

Determinants of Early-Access to Retirement Savings: Lessons from the COVID-19 Pandemic

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Acknowledgements

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What drives people's decision to make early withdrawal of retirement savings?

- COVID-19 Early Release Scheme (ERS) in Australia
- Survey and administrative data on pension fund members
- Our main findings:
 - Most withdrawers made the decision quickly and used the \$A10,000 as an anchor
 - Immediate needs and future concerns are the main drivers
 - Only 17% estimated the consequences correctly

Optimal Liquidity in Retirement Savings System

- Rational illiquidity in some accounts
(Beshears et al 2020, 2021; Moser and Olea de Souza e Silva 2019)
- Leakage concerns
(Munnell 2012 CRR Brief; Quinby, Munnell, Hou, Belbase, and Sanzenbacher 2020; Munnell and Webb 2022; VanDerhei 2019)
- Cross-country differences in pre-retirement liquidity in the defined-contribution system
(Agnew 2013 CRR Brief; Beshears et al 2015; Briere, Poterba and Szafarz 2021)

Who Withdrew and Why?

Who is more likely to withdraw? (Amromin and Smith 2003; Lee and Hanna 2020; Wang-Ly and Newell 2022)

- Low levels of non-retirement wealth
- Low financial literacy
- Financial knowledge overconfidence
- Younger, poorer, lower income, more likely to be behind on debt payments

Factors related to early withdrawals

- Consumption smoothing with shocks to income, health, and marital status
(Amromin and Smith 2003; Argento, Bryant and Sabelhaus 2014; Butrica,, Zedlewski, and Issa2010)
- Precautionary liquidity/taking advantage of the rules
(Berger 2020; Briere, Poterba and Szafarz 2020)

Protected retirement savings meets the pandemic

“Superannuation is their money when they need it at a time in a pandemic we’re going to make sure they can get access to it”

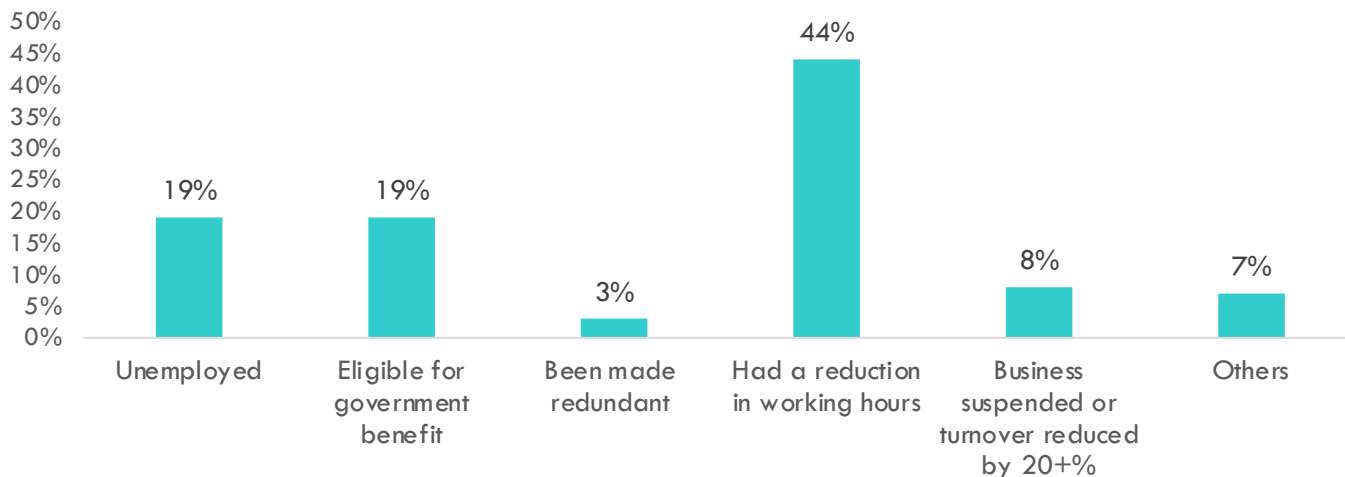
(The Hon. Scott Morrison, Prime Minister of Australia, 25th August 2020)

ERS Background

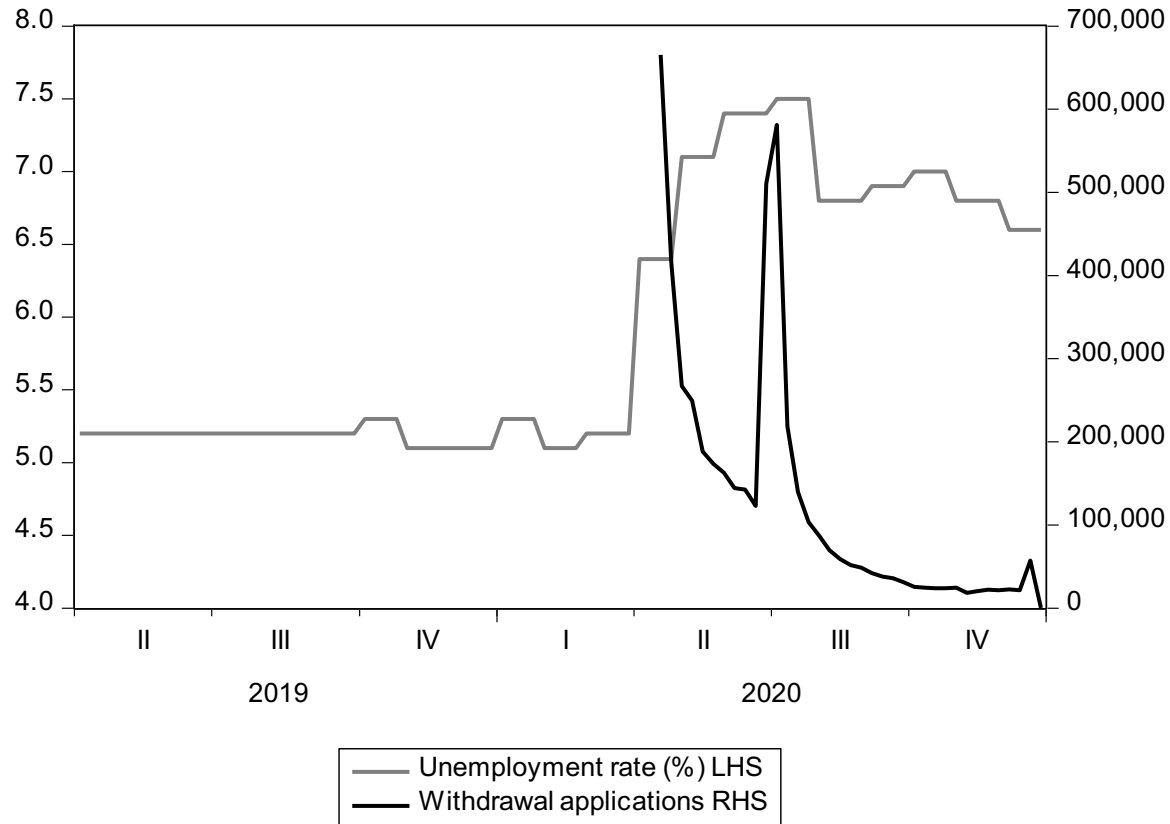
- Announced March 22, 2020 (access from April 20 – Dec 31, 2020)
- Eligibility:
 - Unemployed or
 - In receipt of a working-age social security payment (such as unemployment benefits or parenting payments) or
 - Made redundant in 2020 or Working hours reduced by 20+% or
 - Business suspended or turnover reduced by 20+% (for sole traders)
- Amount allowed:
 - Up to \$A10,000 before June 30, 2020
 - Up to another \$A10,000 by December 31, 2020
- ‘Low friction’ application process with self-rated eligibility
- Several countries introduced similar policies

ERS in Numbers

- 3 million individuals (18% of all participants) withdrew \$37 billion (~1% of total assets)
- Average withdrawal of \$A7,638
- 49% have withdrawn in both rounds
- Second largest COVID stimulus and among largest fiscal stimulus ever for Australia
- Eligibility breakdown:



Did ERS address immediate needs?



