

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

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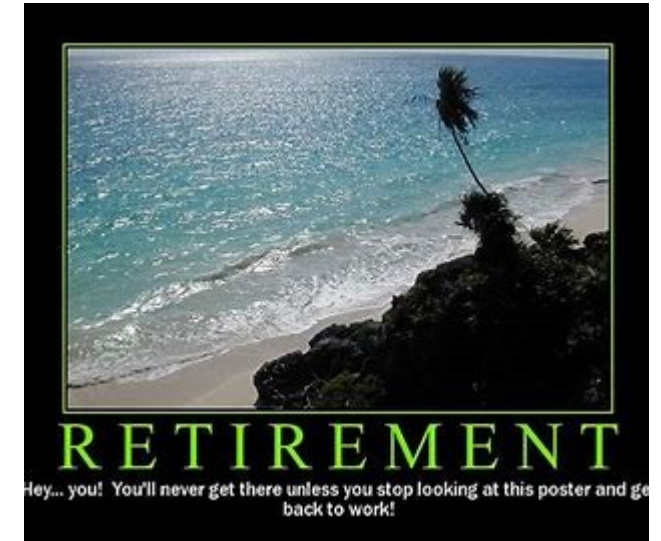
2. University of Sydney



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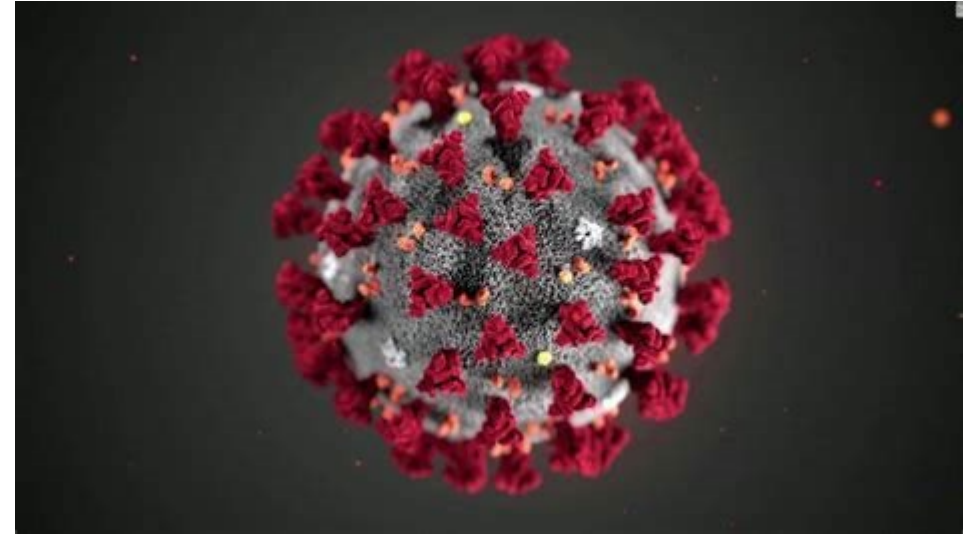
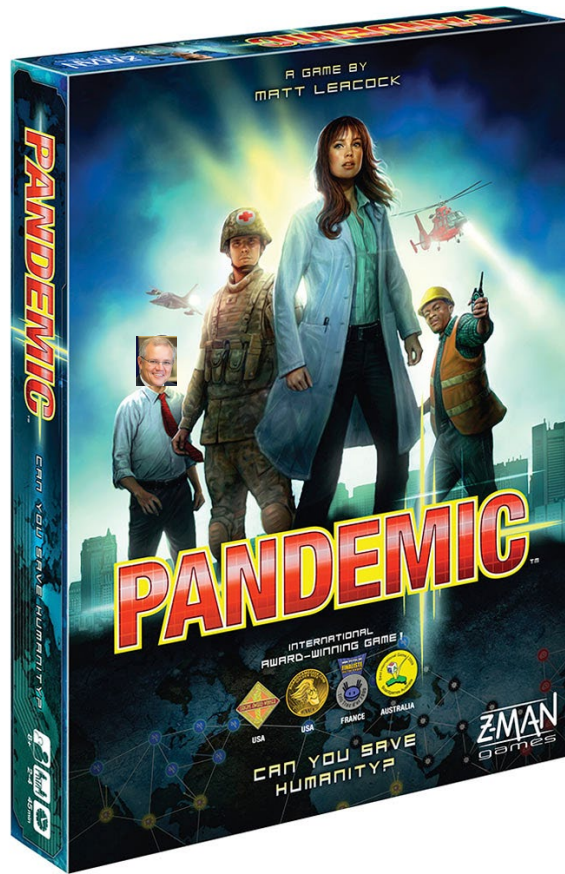
Saving for retirement does not come naturally...



