THE EFFECTS OF ACCESSING SUPER EARLY and ENGINEERING A HIGHER OUTCOME

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Summary

Projections

Early access to super ...

The early access to superannuation has allowed amounts up to $20,000 to be withdrawn early from a person's accumulated superannuation. The reduction in the superannuation pool will reduce the amount of income that can be received during retirement, unless other changes are made.
This report uses financial information provided to us to look at a range of possible outcomes and their likelihood.

No one can give any assurances as to the money that will be in a Superannuation account when a Member choose to retire. But by understanding the possible impact of the withdrawal of money, today, on retirement income, the Member will have the opportunity to look at ways to possibly change the likely retirement income in line with needs and goals.

Having the possibility of accessing superannuation savings early to meet essential payments during the pandemic, and its aftermath, has an effect on the future spending levels that can be sustained in retirement and the size of the fund at retirement.

Withdrawal
$8,600

Fund Size At Retirement	
Before withdrawal	$595,514
After withdrawal	$571,887
Difference	$23,627
	4.0%

Spending level		
	Per fortnight	Per year
Before	$2,331	$60,615
After	$2,314	$60,164
Difference	$17	$451
	0.7%	0.7%

... and engineering higher outcomes

But there's more that can be done with a portfolio going forward.

Different investment options can result in different sustainable spending level forecasts. The difference between a high (85%) or low (15%) exposure to growth assets – shares, infrastructure, property - can be large. Growth assets have expected higher returns but have much more uncertainty in that return.

Using the data supplied, with a high growth portfolio, spending of $60,801 has a 50% chance of lasting for 25 years in retirement. A low growth portfolio that has a 50% of lasting 25 years has a sustainable spending level of $53,862. (See page 6)

What do these numbers mean?
We look at a number of different possible future scenarios. The numbers we quote here are the values that have 50% of the scenarios with lower value, and 50% with higher value.

We need to tell you ...

Projections

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All results are presented in today's dollars. This makes the numbers more meaningful – whenever we quote an amount in the future (eg fortnightly income of $2,000), this should be able to buy the same amount of groceries as it would today. The concept of inflation - and buying power - is built into the answer.

We're making projections over a long period of time. Before taking any action one should consider whether to discuss these results with a qualified financial planner, accountant, or similar professional.

You may also like to see the FAQs on our website www.mprojections.com.au

If you still have questions after reading this report ... send us an email help@mprojections.com.au.

BTW
Our website also has a White Paper on the model that we use for our projections.

Like you, we're looking into the future and trying to do what's best. We're working on upgrades and new products, that will be free to you with this first year's subscription. But we don't know everything. If there is something that you'd like to see a report on, then please contact us at team@mprojections.com.au

Now, let's read the analysis ...

Super fund projection

Projections

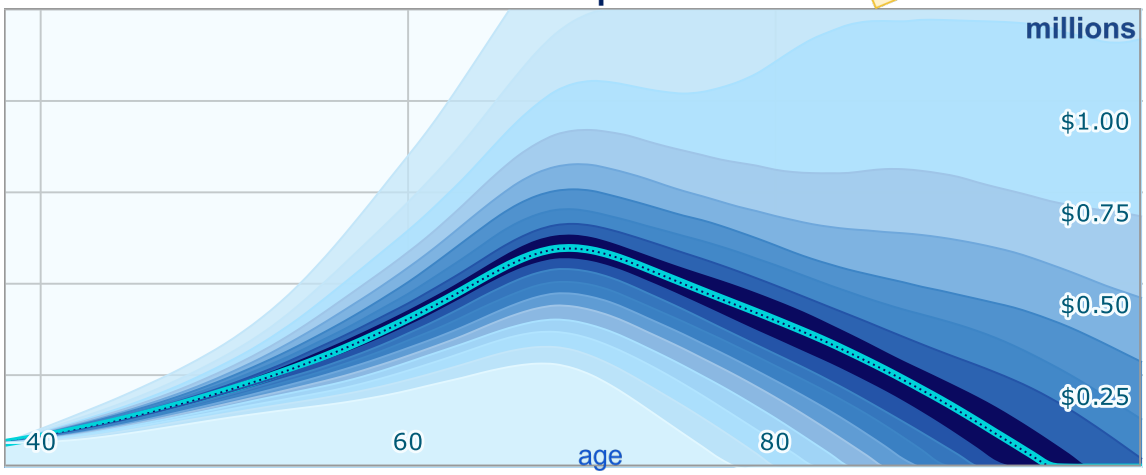
Having the possibility of accessing superannuation savings early to meet essential payments during the pandemic and its aftermath has effects on the size of savings over time.