Super Fund Partner - Cbus

- A profit-for-members fund that primarily serves the construction sector.
- Over 775,000 members with \$52 billion assets
- Data:
 1. Administrative data on demographics and ERS
 2. In May 2020, Cbus surveyed 3,047 members who had withdrawn money under ERS in Round 1
 3. We collected a 'control' sample of 500 people who were eligible but chose not to withdraw



ERS Utilization

	Cbus	Industry-wide	Hostplus	REST	Aware Super	Qsuper
Sector	Construction	/	Hospitality Workers	Retail Workers	Public Employees	Public Employees
Membership	775,868	22,464,156	1,301,670	1,844,858	1,077,326	594,048
% of ERS	24%	15%	24%	18%	6%	12%
% of Taking Twice	12%	6%	9%	7%	3%	5%
Average Withdrawal per Round	\$A8,327	\$A7,638	\$A7,217	\$A7,150	\$A8,619	\$A7,762

Survey Details

- How long they thought about their decision
- Why they withdrew the money
- Whether they thought about the consequences
- Estimated impact on retirement savings



Summary Statistics

	Cbus Early Release Survey (Round 1)	Control Survey ^a	Cbus Participants			
			Round 1 ERS	Round 2 ERS	Both Rounds	All Plan Participants
No. participants	3,047	500	138,780	137,949	90,135	775,868
Gender (% Female)	15%	60%	8%	7%	7%	10%
Age (median)	41	42	37	38	38	38
Tenure, years (median)	9	10	9	11	11	9
Withdrawal amount each round (average)	\$A8,449	\$A7,163	\$A 8,353	\$A 8,320	\$A8,916	-
Withdrawal amount each round (median)	\$A10,000	\$A8,000	\$A10,000	\$A10,000	\$A10,000	-

Notes:

a. Control survey asks for the current balance instead of balance at FY 2020, and it asks for the hypothetical early release amount if the respondent were to withdraw.

Data Sources: Cbus Retirement Plan, Cbus Early Release Survey, Control Survey.

Summary Statistics – cont'd

	Cbus Early Release Survey (Round 1)	Control Survey ^a	Cbus Participants			
			Round 1 ERS	Round 2 ERS	Both Rounds	All Plan Participants
% of account withdrawn (average)	41%	25%	43%	44%	53%	-
% of account withdrawn (median)	24%	11%	27%	27%	41%	-
Balance before early release (average)	\$A64,302	\$A139,552	\$A55,042	\$A56,670	\$A67,492	\$A67,215 ^b
Balance before early release (median)	\$A 38,651	\$A53,000	\$A32,462	\$A33,763	\$A46,783	\$A29,706 ^b
Suspected ineligible ^c			24%	22%	25%	27%

Notes:

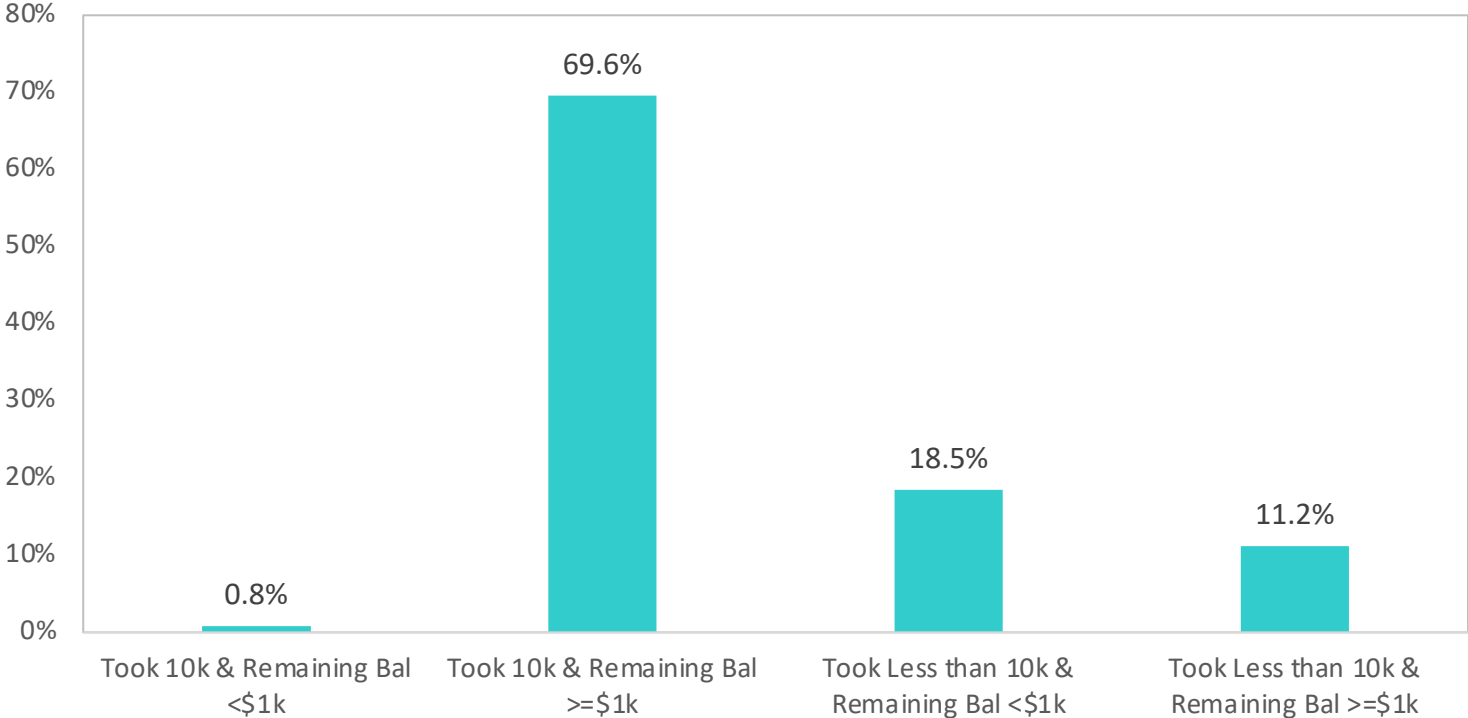
a. Control survey asks for the current balance instead of balance at FY 2020, and it asks for the hypothetical early release amount if the respondent were to withdraw.

b. Account balance as of June 30, 2020

c. Cbus estimated the ERS eligibility of fund participants with their data under some assumptions.

