

Media release

## **‘Misguided policy’: Early super withdrawals to cost future governments and taxpayers more than \$100 billion**

*BetaShares’ financial modelling quantifies the true cost of 2.5 million Australians raiding their super before retirement*

**SYDNEY, 17 August 2020:** The Morrison government’s decision to grant Australians financially affected by COVID-19 access to their retirement savings will come at a significant cost to future Australian governments and generations of taxpayers, new financial modelling by Australian ETF provider BetaShares reveals.

BetaShares estimates that the \$30 billion that has already been withdrawn from superannuation funds as of 29 July will cost Australia’s retirement system between \$100 billion and \$130 billion over the coming years<sup>1</sup>.

Australians have already withdrawn \$29.4 billion in retirement savings between 20 April and 26 July 2020<sup>2</sup>, already surpassing Treasury’s initial total estimate of \$27 billion. The total amount withdrawn appears to be showing no signs of slowing which has prompted the Federal Government to revise this forecast to \$42 billion.

BetaShares CEO, Alex Vynokur, said that while much attention has been given to the long-term impact of early super withdrawals on those who have used the scheme, little thought has been given to what it will eventually cost the Government in additional pension payments.

“This was a well-intentioned but misguided policy from the start. The true cost of allowing people to access their super early will ultimately be paid by future Australian governments and taxpayers,” Mr Vynokur said.

“We believe it is critical to examine what impact this policy will have on Australia’s retirement system, particularly after the recent decision by the Government to extend the scheme to the end of the year. There is no doubt that extending the scheme will exacerbate the problem that the Government has created.

“An amount between \$100 billion and \$130 billion represents a very significant future shortfall (which will only increase as further super is released early). It will need to be funded by future

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<sup>1</sup> The modelling assumes a long term return profile of CPI + 5% p.a.

<sup>2</sup> APRA’s COVID-19 Early Release Scheme - Issue 14 <https://www.apra.gov.au/covid-19-early-release-scheme-issue-14>

Australian governments and therefore the Australian public will ultimately bear the cost, as those who have withdrawn super will be less able to fully fund their own retirement needs.”

Mr Vynokur expects a number of Australians who have accessed their super early will fall into the Government’s “safety net” of either a full or part pension.

### **Younger Australians to be hardest hit**

Analysing the impact of withdrawing \$10,000 of retirement savings for people between five and 40 years from retirement, BetaShares warns that younger Australians have the most to lose.

Based on an annual growth rate of 5% plus CPI, \$10,000 withdrawn today becomes a \$70,400 nest egg over 40 years. When an average annual rate of 7% plus CPI is used, this increases to \$149,745.

By contrast, a person who withdraws \$10,000 and is 20 years from retirement will lose out on \$26,533 based on a 5% plus CPI return and \$38,697 based on a 7% plus CPI return.

BetaShares CEO, Alex Vynokur, said that even using conservative estimates, the modelling shows that younger Australians will be the hardest hit by missing out on decades of compound returns.

“Not only that, younger Australians will already have to foot most of the bill of one of the largest government debts this country has ever seen,” he added.

Ironically, Treasury figures revealed that half of all claims under the early super scheme are being made by people under the age of 35 – which in some cases comprise withdrawing most, if not all, of their super balance.

Recent data<sup>3</sup> also revealed that 64 per cent of people who accessed their super spent the money on discretionary items such as clothing, food, gambling, and alcohol.

Mr Vynokur said there is enough evidence to show that the scheme is being abused as the use of proceeds is in many occasions inconsistent with the intention of the policy.

“Unfortunately, it is the least informed and the least financially literate that are in the most vulnerable position for opting in for early super withdrawal. As such, the scheme will further the gap between the haves and have nots. It has also damaged the educational effort in which the Australian Government has invested over decades to highlight to Australians the importance of superannuation and long-term wealth accumulation.”

### **Undermining the superannuation system**

The undermining of the importance of superannuation is a real problem, Mr Vynokur cautioned.

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<sup>3</sup> Based on analysis undertaken by Illion and AlphaBeta (part of Accenture), based on a sample of 13,000 people who withdrew their superannuation.

“Australia is celebrated globally for its compulsory super system which is often singled out as a success story. We have the fourth largest retirement savings pool in the world for what is globally a very small population. The reason why we punch above the rest of the world as a nation is because of that compulsory superannuation system.”

“Policy around early release of super flies in the face of this. I fear that going forward our superannuation system will become a tempting target to be used by governments, present and future, as an ATM to withdraw money to plug holes in the economy. Without proper governance, the Early Release policy has set a dangerous precedent,” he concluded.

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## **About BetaShares**

BetaShares is a leading manager of ETFs and other Funds traded on the Australian Securities Exchange (ASX). Founded in 2009, our aim is to provide intelligent investment solutions to help Australian investors meet their financial objectives.

With over 60 products available, BetaShares currently offer the broadest range of exchange traded products in the Australian market, all of which can be bought and sold via the ASX. We offer investors simple and cost-effective access to Australian and global equities, cash and fixed income, currencies, commodities, and active and alternative strategies.

As at 8 August 2020, BetaShares managed over \$12.5 billion in assets.

BetaShares is owned and managed by its Australian-based management team along with a strategic shareholding from Mirae Asset Global Investment Group, one of Asia’s largest asset management firms.

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