

Transcript – Services Australia podcast – Coronavirus conversations – Early release of super after 1 July

Announcement

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Hank

Hi, I'm Hank Jongen from Services Australia. Since the pandemic started at the beginning of this year, many people have been faced with high levels of financial uncertainty and significant losses of income. One of the options that the government has introduced has been early release of superannuation.

And that's what we're going to talk about today.

I'd like to introduce Justin Bott, who's an expert with the Financial Information Service, here, within Services Australia.

Welcome Justin.

Justin

Hi Hank, how are you doing?

Hank

Really good. Now look, we've talked about this in a previous podcast but there is a need to update the information a bit, this time round. That's right, isn't it?

Justin

Yeah. It is. The rules have changed a little bit since we last spoke about it so it's a great opportunity just to make sure we're keeping everybody afresh with what's going on

Hank

Great. Ok. So, early access to superannuation has been around since about March 2020, and I just had a look at the stats this morning. Over \$33 billion has been withdrawn and they've been 3.2 million applications. So someone knows something about what's going on, but what are the rules?

Justin

OK. So, basically this is something the government put in place to try and help people get some money - get some emergency funds if you like, during the coronavirus, but not everybody can do it. It's self-reporting, so the idea is that you meet these criteria, and that means that you've got to be unemployed, or on a payment from Services Australia, like our JobSeeker Payment being the main one, or, after January this year, you've either been made redundant, or you're working less – your hours have gone down by over 20%, or if you're self-employed – your business turnover has gone down by 20%.

So if you meet those criteria, you are eligible for now, the one that's left, one-off \$10,000.

And if you need to do it, it's the ATO. That's where you go to do it. The ATO website through myGov. That's the vehicle.

Hank

I'm glad you made that point, because we are talking about a withdrawal of \$10,000. That's right, isn't it?

Justin

Yeah, that's right. So, there were two that were allowed. The first one finished on 30th June, and then the second one has actually now been extended so you can do it; if you haven't done it yet; you're still able to do it up until 31st December. So the end of this year.

Now, although it's 10 grand, the average I think people have taken to be about \$8,200 or so, you don't have to take the \$10,000 if you don't want to, but that's the amount the government lets you do.

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Services Australia's Financial Information Service provides free, independent and confidential education and information. To speak to the Financial Information Service, call them on 132300. Say 'Financial Information Service', when prompted for the reason for your call.

Hank

OK. Now Justin, you said you can do it, but should you?

Justin

Yeah, so, look, let me say I get this. I get the need to do this, 'cause they're a lot of things we want people to think about before they decide to access the money, but they're all about the future. They're all about where I might be in 10 years' time, or what I might need in 20 years' time and when I've got a bill to be paid now; you know, I've got a mortgage that I have to help cover now, or a credit card debt or rent that I've got to cover, it's really hard to think about what do I need in 20 years' time when I'm facing this urgent issue right now.

So I fully get why people are going down this path but we're not saying 'Don't do it' because obviously we don't want to do that. What I just want people to think about is there are some reasons why you might not want to actually do that. There are some things that we would like you to think about before you choose to take out the \$10,000.

Hank

And what are they, Justin?

Justin

First of all, are there other ways that you could look after yourself before you touch your super?

If it is down the superannuation, then what are you potentially going to give up in the way of that investment return? So, how much money am I going to lose as a consequence of doing it? And the third one, which a lot of people don't even think about, is insurance. I might be actually missing out on, or losing, access to some really important and good insurance coverage if I choose to do this path.

Hank

Actually, it's interesting you raise that because only last night I got a letter from the tax office which had some stuff about super, and I noticed that one of the little lines that was highlighted was 'No insurance.' Are there rules around insurance associated with super?

Justin

As in, do all super funds have them or don't have them and is it a rule?

Hank

Yeah. That's what I – sorry, that's what I meant.

Justin

Yeah. Yeah. No. No, it's not actually a law. So, it's not a requirement that a superannuation fund has insurance within them but some do, so – quite a few do when they set themselves up.

When a super fund puts an insurance policy for you, like, the two main ones that you're looking at, that they provide, is things called Life Insurance policy, which is a big lump sum that goes to your beneficiaries when you die, or Total and Permanent Disability Insurance which is again another big lump sum which will go to you if you're basically no longer able to work because you've become totally or permanently disabled.

Now, if I wanted to go and get them myself, right now, first of all they're going to do this – you know – this health check. How old are you? I'm getting older and this is becoming more and more of an issue. How old am I? Do I smoke? Do I drink? What are my behaviours? And the more I have bad ticks on that health check, the more expensive that insurance is going to be.