“present bias”
“myopic thinking”
“irrational discounting”

Australian Context

- Almost all Australian workers receive mandatory employer contributions of at least 9.5% of earnings in individual accounts in superannuation (retirement) funds
- significant minority top up with voluntary employee contributions.
- The contributions are (generally) invested in broad portfolio of assets and accumulating savings are preserved to retirement.
- **Strict preservation** is a feature of the Australian arrangements with access prior to the preservation age or retirement available in very limited cases of extreme personal or financial hardship.



*Superannuation is their money when they need it at a time in a pandemic
we're going to make sure they can get access to it*
(The Hon. Scott Morrison, Prime Minister of Australia, 25th August 2020).

COVID-19 early release of super scheme

- Announced March 22nd 2020 (access from April 20th)
- Eligibility:
 - unemployed
 - in receipt of a working-age social security payment (such as unemployment benefits or parenting payments) or
 - made redundant in 2020
 - had their working hours reduced by 20% or more
- Amount: could apply for
 - up to \$10,000 before the end of June 2020
 - up to another \$10,000 by December 31st 2020

BUT! “Low Friction” application process: ATO via MyGov with self-rated eligibility

COVID-19 early release of super scheme: Headline Figures

By early-December 2020:

- 4.7 million applications to withdraw
- average payment of \$7,647.
- > 20% of super fund members have taken early access
- \$35.6 billion of superannuation assets withdrawn (out of \$2.9 trillion)
- ~40% have withdrawn in both rounds. (3.4M initial, 1.4M repeat)

What we have done in this project (so far)

1. Surveyed members of a large super fund who had taken Early Release (ER) in round 1.
2. Conducted a 'control sample' survey of people who are eligible to withdraw but did not (in the first round)
3. Examined fund-level admin data for predictors of amount taken.

Super Fund Partner



- 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.
- 24% of members took early release payments, with an average withdrawal of \$8,475 (as of early November)
- Over three weeks in May 2020, Cbus surveyed **3,047** members who had withdrawn superannuation savings under the early release scheme.

Survey Details



- In addition to demographics the Cbus survey asked about:
 - how long they thought about their decision
 - why they withdrew the money
 - whether they thought about the consequences
 - estimated impact on retirement savings

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%



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This industry report investigates what is driving people's decision to withdraw their superannuation under the COVID-19 Superannuation Early Release Scheme.