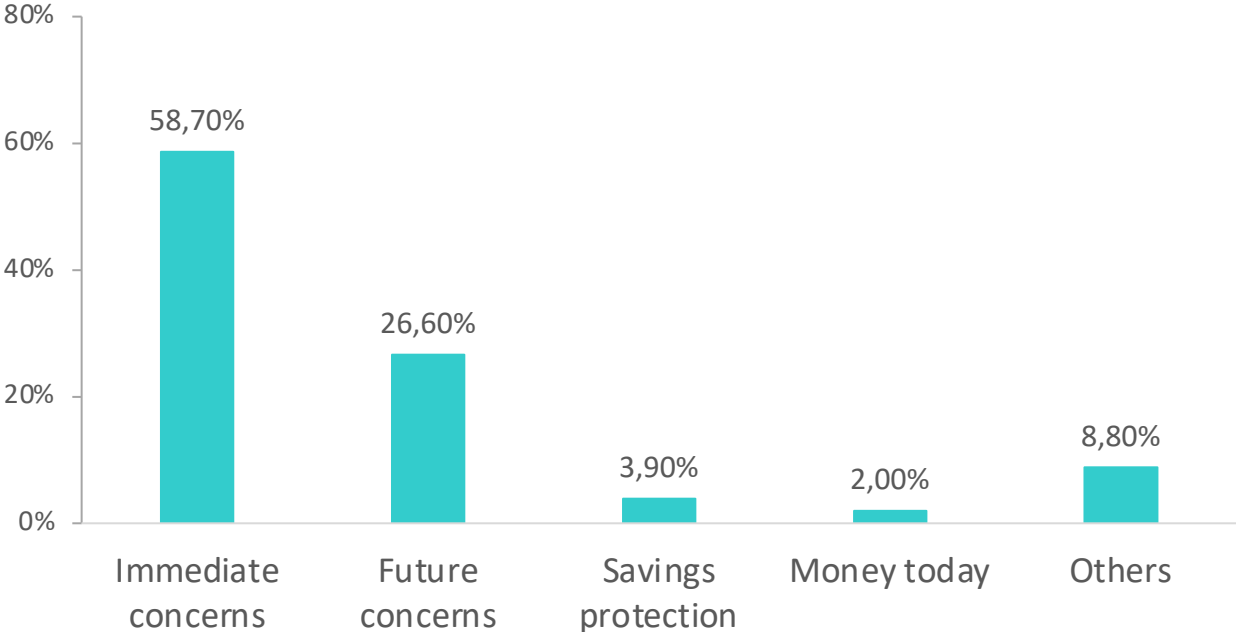
Data Sources: Cbus Retirement Plan, Cbus Early Release Survey, Control Survey.

Withdrawals Relative to \$A10,000 Limit and Remaining Balances



Data Source: Cbus Early Admin Data on Round 1 ERS

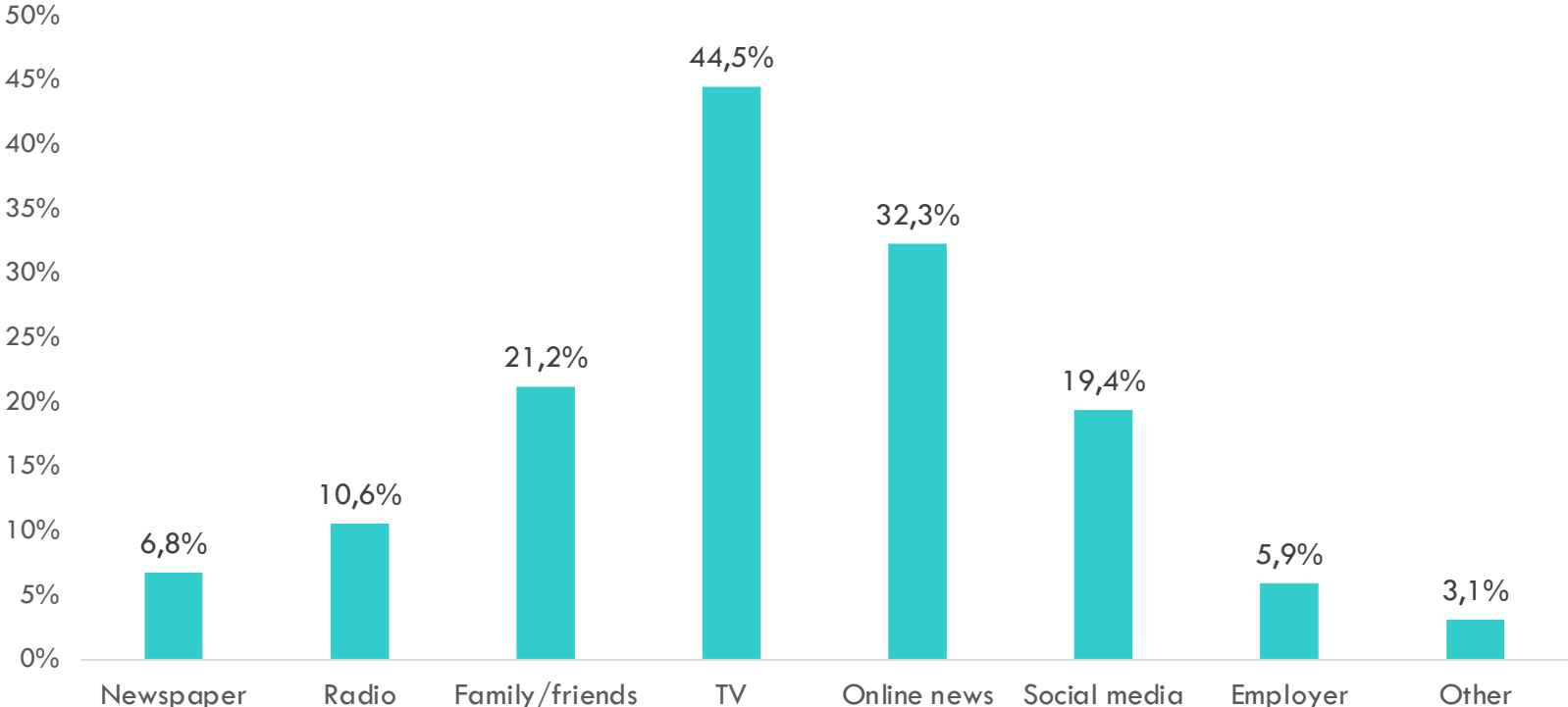
Main Reason for Withdrawal



Data Source: Cbus Early Release Survey (2020)

