their asset allocations so to have cash to make the payments.

APRA data for the March quarter 2020 indicate that APRA regulated funds increased their allocation to cash from $184 billion at the end of the December quarter to $236 billion at the end of the March quarter 2020. This increased allocation to cash was largely matched by a decrease in fixed interest investments from $412 billion to $367 billion. This will have had a minor impact on fund returns. Running yields on Australian government bonds are currently between around 0.5 per cent and 0.9 per cent per year, compared to cash rates of around 0.1 per cent.

Of course individual funds would have made their own specific decisions in regard to asset allocation, with some funds impacted more than others by early release.

Analysis of APRA data on funds other than SMSFs in regard to early releases indicates that the bulk of early release payments have been made by industry funds. Industry funds account for around 65 per cent of payments by value, with retail funds accounting for around 29 per cent. Public sector funds account for about 5 per cent. Only around 1 per cent of early releases are from corporate funds. Some funds, such as those catering exclusively to those who have already retired, have had no early release payments.

There is a relatively low incidence of early release payments in most public sector and corporate funds as the bulk of their members are in continuing employment. However, some such funds have members who are not currently an employee of the fund employer sponsor. This includes some large public sector funds where the member is required to preserve their superannuation benefit until retirement or other condition of release, such as the current early release provisions. Some public sector funds have also opened their membership up to a broader group than just current employees.

The volume of early release payments from SMSFs is not likely to be high. Over 40 per cent of SMSF members are retired and/or are of an age where unconditional release is possible. SMSF members also are older and wealthier on average compared to fund members more generally.

3

Characteristics of those applying for early release

Only limited information is available on the characteristics of those applying for early release. However, some information can be derived from the characteristics of funds which have the lowest and highest incidence of early release applications and from data provided by the Treasury in answer to a parliamentary committee question on notice.

Not surprisingly, funds which have a heavy concentration of members employed in hospitality, restaurants and clubs have the highest rates of early release so far, at between 15 and 20 per cent of the accounts in such funds. Funds which have members concentrated in public sector employment have low rates of early release, at 3 per cent or less of member accounts. Public sector defined benefit funds have very low rates of release.

A number of large industry funds with a diversified membership have release rates above the system average, at around at around 13 per cent of accounts. Funds with a concentration of retail sector employee members also have rates around or slightly below these figures.

Somewhat surprisingly, funds with membership concentrated in health and related services have had substantial numbers of applications, at around 11 per cent of accounts. While permanent employees have maintained employment in the health sector many casual and part-time workers have had reduced hours or no employment due to the cancellation of many forms of elective surgery.

The pattern of applications also would be influenced by the age of the workforce in various industries. Younger people tend to have less other savings to draw on. While around 15 per cent of the overall labour force is aged 15 to 24, around 32 per cent of retail employees are in that age group with 45 per cent for accommodation and food services and 27 per cent for arts and recreation. These characteristics of affected industries feed into the figures for applicants by age and gender.

As shown by Charts 1 and 2, the largest reductions (in percentage terms) have been in accommodation and food services, and arts and recreation services. However, it also is important to note the relative importance of various industries in terms of their share of overall employment. While one of the largest percentage falls in employment has been in arts and recreation services, only around 2 per cent of employment is in that sector. However, accommodation and food services has had both a large decrease in employment, with employment in that sector amounting to 7 per cent of overall employment in the economy. The virtual shutdown of both international and domestic tourism and the cessation of most business travel has had a very large impact.

The percentage decreases in employment in retail trade, construction and manufacturing have been much lower than for the most affected sectors but the share of total employment in those sectors is more like 10 per cent than 2 per cent. This impacts on the number of employees affected in the various sectors by a downturn in employment.

Financial and insurance services actually had an increase in employment between 14 March and 2 May. Job losses in health services, education and training and public administration were relatively modest in percentage terms but casual employees in those sectors in many cases have had a significant impact on the hours worked and paid for. Health care and social assistance is a large sector so a relatively small fall in employment in percentage terms translates into a significant number of employees affected. This has an impact on early release applications.

