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**Comments on "A Discussion Paper November 2001"  
Early Access to Super**

**SUBMISSION**

**Senate Select Committee on Superannuation & Financial Services  
12<sup>th</sup> December 2001**

**1.0 Scope and limitations of this exercise:**

- 1.1 At the outset we wish to express our disappointment at the paucity of warning regarding the seeking of submissions for the Select Committee on the above mentioned subject.

As we understand it the only warning has been through two ads in two Australian newspapers resulting in CPSA receiving a copy of the discussion paper only two days previous to the closing date. More must be done with this aspect of this or any similar future project.

- 1.2 The bulk of the 'Discussion Paper' seems to be directed to the Super Funds. Little is seen to be addressed to ordinary citizens and/or their representative NGO bodies such as CPSA.
- 1.3 Authors of this document will address the questions raised in the discussion paper within the parameters of our policies on superannuation. It will be a contribution to the debate rather than a definitive answer to the questions raised.

Because of the shortness of time, some matters will be commented on only briefly. Such as the effects of the definition of hardship as outlined by the superannuation funds themselves.

- 1.4 A Special Point (item 4) has been added and we request the Senate Select Committee's indulgence to give it consideration or refer it on to the appropriate area.

## 2.0 Discussion points:

- 2.1 With reference to Q.1 – Whilst we recognise that withdrawal of funds for any reason will have some effect on the aims and principles of preservation, we also feel it is important to recognise particular humanitarian considerations. We would support the idea of the early release of funds albeit under judicious guidelines.
- 2.2 Under no circumstances should early release be available on just any grounds. The principle of preservation as a policy should prevail.
- 2.3 Ref. Q. 2 – There certainly exists amongst superannuants the view that super funds held on their behalf are, indeed, theirs to use whenever necessary. This is technically true. However, we feel that efforts must be made to explain that once the nest egg is gone, people will have to look to social security pensions and conform to the rules of Centrelink. This will have an effect on the social security system as a whole.
- 2.4 In answer to the general question “**Should there be any early release of benefits?**” (P.8, heading to 2.24) – we would say yes. It is considered that early release of benefits on compassionate grounds should be available to those in a desperate medical plight or in danger of losing their homes or human dignity for a lack of funds. In other words, early release should be considered on a case by case basis.
- 2.5 Ref. Q. 16 – The authors are not aware as to the adequacies of grounds for release on the basis of medical treatment. However, the grounds for hardship claims as listed in the discussion paper appear to be reasonable and appropriate to a humane society (to which we hope we all belong). We are happy to defer to the expertise of others regarding the details (please refer to attachment "B" - HOUSING).
- 2.6 Ref. Q. 28 – One effect leading up to and including the 1 July 2001 change to income assessment for Commonwealth income support payments to people over the age of 55 has been the Federal Government and its agencies rejecting claims for pensions on rules holding superannuation to be assessable. Please refer to attachment "A".

Citizens aged over 55 (and unable to return to work for a variety of reasons) in the above category were forced to break into their superannuation in order to live. This group were virtually excluded all pension claims. This is because their superannuation was substantial enough to place them just over the limit without necessarily owning a fortune.

Because they were forced into early use of their superannuation, these citizens were, in effect, subsidising the public purse. They could have been drawing on the appropriate pension to which they would have been legitimately entitled.

Although this anomalous situation was removed on 1 July 2001, when super funds were removed from inclusion as part of the 'Means Test', those citizens who were affected by the anomaly incurred much expense.<sup>1</sup>

Expenses included fund management fees to make superannuation accessible to 'draw down' and rearrangement of funds; the bulk amount of the actual 'draw downs' during the errant period; loss of earnings due to the growing, progressive 'draw down' amount. When the Federal Government finally corrected this anomaly on 1 July 2001, affected citizens incurred more unnecessary expense in order to rearrange their finances.

It is firmly believed that citizens caught in the fore-mentioned trap should be reimbursed directly into their super funds according to an agreed formula. This would need only to be a temporary arrangement, as those affected would decline in numbers over a relatively short period.

It is suggested that the agreed formula should include, on an individual basis, the sum of all 'draw downs' – these would be easily definable. However, management fees and loss of earnings being more difficult to define, maybe a percentage of the 'draw down' amount, say 5-10 %, would suffice.

- 2.7 Ref. Q. 29 – It is not considered that citizens know enough of the existence and role of the Superannuation Complaints Tribunal. More needs to be done to rectify this lack of awareness.

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<sup>1</sup> Attached is a press clipping that demonstrates the case in point. It is requested that this clipping be treated as confidential – not because the citizen named is not already on public record, but that this citizen requires no further publicity.