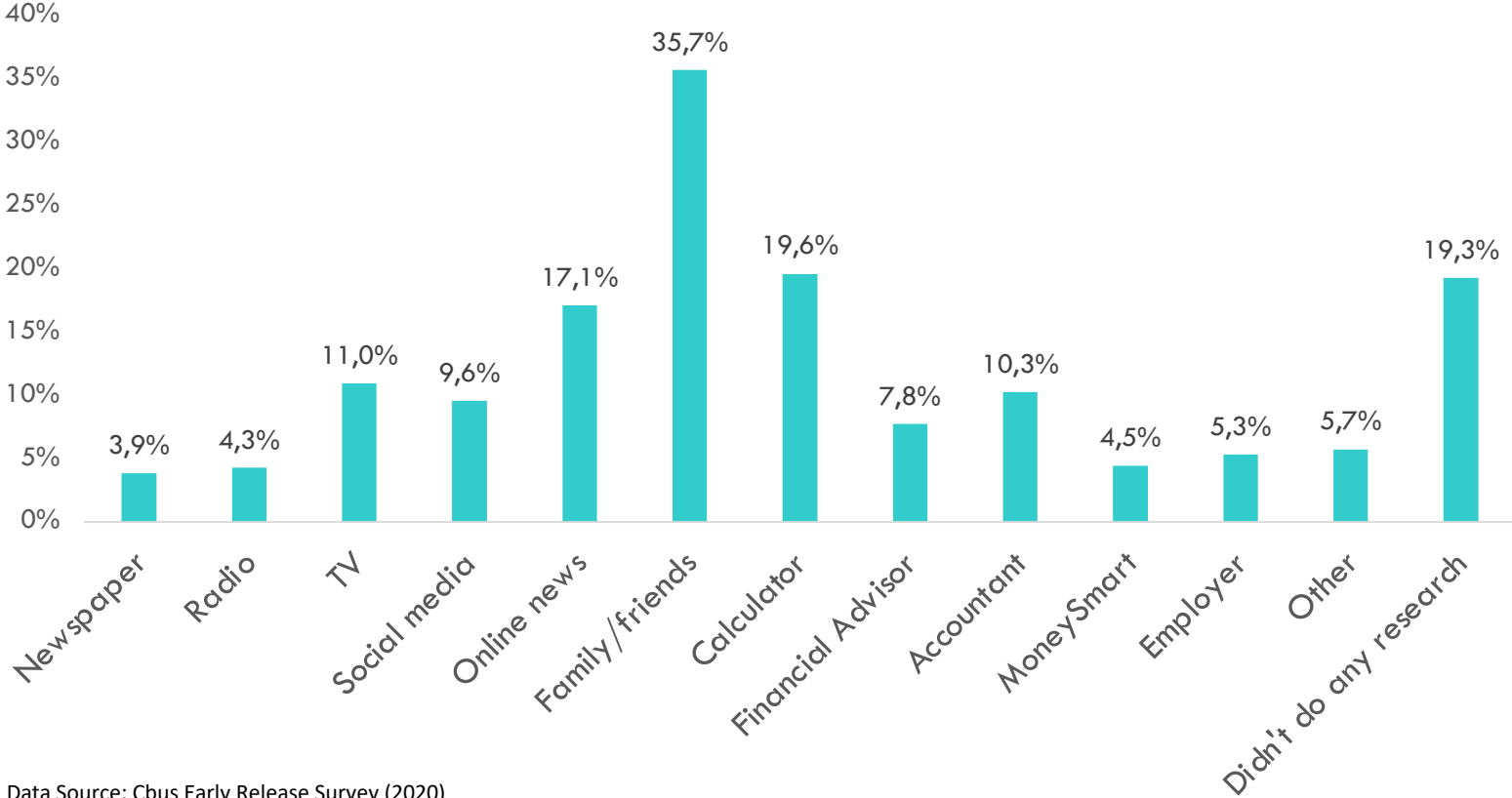
[Breakdown](#)

Information Sources ('Where did you find out')



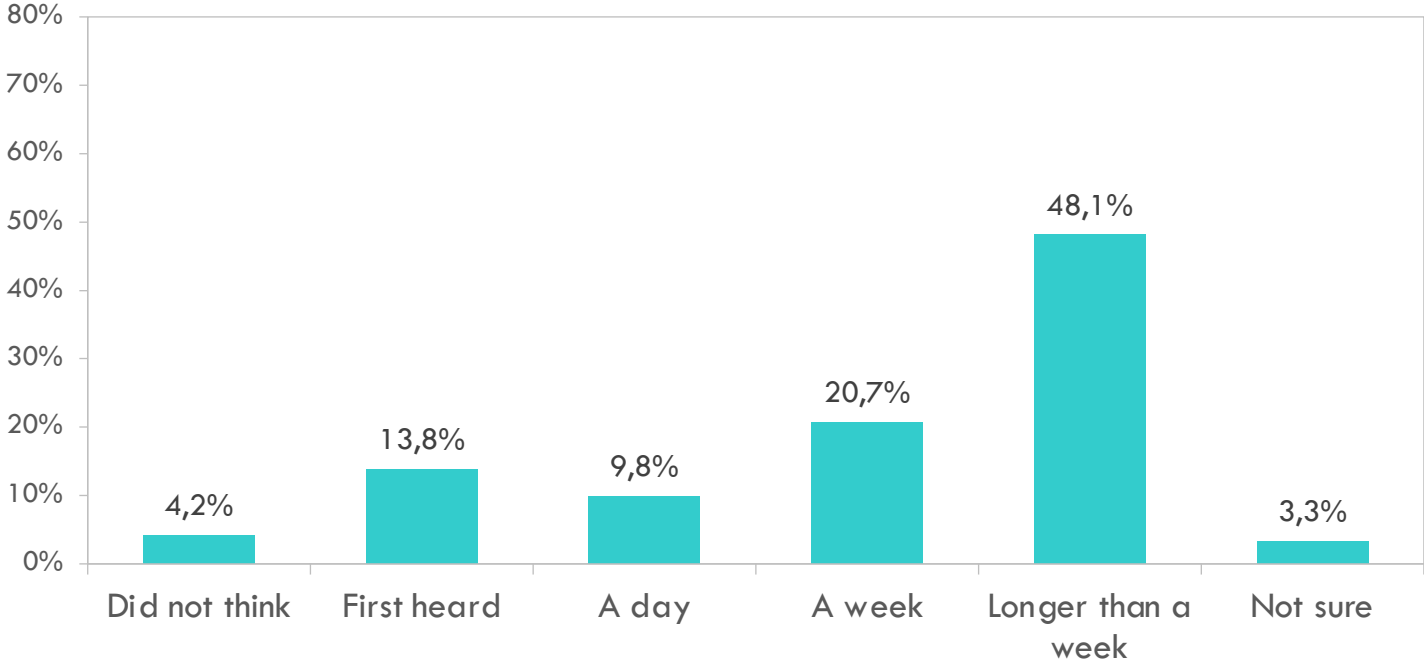
Data Source: Cbus Early Release Survey (2020)

Information Sources (Other Information Used)