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

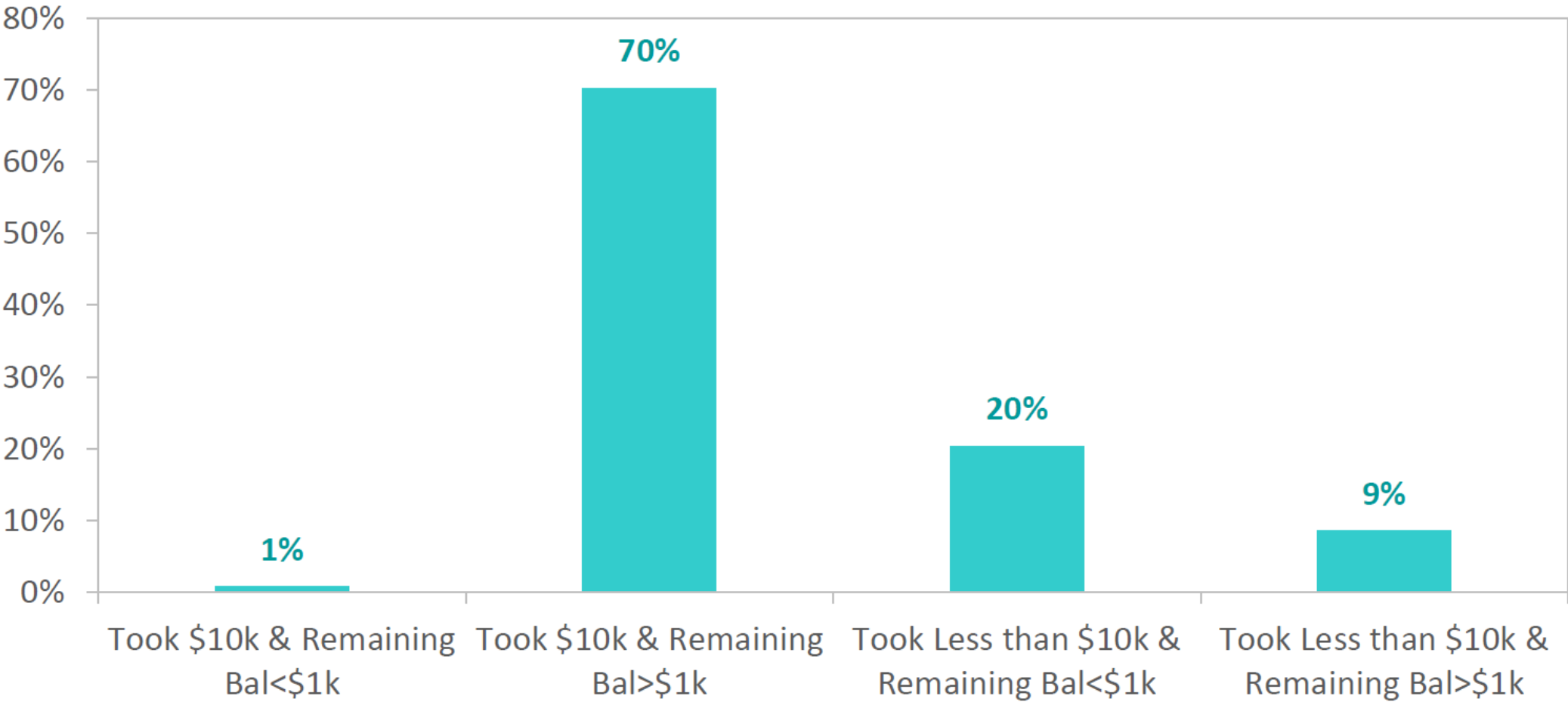


Table 2: Reasons for withdrawal

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.%

