



20K now or 50K later? What's driving people's decision to withdraw their super?*

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Executive Summary

By mid-August 2020, Australian superannuation fund members had made more than 3 million applications to withdraw retirement savings under the COVID-19 Superannuation Early Release Scheme, supporting more than \$31B in payments. The relaxation of conditions for early release of superannuation savings changed a fundamental feature of the Australian retirement savings system. Responses of members to the early release scheme highlight the effectiveness of the standard superannuation preservation rules. Early withdrawals have short-term and long-term consequences for individual members who take payments under the scheme, and for society as a whole.

We report results of a survey of over 3,000 members of Cbus, a leading industry fund, who withdrew some or all of their superannuation savings in the first phase of the COVID-19 early release scheme between April and June 2020.¹

Major findings include:

- Surveyed COVID-19 early release scheme applicants expressed urgent short-term need for funds and considerable uncertainty about the long-term consequences of their decision.
- The \$10,000 limit both guided and constrained withdrawal amounts.
- Around 25% of surveyed members withdrew almost their entire account balance.
- Immediate financial need (59%) and concerns for future expenditures (27%) were the main reasons members gave for accessing savings. Those who had not experienced reduced working hours were more likely to withdraw for future concerns or to protect their savings.
- Around 30% of surveyed applicants were unsure of, or unconcerned about, the long-term consequences of their withdrawal.
- Around 50% of surveyed applicants either underestimated, or didn't estimate, the impact of the withdrawal on their superannuation balance at retirement.
- Members who collected information from Cbus and from other sources, such as news services or social media, were half as likely to decide to withdraw within one day or less than members who used no information sources.
- Members who spent longer thinking and consulted more information sources before withdrawing their savings held more realistic expectations of impacts on retirement wealth.

¹ APRA reported that the ATO had received 236,356 applications for COVID-19 Early Release from Cbus members by 9 August 2020: <https://www.apra.gov.au/covid-19-early-release-scheme-issue-16> accessed on 21 August 2020. The survey was completed by over 3,000 of the members who applied for ER in two tranches.

Background

The COVID-19 Superannuation Early Release Scheme was one of the first pandemic-related policy changes made by the Australian Government. In April 2020, the Government announced that superannuation fund members experiencing loss of employment or financial hardship during the COVID-19 pandemic could apply to the Australian Taxation Office (ATO) to withdraw up to \$20,000 of their superannuation savings. Originally, the scheme allowed members to apply for up to \$10,000 before the end of June 2020 and up to another \$10,000 by 24 September, without giving formal proof of eligibility at application. The Government announced the COVID-19 Superannuation Early Release Scheme before they introduced the JobKeeper payments and increased JobSeeker allowance. On 23 July 2020, the Treasurer announced that the COVID-19 early release scheme would be extended to 31 December 2020, along with modifications to JobKeeper and JobSeeker.

The COVID-19 early release scheme modifies otherwise very tight controls over superannuation withdrawals. The prevailing rules prevent most members from accessing their savings before reaching a minimum 'preservation' age (55-60, depending on birthdate) and retiring (or transitioning to retirement), with some limited exceptions in cases of extreme personal or financial hardship.² The COVID-19 early release scheme thus changes a fundamental element of the retirement savings system in Australia.

The pattern of withdrawals of funds by superannuation fund members since the start of the COVID-19 early release scheme shows that the usual preservation rules play a critical role in preventing members from spending their mandatory superannuation savings before retirement. The ATO has received more than 3 million applications to withdraw up to \$10,000 from superannuation accounts since the early release scheme began on 20 April (APRA 2020).³ The average amount withdrawn by August 2020 was close to \$7,700. The number and size of withdrawals indicates that the scheme is likely to have extensive short- and long-term effects on individual and aggregate retirement savings in Australia.

Survey

Many important questions about the operation and effect of the COVID-19 early release scheme remain unanswered. To better understand these issues, we analysed survey responses of early-withdrawers from a large industry superannuation fund, Cbus. Cbus is a profit-for-members fund that primarily serves the construction sector. It has almost 760,000 members and manages around \$56 billion in savings. By 9 August 2020, Cbus had made more than 229,000 early release payments, with an average withdrawal of \$8,408 (See footnote 2). Between early May 2020 and early July 2020, Cbus surveyed 3,047 members who had withdrawn superannuation savings under the early release scheme.

² <https://www.ato.gov.au/Individuals/Super/In-detail/Withdrawing-and-using-your-super/Withdrawing-your-super-and-paying-tax/?anchor=Whenyoucanaccessyoursuper#Whenyoucanaccessyoursuper>, accessed on 18 June 2020.