The age and gender distribution of applicants for early release

The Treasury has released data on early release applications in a response to questions on notice from a parliamentary committee. This data is based on applications approved by the Australian Taxation Office rather than payments made by funds.

As indicated by Table 1, the majority of the applications (52 per cent) have been made by persons aged under 35. However, those under 35 make up only 41 per cent of wage and salary earners.

The greater incidence of applications by the young most likely reflects the fact that many younger people are employed in industries particularly affected by the downturn in employment, such as retail and hospitality. They are also less likely than older age groups to have other forms of accessible savings.

Around 57 per cent of applications were made by males, which is well above the 51 per cent of wage and salary earners who are male.

There also are some unexpected findings in regard to the geographical distribution of applicants. Applications generally follow the population of each State or Territory but Queensland appears to have a relatively high incidence of applications, followed by Western Australia and the Northern Territory.

The downturn in tourism in Queensland would be a contributing factor, as it would in Western Australia and the Northern Territory. Queensland has a higher reliance than the Australian average on accommodation and food services, with 9 per cent of employment in that sector compared to an Australian average of 7 per cent. Western Australian and Tasmania also have higher than average employment levels in accommodation and food service.

The Australian Capital Territory had a low incidence of early release applications, reflecting the high level of public sector employment in that Territory with fewer reductions in jobs or hours worked.

ASFA also has surveyed a number of its member funds, (who are responsible for nearly half of the early release payments made so far).

In one fund, there were some members as young as 14 who sought early release. There would be some cases of very young people having contributions made on their behalf, including retail jobs or in family businesses. The current early release mechanism could be seen as helpful to such individuals, particularly when they are not employed on an ongoing basis.

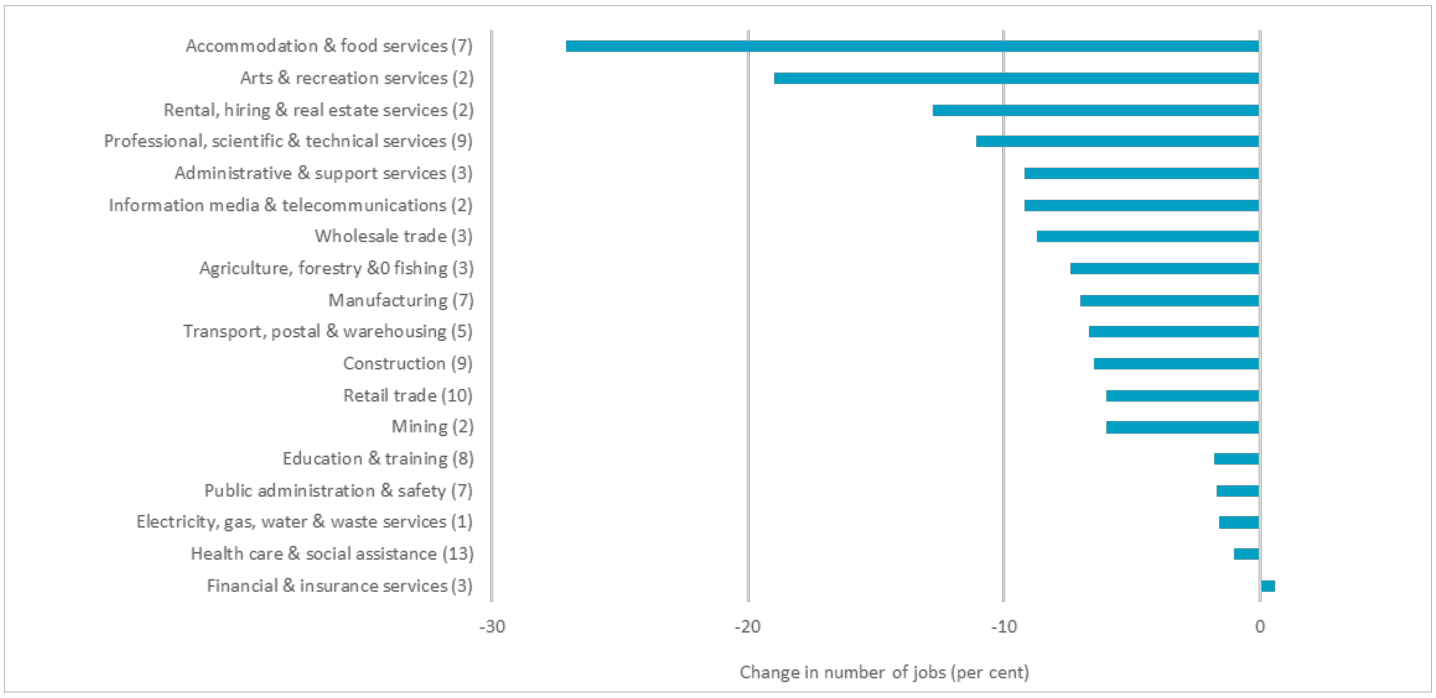
Most funds had some members aged over 65 applying for early release. At age 65 and over generally individuals are able to apply for an unconditional release of their entire balance but such individuals who applied for early release may have done so through misunderstanding or because the process was simpler than the normal process for payment of benefits.