With reference to paragraph 5.10, page 22 of the discussion paper, we wish to state that we are appalled at the Productivity Commission's recommendation that the Superannuation Complaints Tribunal be abolished.

We are sure that the Productivity Commission would find many democratic processes to be irksome, but this is one process of democracy that we do not wish to lose. A forum where complaints about superannuation-related matters can be aired is a democratic essential in a country where superannuation is compulsory. We urge the Government not contemplate the termination of this Tribunal.

### **3.0 General Comment:**

- 3.1 It is recognised that cases of hardship do exist – with increasing regularity as economic rationalist policies prevail. Therefore, the administration of the superannuation system must be operated on the basis of equity and compassion. However, we realise that open, limitless access to people's superannuation would only invite abuses and place further demands on the social security system.
- 3.2 We oppose easier access to super funds for its own sake. We call for tighter rather than fewer, access provisions. We feel that it is contrary to the intention of superannuation to allow growing numbers of superannuants to use up their funds prematurely, except for hardship reasons, and then claim social security benefits sorely needed elsewhere.
- 3.3 We are concerned at the fact that administrators of the funds are the first to decide whether funds are released. These are hardly the best people to make such sensitive decisions given their lack of Social Service training. It is felt that fund administrators should be relieved of this task and it be handed over to APRA and to include some Social Service input in the decisions.

### **4.0 Special point – a disparity needing correction:**

- 4.1 A disparity exists in that pensioners with low incomes receive the Pensioner Concession Card and superannuants with low incomes deriving from low gross superannuation figures do not. In the name of equity this should be corrected simply by issuing a Concession Card to such low-income superannuants.

In order to maintain an even balance with other means of remuneration, we should make it clear that we do not propose that all superannuants be issued the Concession Card as a matter of course. Only those on a low-income.

- 4.2 Accordingly, it is here recommended that this matter be examined with a view to providing for an appropriately means tested Concession Card for low income superannuants who would otherwise miss out on concessions for items such as pharmaceuticals, rates, electricity, telephone and water bills.

**This document is produced on behalf of the Combined Pensioners & Superannuants Inc (NSW).**



ANNETTE SAMPSON  
IN THE MONEY

## Falling through the system

Retirees forced to tap into super early feel like an underclass.

The class system is alive and well in Australia. According to retirees – the people the Federal Government tried to buy with giveaways in last month's Budget – there are several classes of older Australians. And the less well-endowed are hopping mad about it.

Take Morrie Mifsud, aged 63. Three years ago, Mifsud was advised that he couldn't go back to work because he had a crook heart, so he applied for a disability pension. He says he had some savings, but nothing that would preclude him from getting the benefit until he was old enough to go onto the aged pension. But the Federal Government had decreed in its 1996 Budget that people aged between 55 and 65 who had received a government benefit for 39 weeks would have their superannuation savings taken into account for the Social Security means tests.

In one fell move, this precluded Mifsud and thousands of other retirees – many of them forced into early retirement by mass redundancies of older workers – from claiming a Social Security benefit.

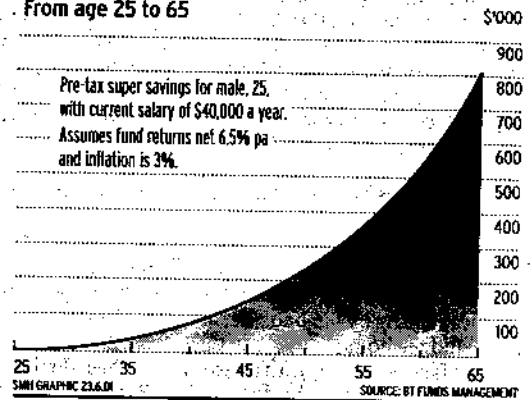
Worse, says Mifsud, they were forced to draw on their super to live on at the time when it is supposed to be working its hardest for them.

In the same way that your home loan is paid off slowly in the early years but reduces at great pace in the final years, super is a slow starter but a fast finisher. The graph shows the growth of super for a 25-year-old on \$40,000 a year who plans to retire at age 65. He's getting his compulsory employer super, but nothing more, and BT Funds Management – which has a handy calculator on its Web site where this example was done – assumes inflation over the next 40 years is 3 per cent and the net investment return of the fund 6.5 per cent. (For anyone using this as a proxy for their own super, it's important to remember the end benefit is in nominal dollars – include the effects of inflation that \$809,000 benefit is a more moderate \$248,000 in today's terms.) But it's between about 55 and 65 that a super account balance really gets a kick along. It more than doubles during the last 10 years in that hypothetical example.