³ <https://www.apra.gov.au/covid-19-early-release-scheme-issue-16> accessed on 21 August 2020.

Respondent characteristics

The median survey respondent was 39 years of age, male, and withdrew the full \$10,000 from their account. Table 1 shows characteristics of the average and median survey respondent.

Table 1: Survey sample: Summary Statistics

	Average	Median
Age (years)	40.4	39.0
Female	15%	0%
Tenure (years)	9.47	8.00
Balance before Early Release	\$62,639	\$37,396
Early Release Amount	\$8,444	\$10,000
Balance after Early Release	\$54,195	\$28,010
% withdrawn	40.1%	25.1%

Amounts withdrawn

More than 20% of respondents virtually emptied their accounts, however 43% reported they had withdrawn less than 20% of their entire balance as shown in Figure 1.

Most respondents withdrew either the \$10,000 upper limit, or an amount very close to their account balance, if their balance was less than the upper limit. Those who left small residual amounts could have been preserving insurance cover or may have been working from slightly dated balance information when making their application. Figure 2 shows residual balances after withdrawals compared with the \$10K limit. The fact that only 9% of respondents withdrew less than the limit while still preserving more than \$1,000 in their account, demonstrates that respondents were strongly guided, and effectively constrained, by the \$10,000 limit.

Figure 1: Distribution of respondents by percentage of account balance taken as Early Release

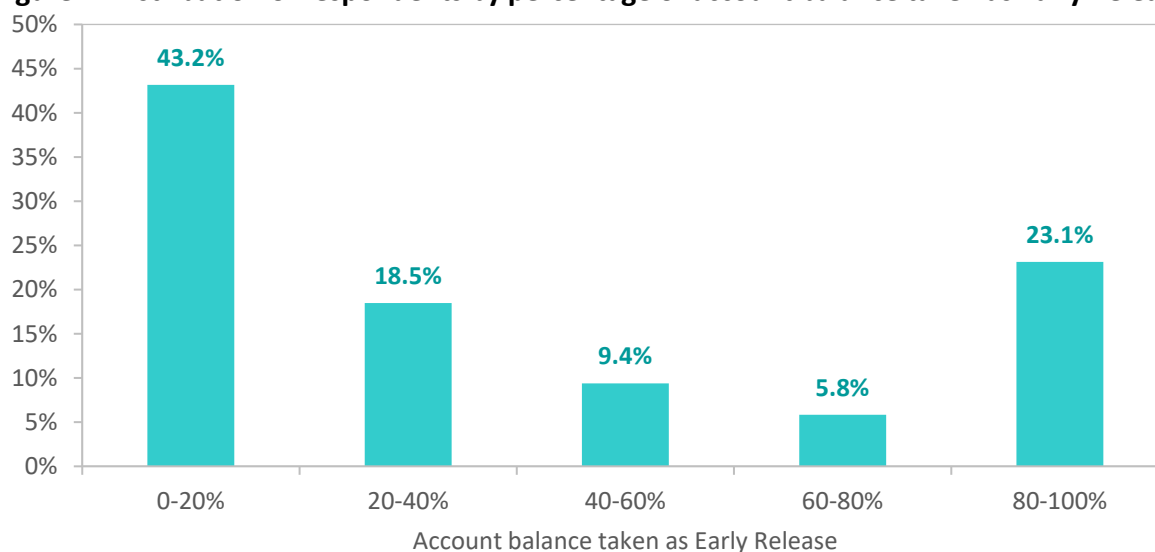
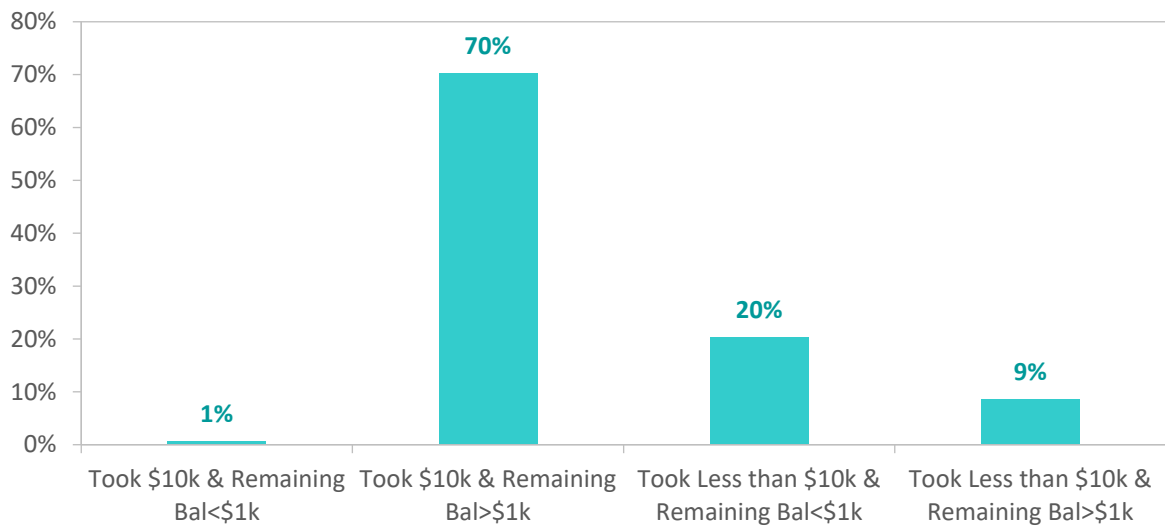