But when I do it in a super fund, I just get it. You know, they pay it at wholesale rates rather than personal rates, so it's cheaper because of that, and they don't ask me any of those questions, I'm just with this super fund, so I get it, even if I had a pre-existing condition or not, so it actually could take quite a lot of your own money to recover that; to pay for it separately. So it's not the sort of thing you want to necessarily get rid of if you can avoid doing that.

Hank

Now, you said that one of the implications of withdrawing money could be loss of that insurance. How does that work?

Justin

So, for most people – the way that insurance works is that my superannuation fund earns an investment return: interest, dividend from its' shares, money from its' properties; whatever it might be. All that income comes into the super fund. Some of it goes to pay the fees of the fund; some of it goes to pay the tax; and some of it goes to cover the premiums of that insurance.

So, I'm not paying the premiums out of my pocket, but my super fund's investment return is paying it for me. Now, I have to have enough of a balance of the funds to be able to cover those premiums, and if I take money out of super, what I'm actually risking is either closing my superannuation fund down completely; and that has actually happened for – I actually don't know the number but I do know that they've come back and said that there are quite a large number of funds that have been shut down completely – particularly for younger people that have really not had an opportunity to put a lot of money in. So either I close the fund completely, or my balance in the fund gets under roughly about 6 grand and if it's under \$6,000 then

there's no longer enough in the fund to cover my insurance premiums. I can't cover the cost, my insurance is going to – my coverage is going to go.

So, if I've got \$30, \$40, \$50,000+ in super then that's not going to be a big issue. But if I've got the lower figures, \$20,000 or less, taking 10 grand out could really make my insurance disappear even though I didn't realise it.

Hank

Sure, and that's something that you really need to think about. But you also said earlier – you know – think about the other options available to you. What might they be?

Justin

Yeah, so obviously we are Services Australia, so the first port of call is making sure you're getting everything from us that you should be. So have you claimed your payments? Have you claimed your JobSeeker if you're getting JobKeeper now the 25th and 28th September has passed and the new rates of JobKeeper have come in play? Are you now eligible for a JobSeeker Payment as well? So, have you claimed both of the things that you should be claiming?

So they're the first ones – are you getting everything from us that you could?

And another one that's out there, is particularly for businesses. It's a government guaranteed loan. It's called the 'Coronavirus Small and Medium Enterprise Guarantee Scheme'. So, small businesses can actually go out and get a low interest loans that are underwritten by the government and they're actually still out there until 30th June next year. So, there going to be around for a while. So, if I'm running a business, my own company, instead of me dipping into my super to try and raise funds, maybe I'd be looking at one of these government underwritten loans, these Coronavirus Small and Medium Enterprise Guarantee Scheme loans.

Hank

Now, what about – you talked about small businesses, and that includes people who are self-employed, can they claim JobSeeker for themselves, or JobKeeper?

Justin

JobKeeper absolutely they can, but only one person in a business is able to do that, so for JobKeeper purposes, if I'm in a partnership, only one of the members of the partnership can actually claim JobKeeper.

In the past, normally we would not allow a person that's running their own business to get a payment like JobSeeker, but those rules have presently been put on hold

because of the coronavirus, so if I am running a small business and my income is low, and again we're actually looking at the outcome income – the outcome income, how's that? – We're looking at your net income. So you as a business could be working; could have a lot of expenses; could be getting paid \$1,200 a fortnight with the JobKeeper and still have a lot of the income chewed up by your expenses; and claim quite a decent amount of JobSeeker at the same time.

So, yeah, if you are running your own business and your income is again, it's low, because of the costs, because it's hard to get an income from the business right now, check your JobKeeper eligibility if you haven't done that already, but also check your JobSeeker eligibility. Do that too.

And as we often will say, the best place to do that, to just test where you're at, is go to the Services Australia website which is servicesaustralia.gov.au and search for our 'Payment and Service Finder,' and that's a little calculator; a little tool, that you can check what I might be eligible for, depending on my circumstances.

So, please do that and get in contact if you think you should apply.

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The easiest way to apply for payments is to claim online. Use your Centrelink account through myGov to apply. The Services Australia website has easy to understand guides to help you.

Hank

Yeah, and look, another factor here, of course, is the actual performance of your fund. That's something else you've got to take into consideration too, isn't it?

Justin

So, yeah. What you're looking at is, if I'm taking \$10,000 out of my superannuation fund, then that \$10,000 theoretically would have earned some sort of investment return if it stayed. So I would have earned some sort of income from it. Now, that income would have then been added to the \$10,000 and say it's now \$10,025. Now that \$10,025 earns income of its own and that keeps building and that keeps building and the investments could have grown. What I bought for \$10,000 might now grow to \$13,000 and it keeps getting bigger.