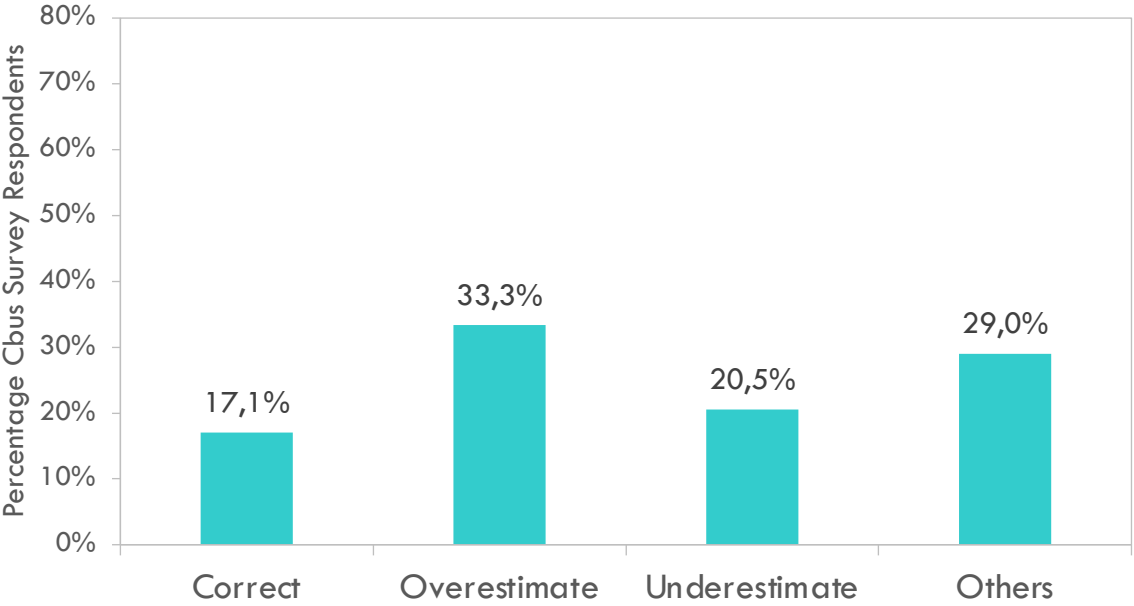
Data Source: Cbus Early Release Survey (2020)

Time Spent Thinking before Deciding to Withdraw



Data Source: Cbus Early Release Survey (2020)

Respondent's Estimate of ERS Impact on Future Wealth



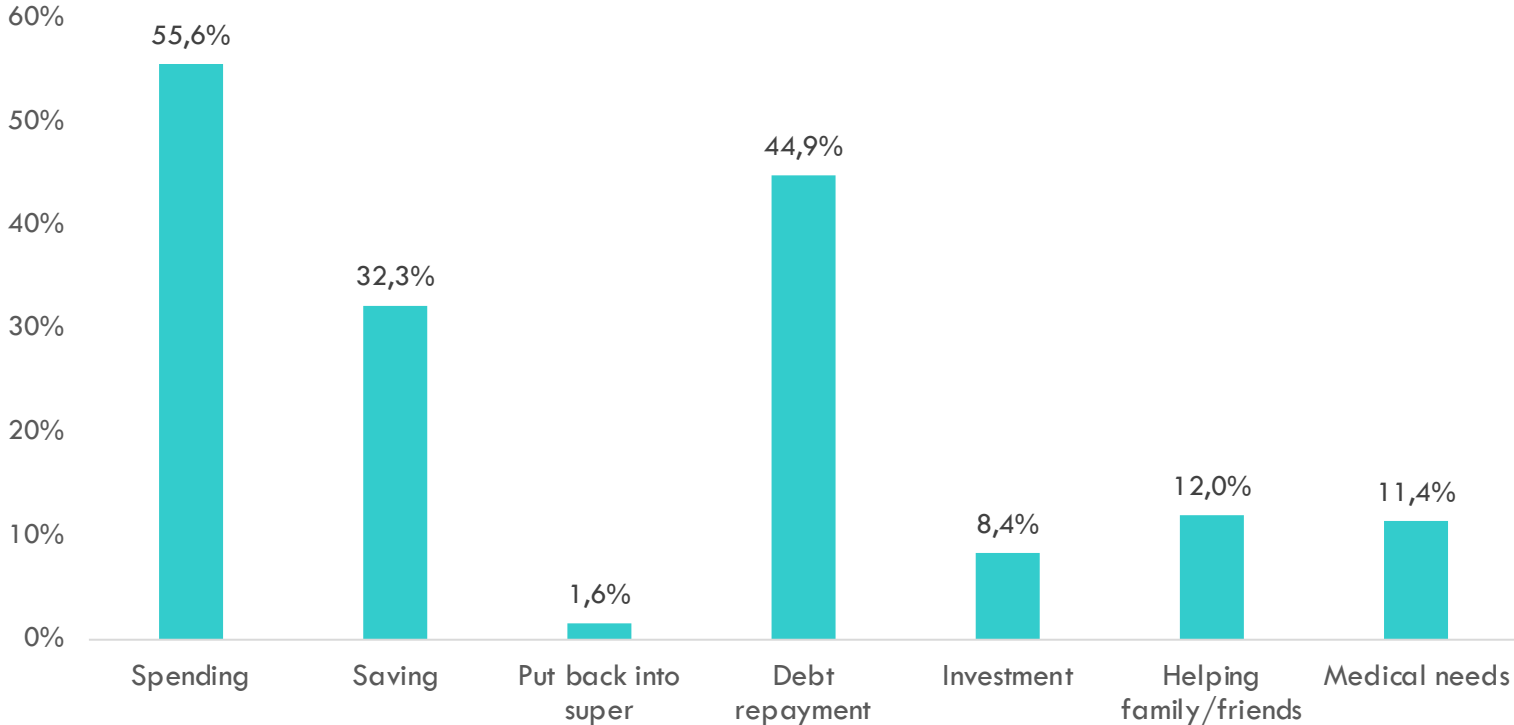
*Our estimate assumes a conservative 2.06% net real growth rate until retirement at age 67.
Data Source: Cbus Early Release Survey

What impact do you think withdrawing your super will have on your retirement savings by the time you reach retirement age?

[Single choice]

- No impact
- \$5000 or less
- \$5,000-\$10,000
- \$10,000- \$20000
- \$20,000 - \$50,000
- \$50,000-\$100,000
- More than \$100,000
- Don't know
- Don't care

And what did you do with the money (tick all that apply)?