Figure 4: Time spent thinking before deciding to withdraw

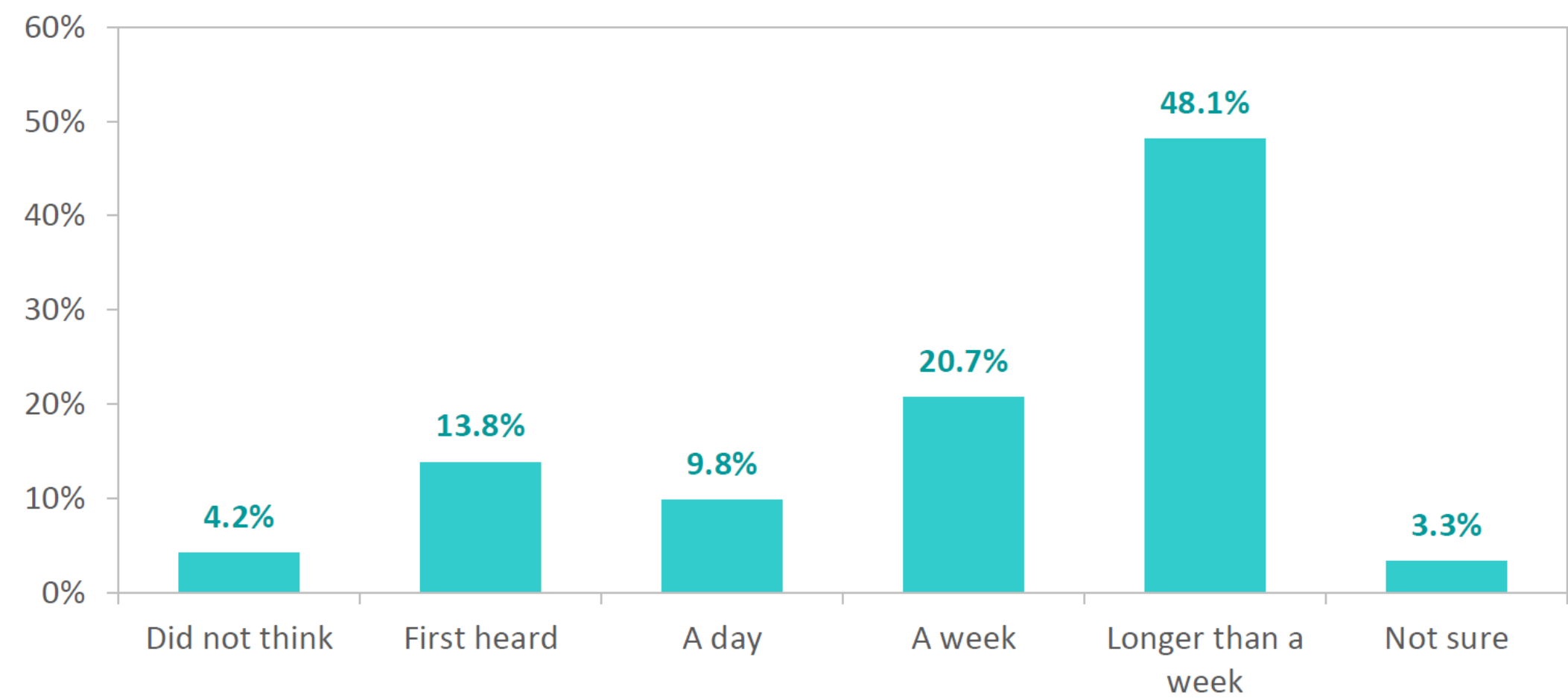
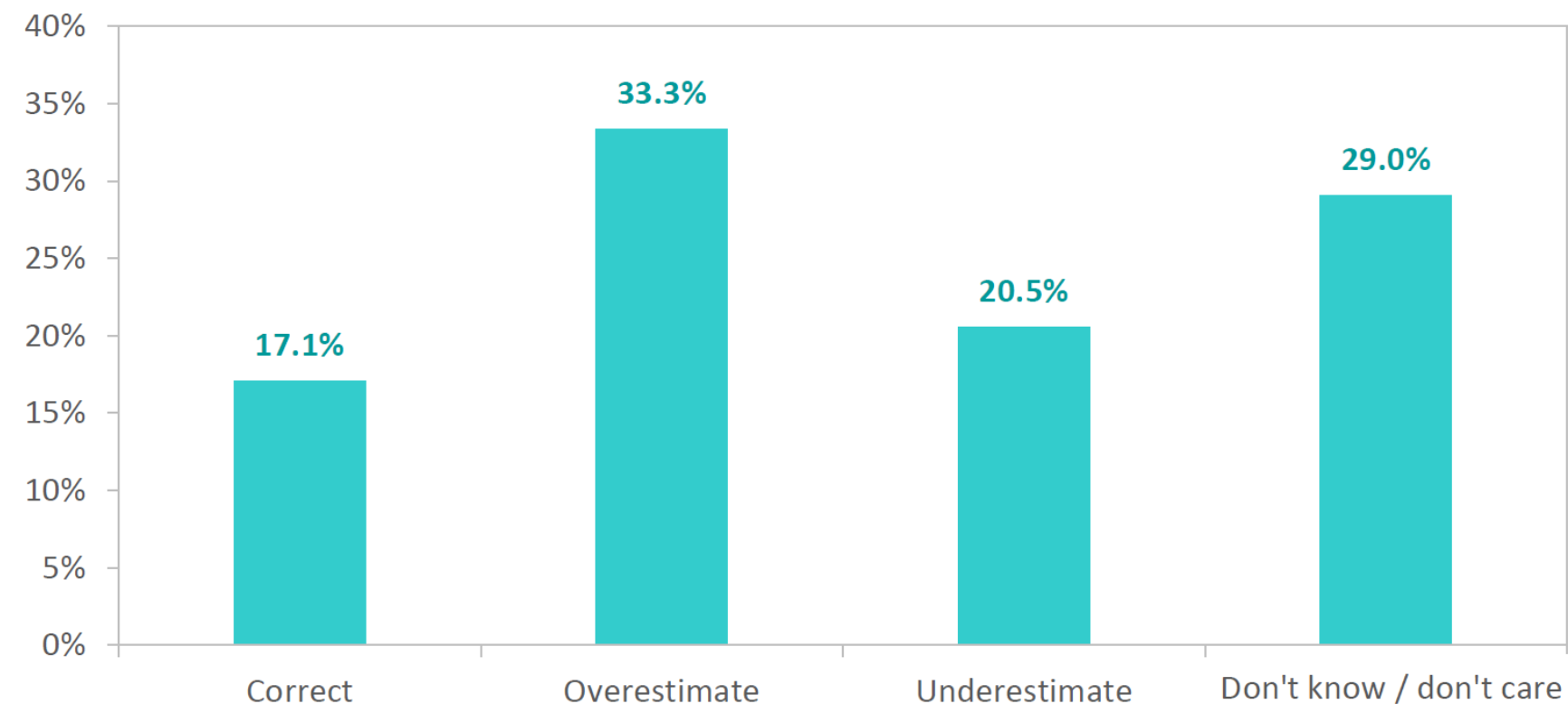