Looking into the future, we can estimate the possible range of fund size at different ages. Sometimes investments can perform well above what is expected, sometimes they'll be lower. The chart shows the range of values at different ages.

Before a withdrawal there is a 50:50 chance that the super fund size will be higher than $595,514 at retirement.
If a $8,600 withdrawal is made the 50:50 level is estimated to be $571,887.

Darker colours indicate higher likelihood, with the unlikely very good, or very poor, outcomes being given a much lighter colour.

Amount of Super Over Time



This chart assumes that in the retirement phase the spending level required is the 50-50 level we showed earlier ie $60,164 yearly. The maximum fund size usually occurs at retirement, age 67. Before retirement the size tends to increase as contributions continue, and the investment returns are accumulated. After retirement the fund usually declines as money is taken out for living expenses.

The calculations assume asset allocation of 65% in growth assets, and a fund size at the start of $67,000. Contributions increase in line with the prescribed schedule for the superannuation guarantee charge.

A word of warning!
The future is uncertain. There's lots of ways people talk about typical outcomes – expected values, medians, averages … We might seem to be complicated, but that's because we're properly recognising that uncertainty. As we're being careful, you might find our values different from other sites.

If you are curious to know how we produce these numbers, there's more detailed information in our White Paper.

Super fund projection

Projections

Fund size (after withdrawal) at this age:				
	67	75	85	95
10% above this	$1,180,207	$1,298,800	$1,894,195	$2,733,157
50%/50%	$594,014	$479,596	$264,191	$0
10% below this	$327,904	$136,179	$0	$0

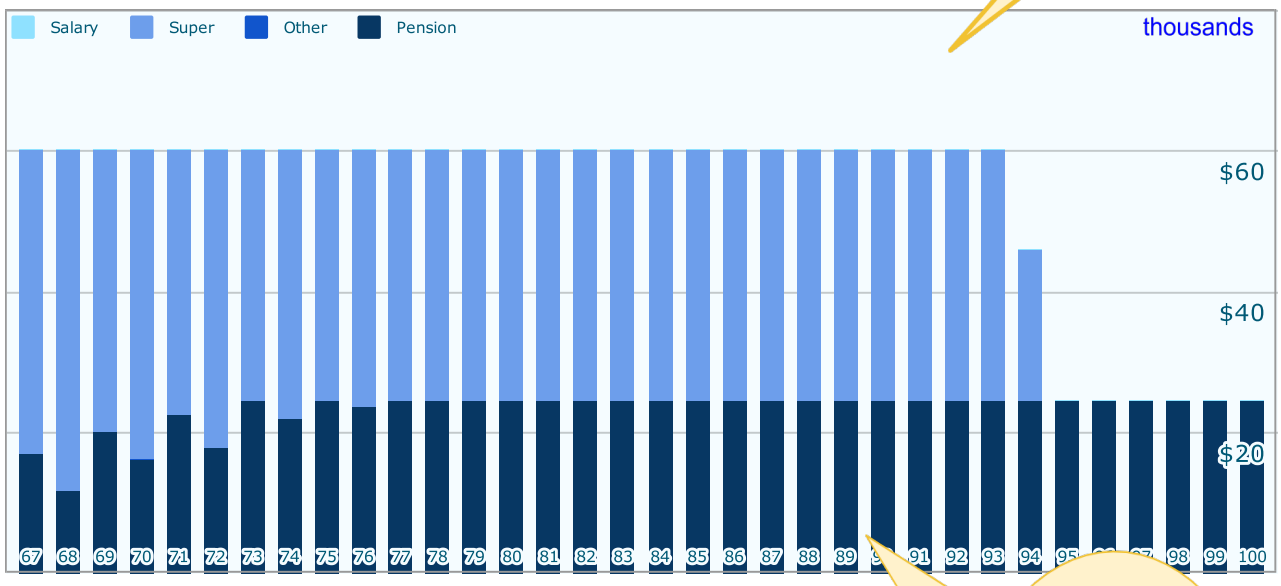
If any of these values are zero, then it means the retirement income is only from the age pension.

