What you need to consider before withdrawing your super

Simon Gilbert-Kent

South Australia State Litigation Leader

Maurice Blackburn Lawyers

Phone: (08) 7109 2710

Email: sgilbert-kent@mauriceblackburn.com.au

The Australian Government has announced that people facing financial stress as a result of the COVID-19 pandemic will be able to access their superannuation account balance early.

Whilst early access to your super balance provides cash relief in the short term, it is important to make an informed decision about accessing your retirement savings as there may be unintended consequences. In particular:

- Withdrawing money from your super now may significantly impact your retirement savings in the future, and
- You may lose your death and disability insurance provided automatically through your super fund if the withdrawal leaves insufficient funds available to pay the premiums.

So, what changes have the Government made and what does this mean for you?

What are the changes?

If you are eligible you will be able to apply through the myGov website to access up to $10,000 out of your superannuation balance before 1 July 2020, and up to a further $10,000 from 1 July 2020.

The payments are tax free and won't affect existing Centrelink or Veterans' Affairs payments. Once the ATO processes the application, your fund will let you know how to complete the application by confirming identity and bank account details.

Who is eligible?

You can apply for early release of your super under the pandemic provisions if you are unemployed, or eligible to receive one of the following government allowances:

- Job seeker payment
- Youth allowance for jobseekers

- Parenting payment (including single and partnered payments)
- Special benefits, or
- Farm household allowance

You can also apply for early release under the new provisions if you can show that on or after 1 January 2020, you were either made redundant or had your working hours reduced by at least 20%. If you're a sole trader, you need to show that your business was suspended or there was a reduction in your turnover of 20% or more.

Read about the eligibility criteria in more detail on the Australian Government website.

What's the downside?

While accessing a quick lump sum right now might seem appealing, it's important to remember that your superannuation is your retirement savings. Particularly for younger workers, a small withdrawal now may have a very significant impact on eventual retirement savings.

Analysis by Industry Super Australia points out that withdrawing $20,000 over the next year could cost a 30-year-old $100,000 at retirement, and a 40-year-old $63,000.

The decision to make early withdrawal of super funds should not be taken lightly, or without proper financial advice to help manage the immediately and longer term financial impacts.

How does this impact my death and disability insurance?

You may not know it, but most superannuation funds provide automatic life and disability insurance to members in the form of monthly payments or lump sum benefits if members are unable to work due to any injury or illness, or a lump sum payment to their dependents if the member dies. You pay premiums for this insurance from your superannuation account balance.

Insurance through superannuation has been a cost effective safety net for working Australians for decades, and it will become more important as the health impacts of the current pandemic are felt.

History shows that disability insurance is most utilised during, and in the aftermath of, an economic crisis, so the loss of cover at this time may leave you unprotected at a time when you need it most.

In 2019, the Federal Government implemented the Protecting Your Super Package laws, which directed superannuation funds to cancel insurance attached to member accounts in two circumstances:

1. If a member doesn't receive employer contributions into their superannuation for 16 months; or

2. If a member has an account balance of less than $6,000

Importantly, Assistant Minister for Financial Services Jane Hume has confirmed that "If your account is active and has been greater than $6,000 at any time after 1 November 2019, your insurance will not be switched off".

This means that if your account balance drops below $6,000 as a result of accessing super under the new provisions, your insurance won't automatically be cancelled. However, if there is not enough money remaining in your account to pay premiums, the insurance will stop. This leaves you uninsured should you need to stop work for any medical reason in the future.

What can I do?

If you're considering withdrawing funds from you super account, seek financial advice about the impacts. If you don't have a financial adviser we can refer you to a reputable licensed one.

Find out what insurance cover you have, and if you want to retain your insurance find out how much money you need to consider leaving in your account to pay the ongoing premiums. If you have a medical condition that may cause you to cease work in the future it is very important that you don't lose your insurance entitlements.

If you're facing a period of unemployment which may last for 16 months or more, or if you aren't sure how much money you need to leave in your account to meet the cost of ongoing insurance premiums, we suggest you contact your superannuation fund as soon as possible. You may be able to retain your insurance cover by finding out how much money should remain in your account, and by giving your permission for premiums to continue to be deducted.

If you're sick or injured and can't work, you may be able to claim on your insurance now. Maurice Blackburn provide a no obligation, free super check over the phone. Call us on 1800 196 050.

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