Not So Super? An Analysis of the Australian Early Release of Superannuation Program

Nicole Kagan[1]

1 Harvard University Department of Economics

The COVID-19 pandemic left governments around the world scrambling to implement large programs of fiscal stimulus to address the magnitude of the acute and unexpected income shock it levied. While most such programs were financed through budgetary expenditure or borrowing, some, crafted by governments looking to avoid short-term hits to the public purse, gave individuals the ability to 'consumption smooth' – unlocking access to retirement savings prior to typically eligible age for those experiencing financial stress. Given past investment of governments in creating programs of mandatory retirement savings to reduce the strain on public finances imposed by an ageing population and low national savings levels, permitting individuals to spend now in place of saving for later cannot be without consequence.
This gives rise to two questions: (1) what are the long-term implications of early withdrawal for individuals and the fiscal obligations of the state? and (2) do there exist alternative policy measures that would have been more cost-effective in addressing the needs for which the programs were initially implemented?

In this paper, I construct a novel microsimulation model to answer these questions in the context of the Australian policy setting. To do so, I assess the impacts of withdrawing $10,000 or $20,000 under the Early Release of Superannuation program at 25, 35, 45, and 55 years of age on superannuation balance, pension payment, and total retirement income relative to alternative policy options of direct cash transfer or interest free loan provision. I find that early release costs median withdrawers between 1.9 and 5.3 times the amount withdrawn in total retirement income loss, depending on age at withdrawal.

Across all age groups of median withdrawers, I find alternative programs of direct cash transfer or income-free loan provision preferable on a cost basis. This is robust to variations in income percentile at the 25th, 50th and 75th levels, total assets, fund growth rates, and government borrowing cost.

This finding is both novel and highly consequential to Australian government policymaking in future. Given the means-tested nature of the Australian public pension system, and projected increases in the cost of living, the public purse is likely to endure a substantial hit as a result of this program. Not only this, but given the employment profiles of withdrawers (with approximately 1 in 6 being an industry superfund member), there is a real and heightened risk of pension poverty as individuals exhaust their own savings and government payments reveal themselves to be inadequate to cover all expenses.

More broadly, however, the findings of this study are also significant for future crisis financing. Specifically, it indicates that policies of individual cost internalization may offer some short-term budgetary relief for governments looking to minimize deficit spending, but do so at substantial future expense to individuals and the public purse. In this way, my paper, which represents the completion of research the framework of which I introduced at ACE last year, underlines the previously unexplored caveats of such legislative moves and provides a warning to governments looking to deploy the policy option in future.

Key Words

Superannuation, Early Release of Superannuation Program, Withdrawal, COVID-19