For each age we give three values. The top number gives the fund size that had 10% of our projections above that. The middle value has half of the projections above and half below. The lower value has 10% of our projections below that.

Where Does the Money Come From?

During retirement when the spending level is $60,164 for each year, where does this come from? There are four sources we consider: pension payments from the government, superannuation savings, other (see FAQs), and possible income from the salary that one person in a couple may have if the other person retires before them. (Projection after withdrawal)

Other includes a wide range of sources that are usually zero for most people. See our FAQ.



Over the retirement period the source depends on what's happened in investment markets up till retirement and what happens afterwards. This chart shows the sources of income if investment returns are at typical levels on average, with typical volatility.

In this report, we assume that today's superannuation guarantee levy, pension rules and taxes are maintained.

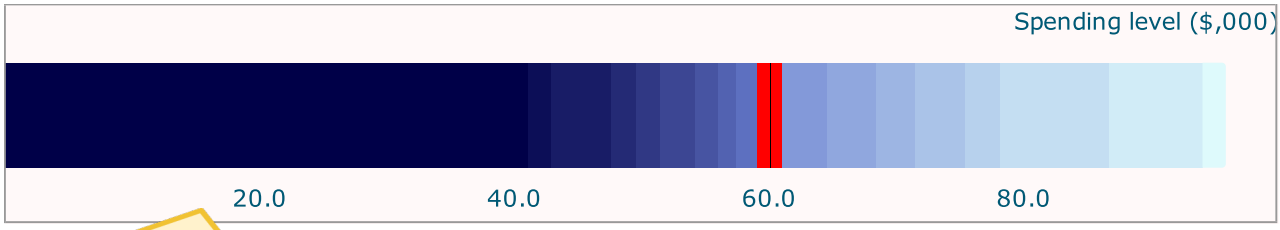
Funds run out?

Projections

What's the chance of the money running out?

What's the chance of a particular level of spending running out before the first 25 years of retirement? Obviously, the more that's wanted to spend, the more chance the Fund will run out earlier than 25 years. What happens in the future is uncertain, so the estimates we make in this calculator look at a range of possible future outcomes and spending levels . The next chart shows the chance of running out before reaching 25 years for different levels of spending. (Projection after withdrawal)

The darkest colour (on the left of the bar) shows a spending level of $41,030 p.a. has a small chance (less than 1 in 20 of our projected outcomes) to run out of money in the fund before 25 years.



With these levels of spending, it is very likely that the fund will last the desired length of time in retirement, before your income reverts to the age pension.

If spending is at a level beyond the lightest colour (on the right of the bar, and possibly off the scale), at $95,886 p.a., then only 1 out of 20 of our projections had the fund last for 25 years.

The red band shows the middle 10% of spending levels ($59,786 to $62,255) that have a roughly equal chance of super running out before or after 25 years of retirement.

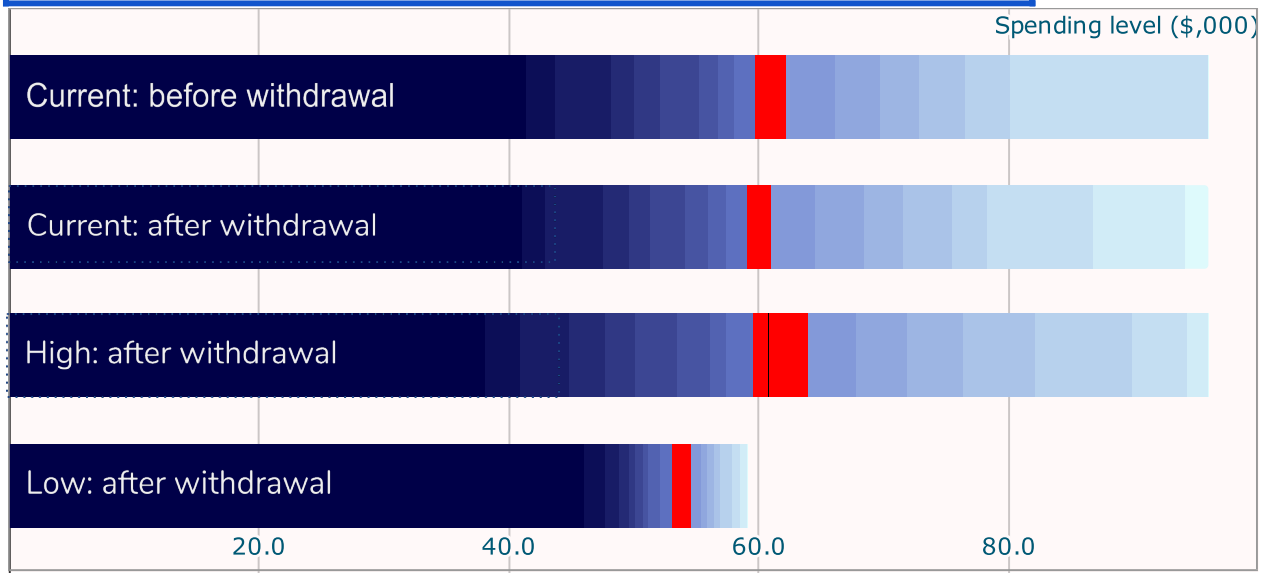
This analysis only showed the effect of one investment option. We can consider other ways we can invest.
On the next page we'll look at two possible funds, one with a high (85%) amount of growth assets, and another with a much lower position, with only 15% in growth assets.

