Under the COVID-19 Superannuation Early Release Scheme, people who have lost their jobs or suffered a significant drop in their income have a second opportunity to access up to $10,000 from their retirement savings. With the application period for the current financial year extended to 31 December 2020, the demand for access has outstripped initial Government estimates. The nature of this scheme has seen some notable outcomes, including a boost to non-essential spending.

The Early Release of Super (ERS) scheme, announced towards the beginning of the pandemic in March 2020, has allowed tax-free withdrawals from superannuation during the last financial year and this financial year. The scheme was legislated to help vulnerable individuals impacted by the economic crisis to access some of their preserved super benefit. As part of the Economic and Fiscal Update in July 2020, the Government announced an extension to the scheme to the end of December 2020.

To be eligible, individuals must be unemployed, have been made redundant, suffered a reduction to working hours of at least 20%, or be in receipt of certain Government payments. Sole traders are required to have experienced a suspension of operation or at least a 20% reduction in turnover. Applications are assessed by the ATO who provide the nominated superannuation fund an authority to make the withdrawal. Individuals do not need to upload supporting evidence at the time of the application, however the ATO may provide a request for information in the future.

Outcomes

The effects of early withdrawals will be felt years down the track. From the inception of the scheme to mid-August 2020, it has been reported by APRA that well over $30 billion of withdrawals have been made stemming from approximately 4 million separate applications. As part of these payments, about 1.2 million are repeat applications from superannuation accounts.

There are many reasons why people have utilised the scheme, including financial anxiety and financial hardship. A substantial proportion of the funds withdrawn remain unspent in savings accounts whilst others have elected to pay down bills and debts, or lift their spending. Government estimates show workers aged 26-35 have accessed their super at the greatest rates, with many expected to have emptied their super balances. On another note, reports have surfaced indicating an increase in discretionary spending on alcohol and gambling over the previous months.

ATO Compliance

The ATO has conducted random audits and is able to take action against people who make false declarations. Potential rorters face fines of up to $12,600. Situations that the ATO will dedicate compliance resources to include people:

- applying to withdraw super when there is no change to employment situation or income
- contriving situations to meet the eligibility criteria
- attempting to access through deceptive behaviour, or
- gaining a tax benefit via a recontribution strategy.

For example, where an individual predominantly aims to recontribute withdrawn funds to claim a personal tax deduction, the ATO may deem this to be a tax avoidance scheme. Schemes where tax avoidance has occurred may have the tax benefit disallowed and the ATO may also impose additional administrative penalties and charges.

Engagement

Although individuals may be affected in different ways by the coronavirus, the ERS should be considered a last resort given the reduced opportunity for compound earnings in the future. Coupled with the effects of the economic crisis, it is evident that the ERS has increased the engagement people have with their retirement savings. Individuals who previously fell out of touch with their superannuation balance may find a renewed focus to repair their long-term savings.