Figure 6: Respondent estimates of impact of Early Release; comparison with Cbus projection amount*



What impact do you think withdrawing your super will have on your retirement savings by the time you reach retirement age?

[Single choice]

- No impact
- \$5000 or less
- \$5,000-\$10,000
- \$10,000- \$20000
- \$20,000 - \$50,000
- \$50,000-\$100,000
- More than \$100,000
- Don't know
- Don't care

***This estimate assumes a conservative 2.06% net real growth rate until retirement at age 67.**

Control Sample Survey Details

- In addition to demographics the Control Sample (N=500) asked the same questions about why people **did not** withdraw
 - how long they thought about their decision
 - why they **did not** withdraw the money
 - whether they thought about the consequences
 - counterfactual estimated impact on retirement savings
- Conducted regression analysis to assess likelihood of taking ER conditional on eligibility

Cbus and Control Sample Comparison

	Cbus Early Release Survey	Control Survey
No. members	3,047	500
Gender (% Female)	15.0	60.0
Age (median)	39	42
Tenure, years (median)	8.5	10.0
Early release amount (average)	\$8,448	\$7,163
Early release amount (median)	\$10,000	\$8,000
% of account withdrawn (average)	41.0%	24.9%
% of account withdrawn (median)	24.0%	11.1%
Balance before early release (av.)	\$55,652	\$139,552
Balance before early release (med)	\$28,604	\$53,000

Main findings from regression analyses

1. Using survey data collected from Cbus sample and a control sample, we find the likelihood of taking ER, conditional on being eligible, is:
 - a) 7 percentage points higher if reporting future concerns as the main reason for the decision
("To put some extra money in the bank, just in case" or "Worried about my ability to pay bills in the future")
 - b) 3 percentage points higher if they did not think about the consequences of withdrawing super in terms of the impact on their retirement or "not sure" or "don't care"
 - c) 4 percentage points higher if underestimating the impact of ER on retirement wealth or don't know/don't care
 - d) 4 percentage points higher if aged 40-49 (compared to 18-29)

What we have done in this project (so far)

1. Surveyed members of a large super fund who had taken Early Release (ER) in round 1.
2. Conducted a 'control sample' survey of people who are eligible to withdraw but did not (in the first round)
3. Examined fund-level admin data for predictors of amount taken.