Investment options

Projections

Different investment options (also called asset *allocation*) may result in different sustainable spending level forecasts as depicted in these charts. We show the effect of a high (85%) or low (15%) exposure to growth assets – shares, infrastructure, property. Growth assets have expected higher returns but have much more uncertainty in that return.

The top bar shows the outcome for the proportion of growth assets (65%) that was specified in the questions we asked.



The colours in the chart mean the same as they did before – dark colours for a spending level indicate the super fund is more likely to last for 25 years after retirement age.

Investment option	Annual spending level for likelihood of lasting 25 years				
	9 chances in 10 of lasting	Spending in this range has an even chance of lasting		1 chance in 10 of lasting	
Before (65%)	**$43,635**	**$59,786**	**$62,255**	**$95,886**	WARNING
After (65%)	**$42,908**	**$59,089**	**$61,006**	**$94,013**	
High (85%)	**$40,943**	**$59,564**	**$63,903**	**$95,886**	WARNING
Low (15%)	**$47,763**	**$53,016**	**$54,620**	**$59,061**	

By changing the investment option of the super fund it may be possible to have a spending level higher than originally obtained. However, this may come with the chance of a lower sustainable spending level if the investment markets have a bad future.

With the information supplied, a spending level above $95,886 may not be reasonable. Values above this level are not quoted.

Summing up:

Projections

Making a withdrawal of $8,600 has an effect on the size of your fund at retirement and on the estimated spending levels you'll be able to maintain for 25 years before dropping down to the age pension.

Before withdrawing funds, there is a 50:50 chance that spending $2,331 per fortnight, or $60,615 per year, in retirement, can be maintained for 25 years, before dropping down to the basic pension. After a $8,600 withdrawal that same 50:50 chance means spending $2,314 per fortnight ($17 less, 0.74%), or $60,164 per year.

Withdrawal	Fund Size At Retirement	
$8,600	Before	$595,514
	After	$571,887
	Difference	$23,627
		4.0%

The future is uncertain, so when we give a projection we don't give a single value, we look at the possible range of outcomes, such as we show for the size of the superannuation savings.

Fund size at this age:	
	67
10% above this	$1,180,207
50%/50%	$594,014
10% below this	$327,904

Spending level		
	Per fortnight	Per year
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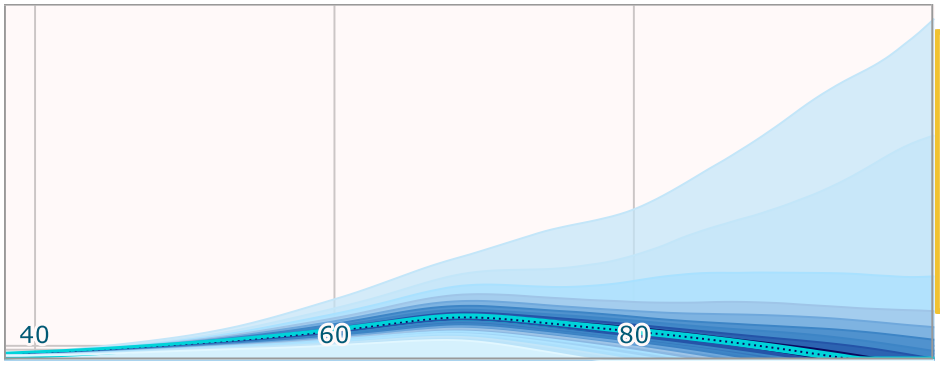

In some cases the fund can last till the person reaches 100 years old. We don't project beyond this age.