Figure 2: Withdrawals relative to \$10,000 limit and remaining balances



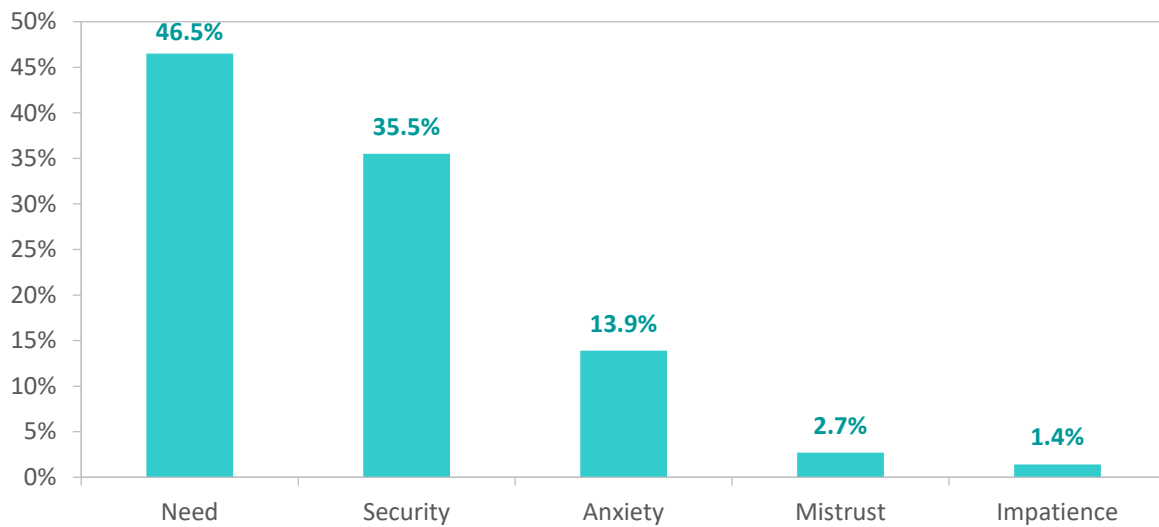
Reasons for withdrawal

The Government intended the COVID-19 early release scheme would help people who were unemployed, made redundant or who were experiencing reduced work hours, to meet expenses during the COVID-19 restrictions. We find that more than half of respondents reported that they withdrew funds to meet immediate expenses or to cover lost income. Notably, results in Table 2 also show that around one quarter were thinking of future financial pressures. In other words, one in four respondents appear to be taking precautions. Then again, few respondents cited concerns about falling asset values or simple impatience as reasons for accessing their savings. The focus on needing savings for expenses now or in the near future aligns closely with results in Figure 3, that shows that a sense of need motivated around 47% of early-withdrawers while a desire for security motivated around 35%.