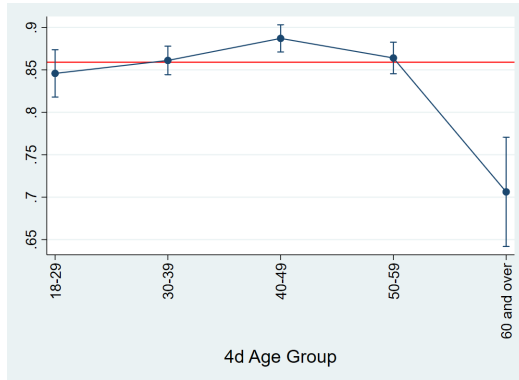
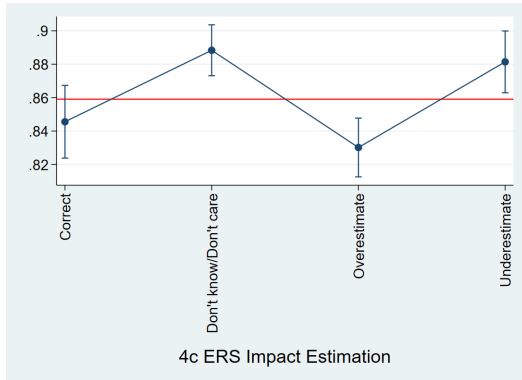
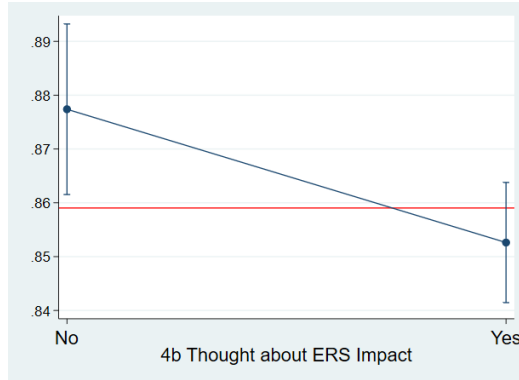
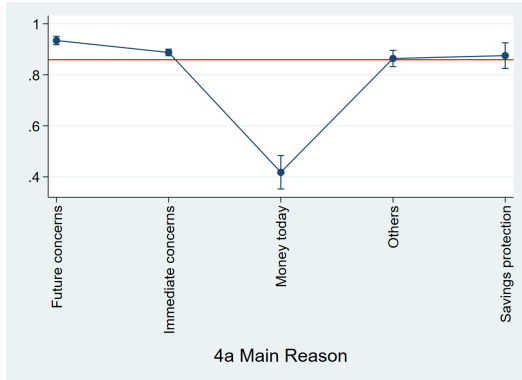


Logit Regression (1) Decision to Withdraw

$$\log\left(\frac{P_i}{1-P_i}\right) = \textit{Account Balance}_i * \beta_1 + \textit{Female}_i * \beta_2 + \textit{Age}_i * \beta_3 + \\ \textit{Tenure with Fund}_i * \beta_4 + \textit{Employment Status}_i * \beta_5 + \textit{Thought about Impact}_i * \\ \beta_6 + \textit{Deliberation Time}_i * \beta_7 + \textit{Information Source}_i * \beta_8 + \textit{Main Reason}_i * \beta_9 + \\ \textit{Estimation of Impact}_i * \beta_{10}$$

- Data: Cbus survey and Control survey (n = 3,542)
- P_i is the probability of individual i making a withdrawal given that she was eligible for ERS

Predictive margins of P(withdrawal)



The likelihood of taking ER, conditional on being eligible, is:

- a) 7 percentage points higher if reporting **future concerns** as the main reason for the decision compared to “others”
- b) 3 percentage points higher if they did not think about the consequences or “not sure” or “don’t care”
- c) 4 percentage points higher if underestimating the impact of ERS or don’t know/don’t care
- d) 4 percentage points higher if aged 40-49 (compared to 18-29)

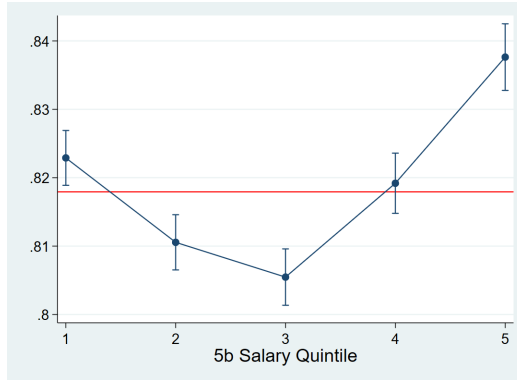
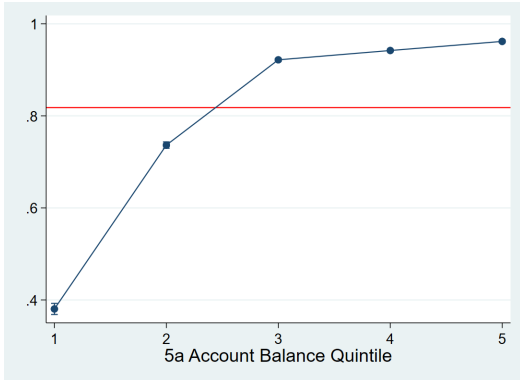
Logit Regression (2) Maximum Withdrawal

$$\log\left(\frac{P_i}{1-P_i}\right) = \text{Account Balance}_i * \beta_1 + \text{Estimated Salary}_i * \beta_2 + \text{Suspected Ineligible}_i * \beta_3 + \\ \text{Female}_i * \beta_4 + \text{Tenure with Fund}_i * \beta_5 + \text{State}_i * \beta_6 + \text{Age Group}_i * \beta_7 + \\ \text{Retirement Preparedness}_i * \beta_8$$

- Data: Cbus administrative data (n = 115,380 for Round 1 and 118,454 for Round 2)
- P_i is the probability of individual i making a **maximum withdrawal** under the ERS (either emptying the account or the \$A10,000 limit), conditional on making a withdrawal

Predictive margins of P(maximum withdrawal)

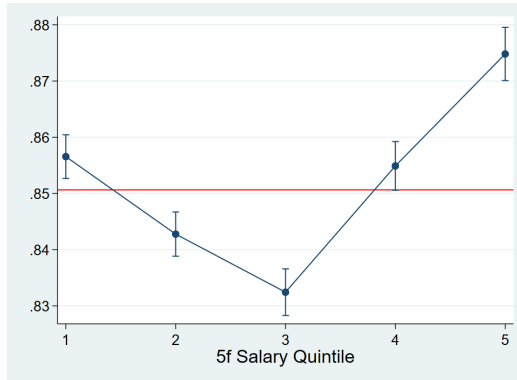
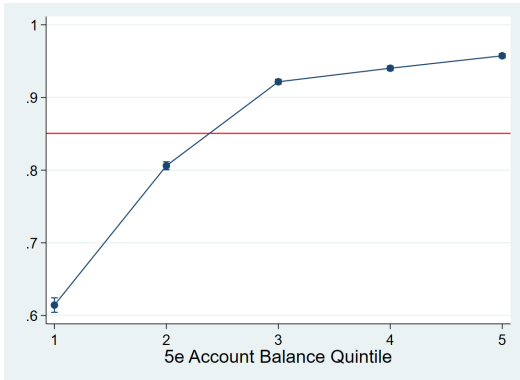
Round 1



The likelihood of taking maximum, conditional on withdrawal, is:

a) 30+ percentage points higher if in the top three balance quintiles (\$22,000 or more)

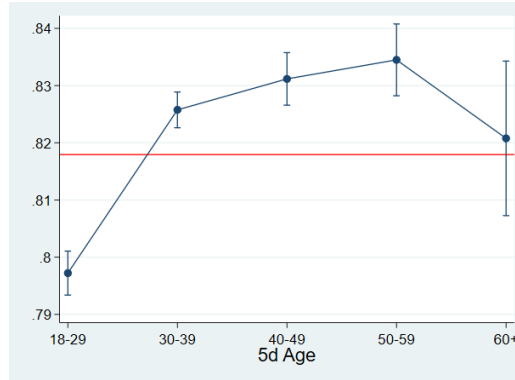
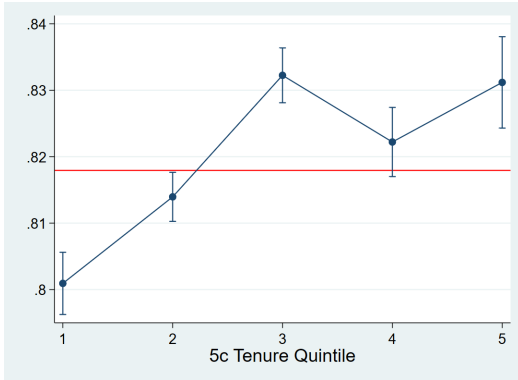
Round 2



b) 2 percentage points higher if in the highest salary quintile (\$79,000 or more)