The amount left in accounts after the early release payment

Some individuals, especially those in older age groups, had substantial superannuation balances. However, many of the younger applicants did not. The ASFA survey data indicate that around 25 per cent of applicants had a balance under $6,000 after taking money out through early release and around 40 per cent had under $10,000. Around 5 per cent to 10 per cent had a nil or very low balance.

This has implications for the amount available for any further release after 1 July and for the eventual retirement savings of the individuals concerned.

Chart 1: Change in number of payroll jobs, from 14 March to 2 May



Note: Number in parentheses is the share of total employment (in % terms) for each industry.

Chart 2: Number of payroll jobs, selected industries

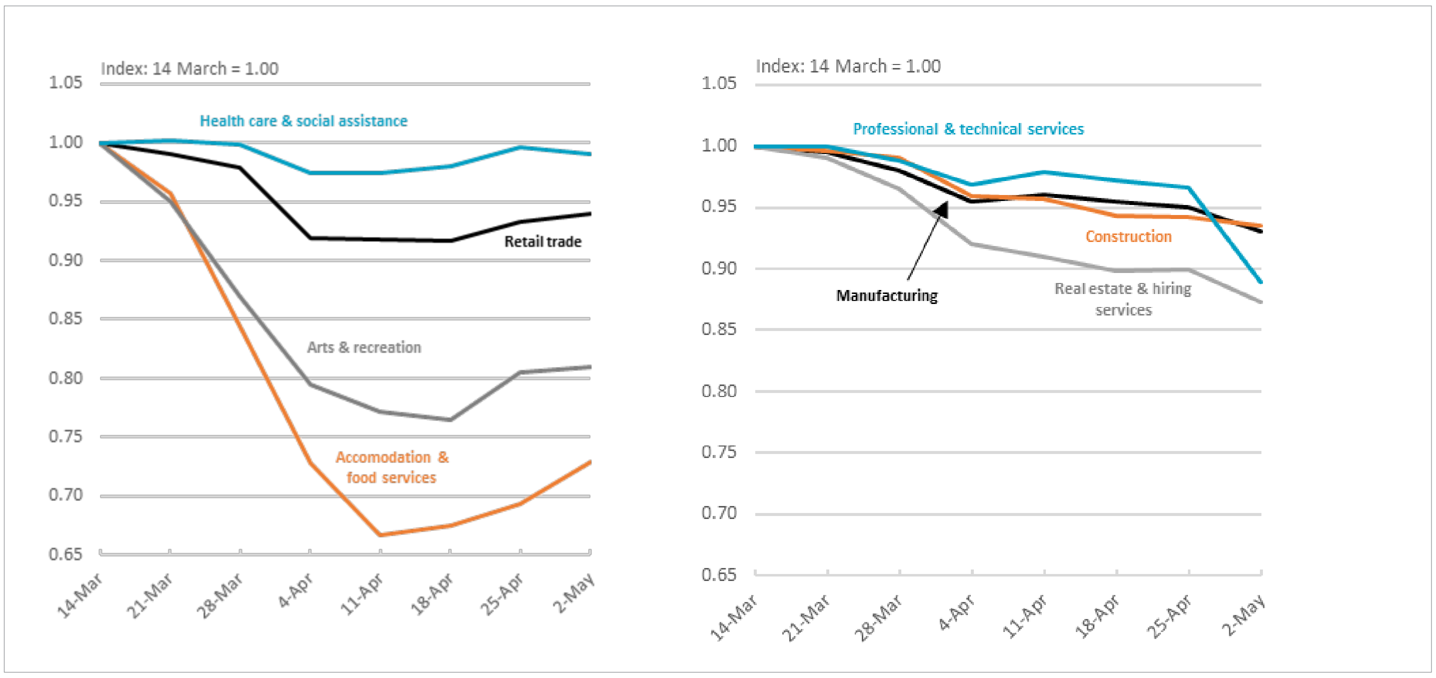


Table 1: Early release applications by age band

Age range	Number of applications
20 or less	23,400
21 - 25	172,100
26 - 30	268,000
31 -35	247,700
36 - 40	198,500
41 - 45	150,800
46 - 50	134,300
51 - 55	101,200
56 - 60	58,800
61 - 65	15,700
65 - 70	1,000
71 and over	200
Total	1,371,900

4

Superannuation is the main financial asset that most Australian workers have

Having early access to superannuation has been very important for many Australians given that for the great bulk of workers it is the only financial asset that they have. This is particularly the case for lower income Australians.

With respect to low-income households (defined here as those in the lowest income quintile), Chart 3 shows the relatively high importance of superannuation as an asset class. Around half of all low income households have superannuation assets, with a median value of around $40,000 in 2017-18. A relatively small proportion have financial assets in the form of equities.

It is certainly the case that many of the households who have no superannuation would include retiree households, who would likely be relying on the Age Pension for retirement income.

In contrast to the superannuation assets of low-income households, only around 20 per cent of low income households hold equities, with a median value of around $10,000. This, in part, is the result of the series of major privatisations and demutualisations that occurred during the 1990s and 2000s, where many households became (direct) shareholders in Australian companies for the first time. Older Australians, especially retirees, are much more likely to be such shareholders.