Table 2: Reasons for withdrawal

Main reason for withdrawal		
Immediate concerns	Lost income	16.6%
	Job loss of others in HH	4.0%
	Pay expenses	38.1%
Future concerns	Extra savings	6.1%
	Future bills	20.5%
Savings protection	Protect savings	1.7%
	Falling market	2.2%
Money today	Don't have to wait	1.4%
	Unimportant	0.7%
Others	Others	8.8%
Total		100.0%

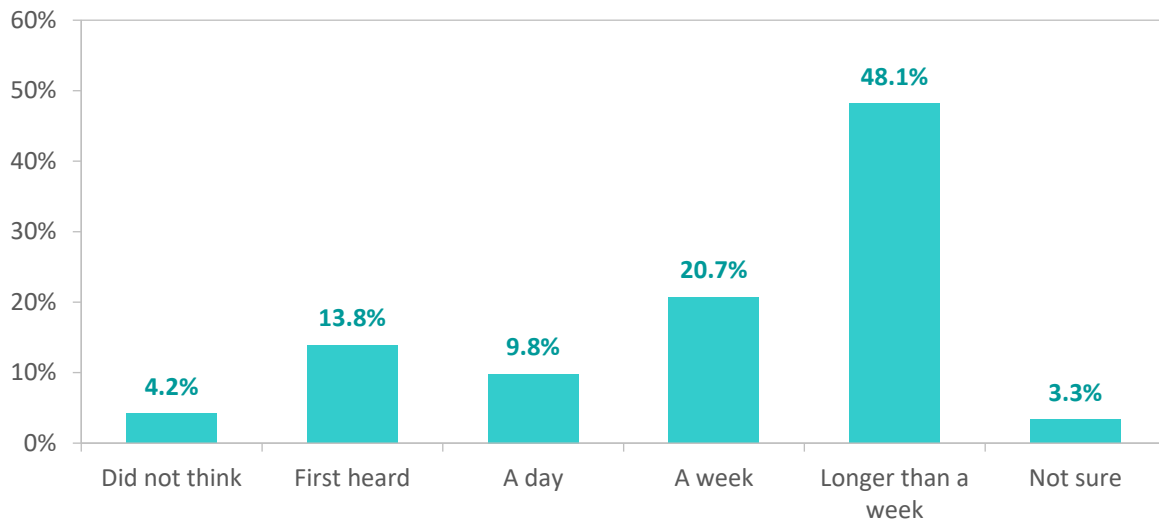
Figure 3: Motivation for early release request (“What word best captures your motivation?”)



Understanding the decision to withdraw

Around half the respondents report spending a week or less thinking before they decided if they would apply for early release, and 28% either made their minds up immediately or within a day of hearing about the scheme. Figure 4 reports the distribution of respondents’ deliberation times.

Figure 4: Time spent thinking before deciding to withdraw



Surveyed members expressed a high degree of uncertainty or unconcern about the long-term implications of the withdrawal. Around one third of respondents said that they were unsure about the impact of their withdrawal on their retirement balances or had not thought about that or did not care. Figure 5 shows how surveyed members answered questions related to retirement impact. These findings demonstrate that many withdrawers either could not, or did not, evaluate the impact of their decision.

We also compared respondents’ estimates of the impact of their withdrawal with a projection of that impact based on assumptions made in a Cbus guidance on the early release scheme for members. Figure 6 shows that 50% of respondents either

underestimated the impact of the withdrawal on their superannuation accumulation at retirement or did not make an attempt to estimate the impact (categorised as “Others” in Figure 6). The pattern of responses to the question on estimated impact, where each possible answer is chosen at approximately the same rate by respondents, is consistent with random selection of answers, and thus with general uncertainty among withdrawing members about long-term impact.

Figure 5: Responses related to retirement impact (“Did you think about the consequences of withdrawing your super in terms of the impact on your retirement?”)