Mifsud says he has been forced to withdraw about \$12,000 a year from his super to live on. So instead of growing, his account balance has been falling. That \$12,000 is less than many aged pensioners

### HOW SGC SUPER GROWS

From age 25 to 65



receive – and Mifsud gets none of their benefits such as the low-income aged persons' rebate, the pensioner concession card, or the GST compensation offered last year to older Australians.

In this year's Budget, the Government did a backflip on including super in the Social Security means tests for such people. It said, "as a result of this exemption, around 55,000 clients will either receive an increased payment or commence being entitled to payments".

But it gets worse. This week, when Mifsud went to Centrelink to apply for the pension, he was told he wasn't eligible because he had already started to withdraw his super pension. "They forced me to withdraw my super because I needed it to live on and they now say I can't get the disability pension because I've started withdrawing my super pension."

Either Centrelink has got it badly wrong, or this was a real swifty the Government tried to pull.

Even if Mifsud does get his pension, he says he's lost \$12,000 a year of his super savings and the ability to earn interest on that money up to the "appropriate age" – in his case, 65. "They've finally conceded they were wrong, but it's cost me all this money," he says.

"I can't go and say 'Put it back into the fund' – it's gone. People like me have fallen through a massive crack in the system."

The Australian Superannuants' and Pensioners' Association is also taking up the cudgels on this point. It reckons the Government saved \$180 million through this policy – about 17,000 people lost all entitlement to income support and about 38,000 had a reduced entitlement because of their super. It believes these people should be compensated for

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### Housing:

*Note: While accepting the general principle of the importance of the preservation of superannuation funds, it is well understood that all circumstances would be dealt with on a 'case by case basis' to ensure that monies were not being accessed frivolously.*

**Q.19 NO**, there should be no limit on monies made available on compassionate grounds. To suggest that there be an "upper limit" on the amount of money made available on compassionate grounds is to suggest that compassion can be quantified.

And **NO**, the limit of a single lump sum payment determined by APRA to be 'reasonably required' denudes the individual of the power to determine their own circumstances and level of need. APRA sets itself as the arbiter of another's level of distress. Clearly, it is the individual who is in the best position to make such a judgement.

This method (also) fails to recognise (i.e. single lump sum) the possibility of further funds being required due to changing circumstances. Clearly there will be circumstances whereby an individual will need access to full funds or will require additional funds outside of the single lump sum payment.

**CASE STUDY:** A woman seeks early access to her superannuation funds on compassionate grounds after her daughter has been hospitalised with a major mental health illness. As a result, the woman is placed in the position of having to leave (temporarily) her place of employment to care for her three grandchildren. Her daughter is not living with the children's father at the time. A single lump sum payment would not have been sufficient to cover this woman's circumstances as her daughter was rehospitallised on a number of occasions.

With three grandchildren in her care the woman needed access to a vehicle to both transport the children to school and to make regular visits to the hospital. It was important that the children visit their mother in hospital to maintain contact.

Without a vehicle the woman had to transport the children by public transport which was incredibly taxing given the serious nature of her daughter's illness. Would APRA view the purchase of a vehicle as being 'reasonably required'? Clearly, the woman deemed so.

With further hospitalisations the 'single lump sum payment' was not sufficient to meet her need. The woman was reduced to the 'Carer's Pension' which was not sufficient to meet her needs. As a result her ability to maintain the family unit was greatly reduced and in fact jeopardised.

**Q.20** The provisions concerning mortgage payments to prevent foreclosure are not adequate. The upper limit of three months' repayments under the mortgage and 12 months' interest on the outstanding balance of the loan fail to recognise the impact of the economic landscape on the lives of those recently unemployed (and seeking reemployment) who are in their 50's.

It is well recognised that those people seeking employment and who are in their 50's have a greater degree of difficulty in finding employment than others. Three months is not sufficient time for people in this position to find further employment. Consideration should be given to this group of people with the view in mind that they may access those funds necessary to retain their housing.

**Q.21** Anecdotal evidence suggests that (often) there are time delays in accessing funds. If this were the case for mortgage repayments the threat of foreclosure may well become a reality.

Penalties for late payment and other legal expenses may be the result of such time delays, the result of which will be additional expenses to those already in financial difficulty.

**Q.22** People who are renting their homes should be viewed no differently to those who own their homes and cannot meet mortgage repayments. To view renters differently to homeowners is to view the 'home' as a commodity rather than as a 'place to live'.

The result of denying a 'renter' early access to their funds could be more devastating than denying access to a homeowner. Landlords have the power to seek termination within two weeks of a person 'falling into arrears'. For someone already in financial difficulty the result could well be homelessness.