At the other end of the spectrum, while 95 per cent of low income households have bank deposits, the median value is only $8,000.

In terms of non-financial assets, only 9 per cent of low-income households own property other than the family home (one-third of which have debt owing), and only 5 per cent of low-income households have business assets. With respect to the family home, 56 per cent of low-income households own their primary residence (with or without a mortgage).

The financial assets of employees

Recently released ATO sample file for 2017-18 covering individual taxpayers allows analysis of the asset holdings of employees, who form the great majority of those applying for early release of superannuation given the criteria that apply to the special form of early release.

Without superannuation, the great bulk of Australian workers would not have any significant financial assets they could draw upon in times of economic adversity.

Table 3 below provides information on the average superannuation balance of Australians in receipt of wage and salary income in 2017-18. The pattern is as expected, with average balances increasing with age of the individual. Also reflecting a variety of factors related to the employment of females (principally greater incidence of time out of the paid labour force and employment in industries with lower average rates of pay) the average balances of women are lower.

These averages are influenced by individuals with relatively high balances. A majority of individuals in each of the age groups have less than the average (mean) amounts.

Holdings of other financial assets are only significant for relatively small proportions of Australian wage and salary earners.

The ATO sample file does not provide details of the market value of other financial assets held by wage and salary earners. However, it does provide information on individuals who receive income in the form of interest, dividends and rent.

While most Australians have a bank account for transaction purposes, only a relatively small proportion of wage and salary earners have a substantial or even material account balance.

The ATO statistics indicate that in 2017-18 only 30 per cent of females received more than $50 in interest income in the year. Only 19 per cent received more than $200 in interest income. This suggests that 80 per cent of female wage and salary earners have less than $20,000 in bank accounts (assuming an average interest rate of one per cent).