Changing the investment option has an effect on possible spending levels, with the middle range of likelihoods increasing by $713, going from 65% growth assets (before withdrawal) to the High level (after withdrawal).

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Before withdrawal

=

= After withdrawal

=

Information used to create this report

If you aren't sure of some of the values we asked for, don't worry too much. The values we've pre-filled the table with are typical values for people withdrawing money from their fund. Those typical numbers will not be accurate for everybody, but they give an indication of what may happen in the future retirement phase compared with the case of not withdrawing.

Information is broken into 4 main areas

Bear in mind that as a subscriber, you can run reports with different inputs to see future possible outcomes.

Mandatory

What is the age of the person being projected?	37
What is the size of the total superannuation investments?	$67,000
How much might be withdrawn?	$8,600
What is Person1's current annual contributions to superannuation? This should be at least 9.5% of your pre-tax annual income.	$6,500
If Person1 is making additional contributions to their super fund, how much is it?	
What annual amount of insurance premium is paid by Person1's super fund?	$200
At what age does Person1 expect to retire?	67

Questions about a second person

If there are two people being projected, what is the age of the second person. If no second person, please leave blank	
What is Person2's current annual contributions to superannuation?	
If Person2 is making additional contributions to their super fund, how much is it?	
What annual amount of insurance premium is paid by Person2's super fund?	
At what age does Person2 expect to retire?	

Optional questions

What proportion of your superannuation is in growth assets such as the stock market (here and overseas), and property.	65.00%
Do you own your own home?	No
What annual administration fee is charged by the super funds? Or if an SMSF, fees charged by accountants, auditors, and financial advisors.	$100
Super funds also charge a fee as a percentage of the size of the fund. What is that percentage?	0.40%

Advanced questions

What is the maximum insurance premium as a percentage of the annual contribution?	15.00%
At what age does insurance stop?	55
What is the length of time in retirement at which we report the probabilities of various income levels.	25
What is the annual rate at which real salary increases above CPI?	1.50%
What is the expected annual real return on growth assets? This is the annual return above inflation.	7.00%
What is the expected annual real return on defensive assets?	3.00%
What is the volatility of return for growth assets?	20.00%
What is the volatility of return for defensive assets?	4.00%
What is the correlation of returns?	20.00%
What is the reversion to the mean parameter for growth assets?	0.00%
What is the reversion to the mean parameter for defensive assets?	0.00%

Superannuation and Tax

Tax

We assume that you have provided your Tax File Number to your superannuation fund. Otherwise we would have to assume you'd be paying much higher tax rates.

15% tax is deducted from your employer contributions and before tax (salary sacrifice) additional contributions. We assume the amount of additional concessional contributions increases with inflation. There is a limit to the additional concessional contributions allowed by the ATO (Australian Tax Office) of $25,000. We assume this increases by the rate of inflation each year.

The investment earnings of the super fund are taxed at 15% prior to retirement, and for balances held in a superannuation account in retirement as a result of exceeding the Transfer Balance Cap at the point of retirement.

In retirement, the tax rate on investment earnings is 0%.

Transfer Balance Cap

There is a cap on the amount of superannuation eligible to be transferred to account-based pensions in retirement. We assume the current Transfer Balance Cap of $1,600,000 is indexed with CPI inflation over time.

Balances at retirement in excess of the Transfer Balance Cap are assumed to remain in a superannuation account similar to the one held up to retirement, the same fees and returns applied prior to retirement are applied to this superannuation account (if applicable) in retirement . The investment earnings on this excess are at the pre-retirement rate.

After tax contributions

The current projection model does not allow for non-concessional contributions to be made. If you are interested in gauging the approximate effect of additional contributions then you can increase the additional concessional contributions.

We assume the amount paid is the same each year, apart from the rise in inflation.