Predictive margins of P(maximum withdrawal) – cont'd

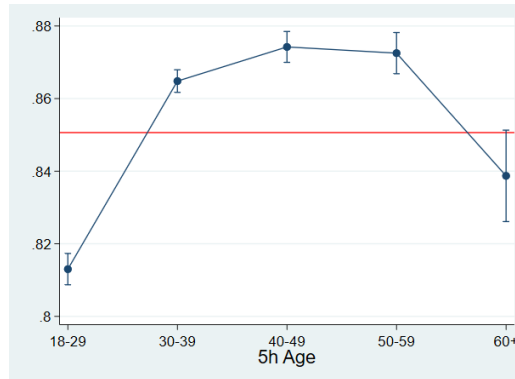
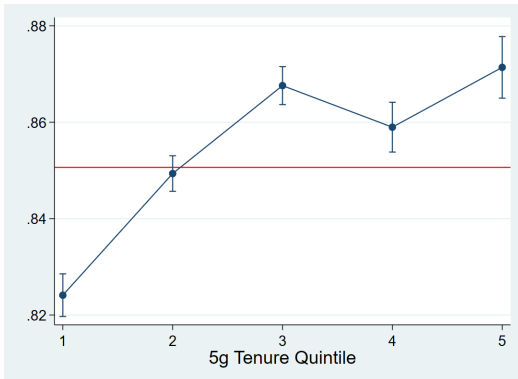
Round 1



The likelihood of taking maximum, conditional on withdrawal, is:

c) 2-5 percentage points higher if in the top three tenure quintiles (7+ years with Cbus)

Round 2



d) 3 percentage points higher if aged 30-59 compared to 18-29

Summary

Temporary liquidity release of retirement savings in Australia

- Immediate needs (income smoothing) vs. future concerns (precautionary savings)
- Anchoring on the maximum permitted amount of \$A10,000
- Poorer estimates, less thinking —> more likely to withdraw
- Older, relatively wealthier members more likely to withdraw the maximum but less likely to be liquidity constrained

Discussion

Rational withdrawal for tax benefits?

- Tax-free ERS withdrawal
- Tax on investment earnings + asset growth in the pension fund

What are the consequences? Was this ‘good policy’?

- Unemployed who withdrew took longer to return to workforce (Breunig and Sainsbury 2022)
- Lower savings and foregone investment return
- Potential changes of the “mental account” for protected nest eggs

Discussion – cont'd

Active withdrawals vs. reducing contributions

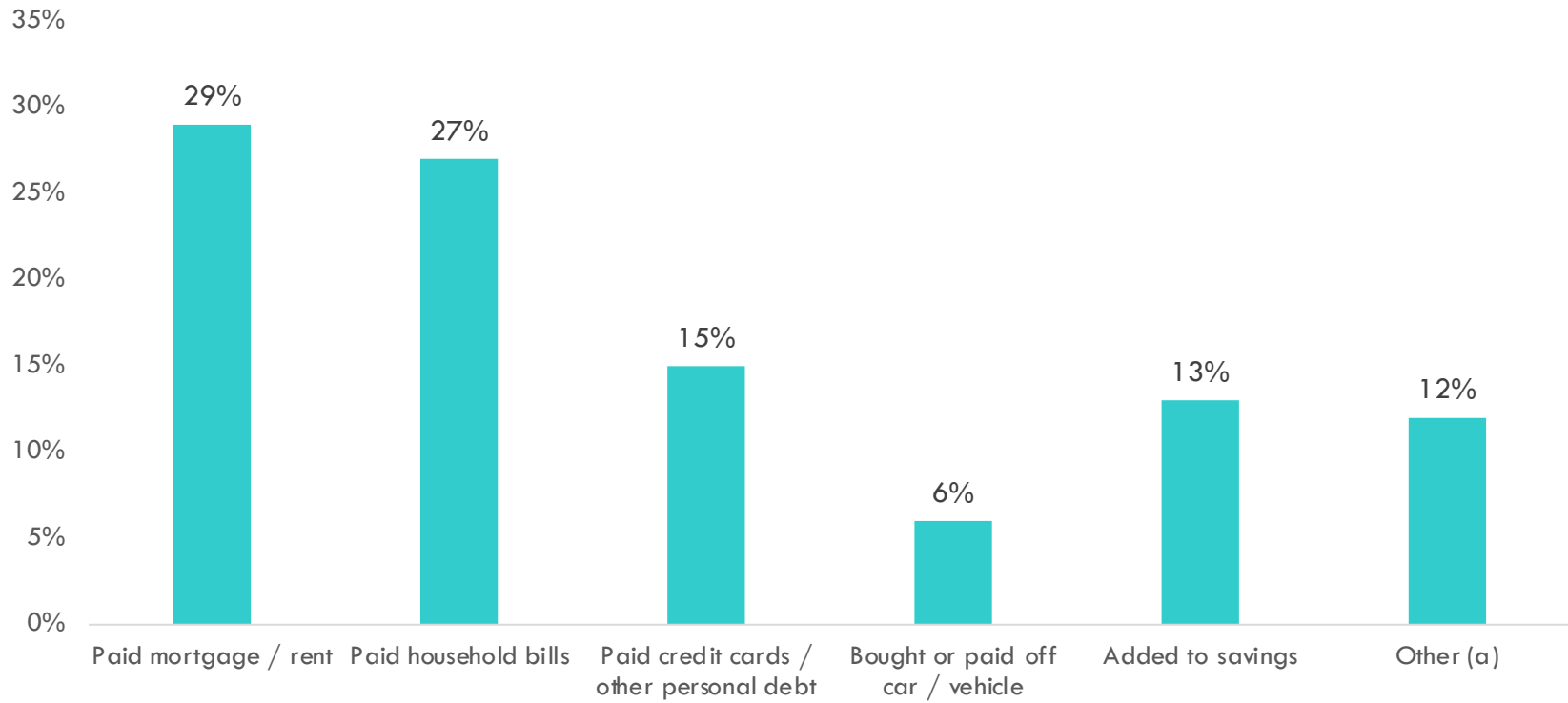
- Nearly half respondents stopped/lowered contributions in a U.S. survey (Berger 2020)

Are people putting back the money?

- The ERS amounts withdrawn can be recontributed between 2021 and 2030 outside the contribution cap (i.e. no extra tax)
- Some evidence of people putting the money back (Horan 2022)
- Future work on Cbus data

Thank you!