All Groups Comparison

	Cbus Early Release Survey	Control Survey	Full Cbus membership			
			All	Round 1 early release	Round 2 early release	Both rounds
No. members	3,047	500	755,698	134,010	89,282	71,349
Gender (% Female)	15.0	60.0	9.3	7.0	7.0	6.0
Age (median)	39	42	38	35	36	37
Tenure, years (median)	8.5	10.0	9	8.9	10.0	10.6
Early release amount (average)	\$8,448	\$7,163	-	\$8,563	\$8,523	\$8,766
Early release amount (median)	\$10,000	\$8,000	-	\$10,000	\$10,000	\$10,000
% of account withdrawn (average)	41.0%	24.9%	-	40.0%	45.0%	44.0%
% of account withdrawn (median)	24.0%	11.1%	-	27.0%	27.0%	25.0%
Balance before early release (av.)	\$55,652	\$139,552	-	\$56,885	\$56,044	\$59,238
Balance before early release (med)	\$28,604	\$53,000	-	\$34,420	\$34,744	\$38,630

Main findings from regression analyses

2. Using fund-level admin data from Cbus, we find the likelihood of taking as much as possible (10k or entire balance), conditional on taking first-round ER, is:
 - a) 20 percentage points higher if their super balance is in the top three quintiles (over 25k)
 - b) 2-3 percentage points lower if estimated salary is in the middle three quintiles (22k-77k)
 - c) 1-2 percentage points higher if their tenure with Cbus is in the top three quintiles (over 7 years)
 - d) 2 percentage points higher if aged 30-59 (compared to 18-29)

What did people say they were going to use the money for?

Q = And what did you do with the money (tick all that apply)?	# of People Reporting	% of Sample (682)
Spend: (bills, groceries, household goods, vehicles)	379	56%
Save: (in bank account)	220	32%
Super: (Put back into super)	11	2%
Pay off: (Mortgage, credit cards, loans)	306	45%
Invest: (shares, property, managed funds)	57	8%
Help: (family, friends)	82	12%
Medical: (medical, dental services)	78	11%
<u>Sample Size</u>	682*	

*question was a late addition so smaller N

Does need and intended use match?

Main reason to withdraw	Immediate concerns	%	Future concerns	%	Money today	%	Savings protection	%	Other	%
Spend: (bills, groceries, household goods, vehicles)	246	72%	90	44%	7	39%	10	30%	26	31%
Save: (in bank account)	73	21%	107	53%	7	39%	12	36%	21	25%
Super: (Put back into super)	2	1%	3	1%	3	17%	1	3%	2	2%
Pay off: (Mortgage, credit cards, loans)	176	51%	75	37%	7	39%	10	30%	38	45%
Invest: (shares, property, managed funds)	11	3%	16	8%	4	22%	9	27%	17	20%
Help: (family, friends)	48	14%	21	10%	1	6%	3	9%	9	11%
Medical: (medical, dental services)	52	15%	17	8%	3	17%	1	3%	5	6%
Subtotal	343	100%	203	100%	18	100%	33	100%	85	100%

Discussion 1

Superannuation is their money when they need it at a time in a pandemic we're going to make sure they can get access to it

(The Hon. Scott Morrison, Prime Minister of Australia, 25th August 2020).

- Was it the “right” policy response?
 - Immediate vs. future concerns
 - Older, wealthier members more likely to withdraw
 - Poorer estimates, less thinking = more likely to withdraw
 - Potential to change the “mental account” for superannuation
 - Evidence for anchoring on permitted amount

Discussion 2

What alternative policy responses are there?

- Chile: allowing access to 10% of pensions assets up to a cap of \$US5,600
- Peru: 25% up to a cap of \$US3,685
- India: up to 3 months salary
- US: access for those financially affected by COVID-19 or to finance treatment
- US: the cap on borrowing from a DC plan increased to \$100,000
- Spain: access to pension savings is available to the unemployed
- France: access to pension savings is available to the self-employed
- Portugal: access if they lost their job or subject to reduced hours

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Thank you for your attention.

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