The non-concessional contribution cap is set at 4 times the concessional cap.

Government contributions

The current projection model does not allow for the Government co-contributions. The maximum amount of this co-contribution is $500 per annum.

Assumptions

Projections

Estimated age pension

The calculator assumes the age pension rules will increase with inflation.

It is assumed you are eligible for the Age Pension if you qualify under the assets test and income test.

If you include your partner's details in the projection, the calculator assesses your Age Pension eligibility as a couple. If you have a partner but do not include them in your retirement projection, the calculator will assess you as a single person for Age Pension purposes and this will give incorrect results.

The calculator assumes that your superannuation savings at retirement will be rolled over to an account-based pension.

In applying the income test to estimate how much Age Pension you will receive, the calculator allows for income on your investments,

The calculator allows for the thresholds in the assets and income tests to increase in line with CPI inflation.

The calculator assumes at retirement the personal assets (car, furniture etc.) at resale value will not have any value. It is assumed that there are no investments outside super. Upcoming versions of the calculator will allow for these values to be specified.

Drawdowns in Retirement

In addition to any Age Pension, it is assumed you (and your partner where applicable) have retired and have converted any superannuation savings, up to the Transfer Balance Cap, to an account-based pension product.

Any projected superannuation balances above the Transfer Balance Cap at the time of your retirement are assumed to remain in the superannuation account you held prior to retirement which is subject to taxed investment earnings.

The calculator determines the drawdowns from each account required to achieve a steady income in retirement. In the event there is projected to be both an account- based pension account and a superannuation account in retirement[1], the calculator assumes that we draw down the superannuation account before your account- based pension account (subject to minimum drawdown requirements).

The calculator applies the minimum drawdown rules annually to the drawdowns from the account-based pension each year. This may result in a higher income being paid in some years. The calculator assumes this excess above the steady income is invested and will support the income in later years.

[1] This would happen if at retirement the size of the super fund was larger than the Transfer Balance Cap.

Assumptions

Projections

Retirement income

The calculator determines the retirement income such that your superannuation fund account will have a 50/50 chance of lasting for 25 years of retirement. The length of time can be selected in Advanced settings.

The age pension (where applicable) will continue to be paid for the remainder of the projection to age 100.

The retirement income from the superannuation accounts, the government Age Pension, and the partner's salary (if applicable) is included in projected results. Income from any other investments is not included.

Results are shown on an annual basis

All calculations are assumed to occur on a yearly basis. The projected total super balance is shown as at the end of the 12 month period starting at the time of the calculation.

Include your partner

Including a second person (if any) will allow a more accurate estimate of the Age Pension entitlement as a couple

The second person should be the younger of the two people projected. Results may not be accurate if Person 1 is younger than Person 2.

If Person 2 is still working when Person 1 retires, then their salary is taken into account in determining the steady amount of income desired.

Investment returns and options

We make the following default assumptions for investment return and earnings tax:

Investment returns are projected for a default "Balanced" asset allocation – i.e., 65% growth assets and 35% defensive assets. This asset allocation can be changed in the Optional Questions block.

An effective tax rate on pre-retirement investment earnings of 10.0% is assumed.

Separate rates of return are set for Growth and Defensive assets, these are combined to give the total return of the fund. We specify default real rates of return, which are the returns above inflation, of 7.0% p.a. for Growth and 3.0% for Defensive assets.

Actual returns will vary significantly from year to year and could be negative in some years, particularly for investment mixes where more is invested in Growth assets. The variability of returns is given by the Volatility. A higher number means the returns are more variable from year to year. You can change the default values in Advanced questions.

Two alternative investment options are shown for comparison. One has a high proportion of Growth assets – 85%. This will allow higher levels of spending that have a 50/50 chance of lasting 25 years, but the spending levels that have higher or lower likelihoods of lasting 25 years are more spread out.

Assumptions

A conservative asset allocation of 15% in Growth assets has a much more certain range of outcomes, but the 50/50 spending level is lower than the high Growth allocation.

Administration fees

We assume that dollar per annum administration fees will be charged and will increase with inflation each year. We make a default assumption for administration fees of $74 per annum in today's dollars.

Investment management fees are charged as a percentage of the fund's size. We make a default assumption for investment fees of 0.85% per annum.

We assume that these fees are tax deductible within the fund.