ERS Use Data from ABS Survey



a. Includes purchased food or non-alcoholic beverages, medical services or supplies or other household services / supplies, and assisted family members

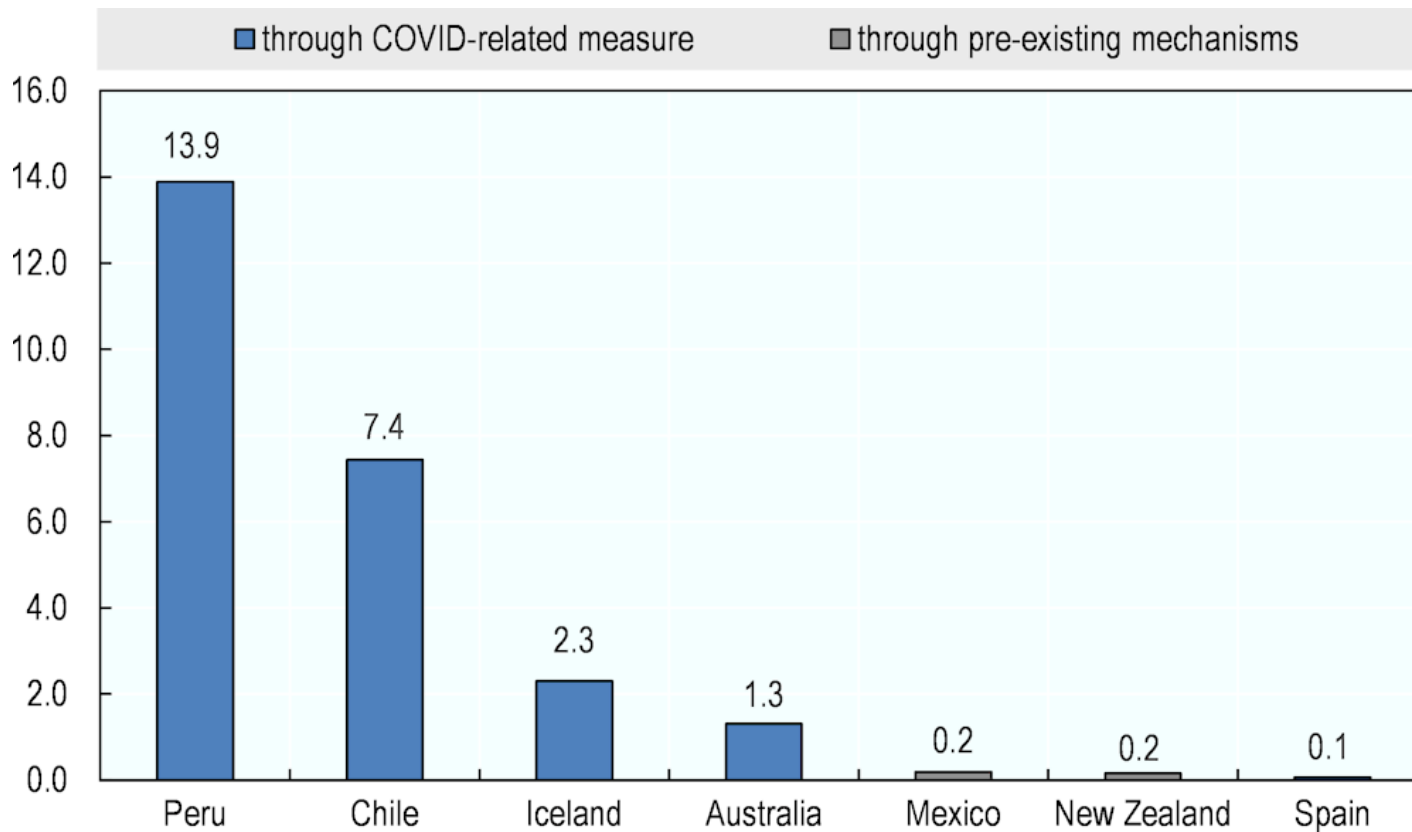
Data Source: Australian Bureau of Statistics Survey (2020)

COVID-19 Early Access Policies

Country	Eligibility	Limit
Australia	Unemployed/hours reduced/receiving welfare payments	\$A20,000
Chile	Everyone	10% of pensions assets up to \$US6,200
France	Self-employed	\$US9,000
Iceland	Voluntary personal plan members	\$US94,000
India	Payment for COVID-19 treatment	3 months' wages and allowances
Peru	Round 1: all members Round 2: no contribution for 12+ months	Round 1: 25% of pension assets up to \$US3,573 + \$US600 for those unemployed for over 6 months Round 2: up to \$US4,765
Portugal	Unemployed/hours reduced/isolation or illness, assistance to family, layoff, unemployment or cessation of activity	\$US500 per month
Spain	Unemployed	Lost wages
United States	Family contracted COVID-19 or financially affected	\$US100,000

Value of early withdrawals in selected countries 2020

As a percentage of total assets in retirement savings plans at end-2019



Source: [OECD](#) (2022)

[Back](#)

Superannuation Tax Rates

	Contributions	Investment Earnings	Most Early Withdrawals	Preservation Age to 59 – Income Stream Withdrawals	Preservation Age to 59 – Lump Sum Withdrawals	After Age 60 Withdrawals
Concessional contributions (employer contributions and salary sacrifice)	15% mostly; 0% if low income; 30% if high income;	15%	17-22%	Marginal tax rates- 15%	0% (up to \$225,000) 17% (over \$225,000)	0%
Non-Concessional Contributions (After-tax Income)	0%	15%	0%	0%	0%	0%

[Back](#)

Superannuation Early Withdrawal Rules

Reason	Limit	Where to Apply	Tax Rate for Taxable Component
Compassionate grounds: medical, mortgage, disability, palliative care, funeral	Unpaid costs only	Tax Office	17-22%
Financial hardship	\$A1,000-10,000 per year	Super fund	17-22%
Terminal medical condition	N/A	Super fund	0%
Temporary/permanent incapacity	N/A	Super fund	Income payments: marginal income tax rate-15%; Lump sums: 22%
Buying first home	Voluntary contributions only; \$A15,000 from any year and \$A30,000 overall	Tax Office	Marginal income tax rate-30%
Departure of a temporary resident	N/A	Tax Office	35-65%
COVID Early Withdrawal	\$A10,000/round x 2	Tax Office	0%

Pension Plan Comparison

Country	Plan	Mandatory?	Employer Contribution	Preservation Rules	COVID-19 Exception
Australia	Superannuation (DC)	Yes	10% or more	Strict	\$A10k x 2, tax free
U.S.	401(k)	No	Flexible	Less strict with 10% penalty	\$100k, no tax penalty if replaced within 3 years

Main Reason for Withdrawal

Reason			Subtotal
Immediate concerns	Lost income	16.6%	58.7%
	Job loss of others in household	4.0%	
	Pay expenses	38.1%	
Future concerns	Extra savings	6.1%	26.6%
	Future bills	20.5%	
Savings protection	Protect savings	1.7%	3.9%
	Falling market	2.2%	
Money today	Don't have to wait	1.4%	2.0%
	Unimportant	0.7%	
Others	Others	8.8%	8.8%
Total		100%	100%
Data Source: Cbus Early Release Survey (2020)			