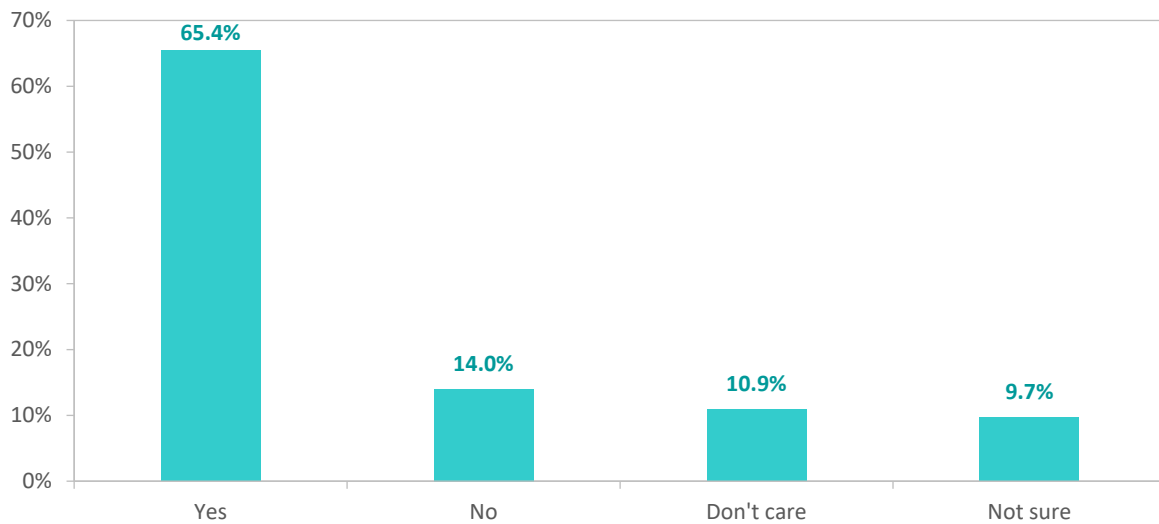
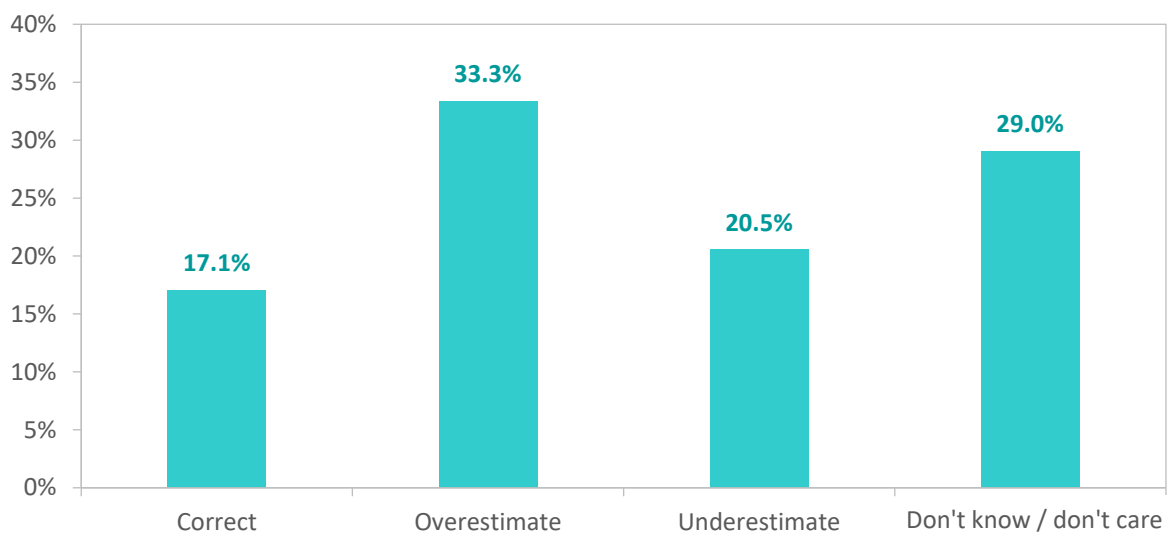


Figure 6: Respondent estimates of impact of Early Release; comparison with Cbus projection amount



Source of information used to inform decisions about Early Release

Half of members surveyed gathered information from Cbus and other sources, such as news services, social media, or financial professionals, before making a withdrawal. Members who consulted more sources of information also spent significantly longer thinking about their decision. Table 3 below shows that fewer than 22% of members who got information from several sources made their decision within a day, compared with 50% of members who did not use any information sources.

Table 3: Time spent thinking before deciding to withdraw by sources of information used

	Cbus & Other Source	Other Source Only	Cbus Only	No Information Sources Used
A day or less	21.7%	26.7%	38.0%	50.3%
A week or more	75.4%	69.9%	56.1%	46.7%
Not sure	2.9%	3.4%	5.9%	3.0%
Total	100%	100%	100%	100%
% of sample	50.2%	30.5%	7.3%	12.0%

Similarly, Table 4 shows that more attention to information is related to an attempt to assess impact on retirement balances. Nearly 78% of survey respondents who used both fund-provided and other information attempted to estimate the impact of their early withdrawal compared with only 57% of the group who used no information.

Table 4: Respondent estimates of impact of Early Release compared with Cbus projection amount by sources of information used

	Cbus & Other Source	Other Source Only	Cbus Only	No Information Sources Used
Correct	19.5%	16.1%	11.3%	12.6%
Overestimate	37.7%	31.3%	25.8%	24.9%
Underestimate	20.5%	20.9%	22.2%	19.1%
Others ^a	22.3%	31.7%	40.7%	43.4%
Total	100%	100%	100%	100%
% of sample	50.2%	7.3%	30.5%	12.0%

a. "Others" includes "don't know" and "don't care" responses.