Insurance fees/premiums

In Advanced questions you can enter the insurance premiums that are charged annually to your account. We assume the premium will increase over time as you grow older. The pattern of the rate of increase is typical of actual premium schedules used by insurance companies.

The age at which insurance will not be bought has a default value of 55. This can be changed in Advanced questions.

We also put a cap on the amount of insurance paid in any year. We do this as a percentage of the contribution paid. This is set in Advanced questions.

Defaults for all these parameters have been set at compromise values that will not be accurate for any single individual, but will give a plausible indication of what may happen many years into the future.

Models vs predictions

Projections

This is a model, not a prediction.

The results from this calculator are based on the limited information that has been provided and assumptions made about the future. The amounts projected are estimates only and are not guaranteed.

This calculator cannot predict a final superannuation benefit or level of retirement income with certainty because this will depend on personal circumstances, unexpected life events, the changing Age Pension and Superannuation rules, volatile investment earnings, tax, and inflation. We hope we've shown this by giving an honest assessment of the potential range of fund size and spending levels.

The calculator looks at a large number of different economic and market outcomes from now till when the youngest person reaches 100 years old. We then combine all these outcomes and show the range of possibilities in various ways.

Even though there is a large range of possible future outcomes, the calculator has been designed to be much better at comparisons of different scenarios than single figures. For example, even though there is a large uncertainty in the size of the super fund at retirement, the change in fund size as an effect of withdrawing $10,000 now, is calculated with much more accuracy.

Consider updating the projections provided by this model regularly, particularly if circumstances have changed.

Do not rely solely on this calculator to make decisions about retirement outcomes. There may be other factors to take into account, such as other possible needs, different financial situations, and investment objectives.

When thinking about retirement, consider advice from a licensed financial adviser.

Projections

Frequently Asked Questions

Q: Can I enter assets outside of super?

A: Not in this version of the calculator, though it is one of the many improvements we have scheduled for the near future.

Q: Can I enter income from other sources, such as investment income or current super pensions?

A: No, you will need to manually add other income to your estimated income from super and the Age Pension.

Q: If I have other income or assets, won't that affect my Age Pension estimate?

A. Yes, they will affect the pension. We don't include them in this version of the calculator, though it is one of the many improvements we have scheduled for the near future.

Q: I have a defined benefit super fund, can I use this calculator?

A: No, this calculator only works for accumulation funds.

Q: Can I change the level of income I receive at some time in the future?

A: No, this calculator only projects income at a steady rate throughout your retirement .

Q: Can I change my retirement income?

A. You can't select your retirement income but you can change your retirement income estimate by changing your retirement age, your personal contributions or any of the fields in the 'Advanced settings' sections.

Q: Why does my super pension increase and decrease over time?

A: The minimum pension you must withdraw each year is calculated as a percentage of your balance, for example at age 65, you must withdraw 5% of the account balance each year. The minimum percentage will increase at age 75 and every 5 years thereafter until you reach age 95.

As your account balance decreases your Age Pension may increase which means you would need to draw less super pension to maintain your income.

Q: Are the income figures before or after tax?

A: Income is estimated before tax although super and Age Pension income is tax free for most people over age 60.

Q: What rate of return does the calculator use, and can I change it?

A: The calculator defaults to expected returns for a diversified portfolio of Growth assets and Defensive assets. Investment options can be changed in the 'Advanced settings' sections for the fund.

FAQs

Q: Can I change the age my super pension runs out?

A: Yes, in the Advanced questions section, you can change the length of time in retirement you want your super pension to last.

Q: Is the income estimate in today's dollars or future dollars?

A: All amounts are in today's dollars. A forecast cash flow of $100 in 50 years should buy the same shopping cart of groceries as it would today.

Q: Will this calculator work for self-managed funds?

A: Yes, however you will need to make sure you include all fees, including accounting and auditing fees. Also make sure the rate of return and asset allocation is appropriate for the fund.

Q: Can I enter a lump sum contribution to super before the retirement age?

A: This calculator does not allow for one-off super contributions. If you are projecting an example of someone close to retirement you could change the super balance to reflect the lump sum contribution expected to be made.

If you require further assistance, contact us
www.mprojections.com.au
Email:
team@mprojections.com.au

You can be young without money but you can't be old without it.
Tennessee Williams