For males the figures are similar, albeit at slightly lower levels. In 2017-18 only 25 per cent of males received more than $50 in interest income in the year. Only 15 per cent received more than $200 in interest income. This suggests that 85 per cent of male wage and salary earners have less than $20,000 in bank accounts (assuming an average interest rate of one per cent).

For other financial assets the percentages holding such assets are even lower.

For female wage and salary earners only 15 per cent hold shares, with only 9 per cent having dividends over $200. Only 4.5 per cent received (positive) rental income.

For males the figures again are similar. For male wage and salary earners only 16 per cent hold shares, with only 10 per cent having dividends over $200. Only 4.5 per cent received (positive) rental income.

Data are also available from other sources on the financial assets of individuals. For instance, a ME Bank survey in December 2019 found that:

- 27 per cent of Australians have more than $50,000 in savings
- 24 per cent have between $10,000 and $50,000
- 49 per cent have less than $10,000 in savings

Of the 49 per cent who have less than $10,000 saved there are substantial proportions with low or no savings. ME Bank's report found that about 25 per cent of households have less than $1,000 in cash savings, while a similar result in ANZ's 2018 Financial Wellbeing study found 22 per cent of its respondents actually had no savings at all.

Financial assets held by wage and salary earners aged under 35

Most applicants for early release are aged under 35.

Superannuation is the main financial asset for most individuals aged under 35.

The ATO statistics indicate that in 2017-18 that for those aged under 35 only 25 per cent of females received more than $50 in interest income in the year. Around 13 per cent received more than $200 in interest income. Only 6 per cent received more than $500 in interest income. This suggests that 25 per cent have roughly $5,000 or more in the bank, 13 per cent have roughly $20,000 or more and 6 per cent have $50,000 or more. Some people in their 30s would be saving for a home.

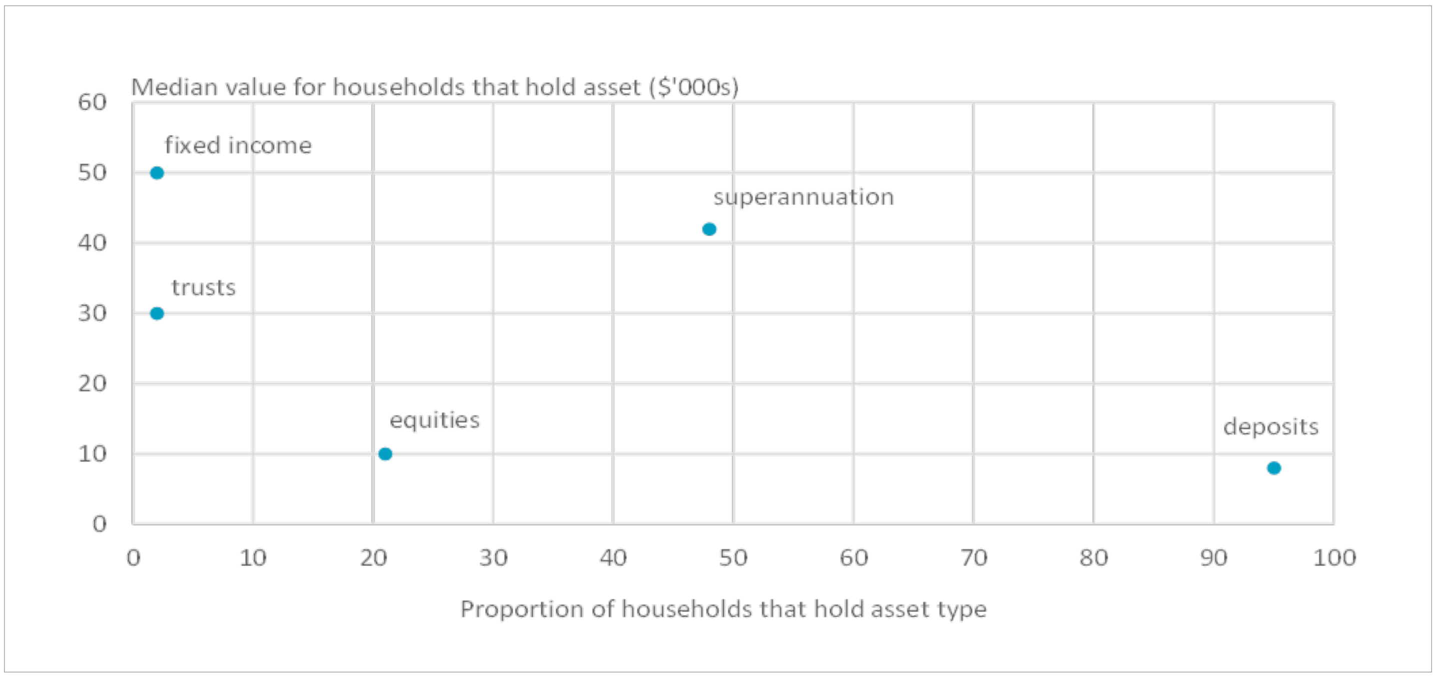
For males under 35 the figures are similar, albeit at slightly lower levels. In 2017-18 only 23 per cent of males received more than $50 in interest income in the year. Around 12 per cent had more than $200 in interest. Only 6 per cent received more than $500 in interest income.