Fund communication about COVID-19 Early Release scheme

Cbus emailed members with information about the Early Release Scheme from 17 April 2020 and close to two thirds of the members surveyed opened the email. Decision-making time comparisons between survey respondents who opened the email and those who did not show only small differences (Table 5). The group who opened the email were somewhat less likely to underestimate the impact of the withdrawal on their retirement balances, but also more likely to overestimate the impact than those who did not open the email (Table 6). The regulator responsible for oversight of these member communications warned superannuation

funds of the need to ensure that these communications were not misleading or deceptive, providing factual information, and that communications should be consistent with “official Government information sources related to COVID-19 and its financial impact”.⁴ Fund communication did not emphasise disadvantages of early withdrawal.

Table 5: Time spent thinking before deciding to withdraw by opening Cbus email

	Opened Email	Did Not Open Email
A day or less	29.7%	23.8%
A week or more	66.8%	73.2%
Not sure	3.5%	3.0%
Total	100%	100%
% of sample	68.3%	31.7%

Table 6: Respondent estimates of impact of Early Release compared with Cbus projection amount by opening Cbus email

	Opened Email	Did Not Open Email
Correct	16.7%	17.9%
Overestimate	35.9%	27.9%
Underestimate	19.1%	23.7%
Others	28.4%	30.5%
Total	100%	100%
% of sample	68.3%	31.7%

Employment status and Early Release

To be eligible to make a withdrawal under the COVID-19 early release scheme, members must be unemployed, receiving JobSeeker, Youth Allowance for job seekers, Parenting Payment, Special Benefit or Farm household Allowance, have been made redundant on or after 1 January 2020, or experiencing a 20% or more reduction in work hours or turnover for sole traders. Of surveyed members, 28% had lost their jobs due to the crisis, and 51% had reduced working hours since the crisis (Table 7). Within the group of members who were employed, about 45% were not sure or did not think they would continue to be employed.

Table 7: Employment status of surveyed members

	% of sample
Unemployed before COVID	16.0%
Unemployed due to COVID	28.4%
Employed - Hours reduced	50.7%
Employed - Hours same or increased	4.9%
Total	100%

Members who were employed withdrew a smaller percentage of their account balances, on average (Table 8). (We note that those who were employed were likely to have had higher

⁴ <https://download.asic.gov.au/media/5539288/apra-asic-letter-on-covid-19-1-april-2020-1.pdf>, p.2, accessed on 21 August 2020.

balances than unemployed members before withdrawing that may partly explain the lower average percentage.)

Table 8 Percentage of account balance taken as Early Release by employment status

	Average percentage of account balance withdrawn
Unemployed before COVID	45.9%
Unemployed due to COVID	43.1%
Employed - Hours reduced	37.0%
Employed - Hours same or increased	36.9%
Total	40.1%

Those who are employed and maintaining their working hours are less likely to withdraw for immediate concerns and expenses, and more likely to anticipate future needs or the protection of their savings (Table 9). Those who are employed but experiencing reduced hours spent more time thinking about withdrawing their superannuation savings before they acted (Table 10).

Table 9 Main reason for withdrawal by employment status

	Unemployed before COVID	Unemployed due to COVID	Employed - Hours reduced	Employed - Hours same or increased
Immediate concerns	58.8%	62.9%	58.0%	40.5%
Future concerns	21.9%	25.2%	28.6%	29.1%
Savings protection	3.3%	3.6%	3.9%	7.4%
Money today	3.5%	2.3%	1.2%	4.7%
Other	12.5%	6.0%	8.3%	18.2%
Total	100%	100%	100%	100%
% of sample	16.0%	28.4%	50.7%	4.9%

Table 10: Time spent thinking before deciding to withdraw by employment status

	Unemployed before COVID	Unemployed due to COVID	Employed - Hours reduced	Employed - Hours same or increased
A day or less	33.6%	31.6%	23.4%	32.4%
A week or more	63.5%	64.8%	73.3%	63.5%
Not sure	2.9%	3.6%	3.2%	4.1%
Total	100%	100%	100%	100%
% of sample	16.0%	28.4%	50.7%	4.9%

Future survey work will examine whether these trends continue in the second phase of the early release scheme, which allows an additional \$10,000 to be withdrawn from superannuation accounts in the period 1 July to 31 December 2020.