So, by taking the money out, what I'm doing is I'm missing out on those options; that potential growth and investment income; and, you know, if I'm only 20, then I'm saying goodbye to that for the next 40 plus years. That's a lot of growth and a lot of potential investment return that I'm saying goodbye to. And when it comes to final retirement, it can add up to a huge amount of money. Depending on how young I am; depending on how aggressive my investment strategy has been; and how well

I've been performing, you're talking about over \$60,000 to potentially over \$100,000 I could have missed out on if all things went according to plan and investments went the way I wanted them to go.

So, by taking the \$10,000 out, I am saying goodbye to that potential return, but again, like I said beforehand, and I'm sure you agree Hank, it's all well and good to say 'this is money you could be missing out on in the future,' but if I'm having difficulty just making ends meet today, you know, the future is too far away. You know, I might need that – I need that money now.

Hank

Yeah, just goes to show it's a real fine balance in terms of the decision you've got to make. Assuming you've made the decision to go ahead. You withdraw your 10,000 bucks, does it affect Services Australia payments?

Justin

Not the money itself, no. So, taking money out of super is fine. From Services Australia's perspective, you take a lump sum out of the superannuation fund; that is not treated as an income, so that won't affect your JobSeeker or any other payments that you might be getting from us.

The only thing that we really want to know about is where you actually put it. So if I took out \$10,000, where did I put it? If I put it into the bank account now, I've got 10 grand in the bank I didn't have beforehand so I got to let Services Australia know.

Now, if I use that money to, pretty much immediately pay off a credit card then, you know, the money's there, the money's gone. I'm going to tell Services Australia I've received it and I'm going to tell them straight away that I've spent it, it's not going to make any difference what-so-ever to my payment.

Hank

Justin that gives us a nice wrap up in terms of what you've got to think about; what factors you need to take into account; and then, what happens when you finally make the decision. So, where's the best place to go for more information?

Justin

Best place for all sorts of investment information, we can't recommend it enough, is the Moneysmart website which is Moneysmart, all one word, moneysmart.gov.au. There's so much good information there about investing. It's also got some calculators that you can use. You know how we talked about the loss of growth of my investments, you know, what it might do in the future. Moneysmart's got a little

calculator there that you can plug in your super balances; you can plug in the average return because you had a look at that sort of stuff; and it'll show you in five years, 10 years, 20 years, theoretically, what you've given up if you've taken that 10 grand out. So that's a great tool to use. Highly recommend that. All at monetsmart.gov.au.

And the other place to go, obviously, because this is all the ATO's baby. So the Australian Taxation Office is the place that are in charge of this. So go to the ATO's website, which is ato.gov.au. They've got all the rules about it, and again, that myGov, when you go into your - open up your myGov account, linked to the Australian Taxation Office there. That's where the application to actually do it is, so, you use your, myGov to apply.

Hank

Now Justin, I hate to say this, but you've also forgotten your own service, FIS.

Justin

Yes. The Financial Information Service. Thank you for that. Yeah. So the other side of it, which completely separate from all of those is the Financial Information Service. Now FIS has been around for years and our job is just to help educate people. So if you want to have somebody to just talk about with this, if you just feel you need to - want to understand what you're getting yourself into, then feel free to ring up the Financial Information Service. You ring Services Australia on 132300 and it'll prompt you, 'What do you want to call?' Just say at that point, the Financial Information Service, and then you get onto one of our officers and you can just have a chat about it. You know, this is what I'm thinking about. I'm worried about what the implications might be. Can you help explain it to me? And you get somebody who is an impartial and free service just there to help you; explain it to you; teach you; so that you can make those good decisions. It's all we want to do is try and make sure that you're able to make the right decisions with the information that you need.

Yeah. Thank you for reminding me. That's something I should have remembered.

Hank

No worries. And, uh, so ends the commercial.

Well Justin, you've given us a lot to think about. And for anybody that's been financially effected as a result of the pandemic, clearly the decision as to whether or not to withdraw superannuation is a big one and it can undoubtedly help with today's bills. However, as Justin's indicated, you really need to consider the long-term consequences, but ultimately it's your decision.

Well, Justin, thanks again for helping us out with all of this information and thank you for tuning in to this special podcast series. As Justin mentioned, if you're facing some difficult times and need to discuss your financial options, we have a network of Financial Information Service Officers available. They're right around the country and you can contact them over the phone on 132300. You can also find more information on our website at servicesaustralia.gov.au.

Thank you for listening. I'm Hank Jongen. Until next time.

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