For other financial assets the percentages holding such assets are even lower.

For female wage and salary earners only 5 per cent hold shares, with only 2 per cent having dividends over $200. Only 1.3 per cent received rental income.

For males the figures again are similar. For male wage and salary earners only 6 per cent hold shares. Only 1.3 per cent received rental income.

Chart 3: Median value of household financial assets and proportion of households holding such assets, households in the lowest gross income quintile (2017-18)



Source: RBA, ATO, ABS and ASFA calculations.

Table 3: Average (mean) balances for employees, June 2018

Age	Males	Females
70 and over	$477,041	$380,805
65 to 69	$384,539	$313,050
60 to 64	$371,599	$251,409
55 to 59	$311,163	$207,254
50 to 54	$242,007	$159,188
45 to 49	$182,146	$127,687
40 to 44	$134,992	$98,572
35 to 39	$92,425	$72,098
30 to 34	$58,035	$45,968
25 to 29	$28,319	$23,773
20 to 24	$9,481	$8,051
under 20	$1,440	$1,066

5 What would be the savings of Australians without superannuation?

In the absence of superannuation, particularly compulsory superannuation, it is likely that the savings and financial assets of many if not most Australians would be negligible. This would be particularly the case in regard to lower income individuals. Younger Australians who are yet to marry or seek home ownership also are likely to have low savings rates.

Broadly speaking, various studies have found that on average across the entire community for each dollar of saving via compulsory superannuation, net saving is likely to be no less than 60 cents, and possibly much higher. ASFA has estimated that compulsory superannuation has led to household savings being around $500 billion higher than they would otherwise have been.

For low income and younger people the net impact of each dollar of saving via compulsory superannuation is much higher than the overall average for all employees. Lower income households tend to consume a greater share of permanent extra income than the community average, consistent with the idea that these households are more likely to be liquidity constrained.

There is no evidence that low income self employed persons or gig economy workers save anything like what Superannuation Guarantee contributions would be if they applied to their employment earnings. Equally, individuals not receiving compulsory superannuation because they are earning less than $450 a month do not typically have higher savings rates outside of superannuation.

In 2017-18 female wage and salary earners aged under 35 had a total of $53.5 billion in superannuation, while the equivalent figure for males was $69.8 billion. Compulsory superannuation has resulted in these employees aged under 35 having additional savings approaching $100 billion in total, compared to what would be the case if there was no compulsory superannuation. Taking into account a what would be a modest reduction in other forms of savings by this age group, compulsory superannuation has resulted in these employees aged under 35 having additional savings approaching $100 billion in total, that is around $22,000 per person.

Compulsory superannuation has meant that through the early release provisions they have had access to significantly more savings at a time of need than would have been the case in the absence of compulsory superannuation.

asfa
the voice of super