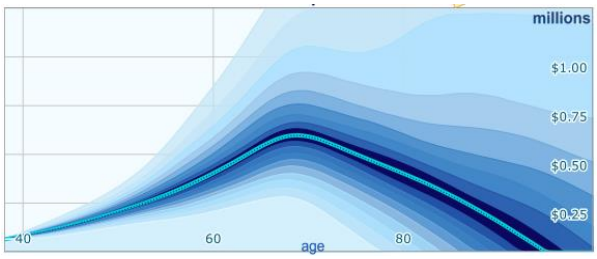
Projections

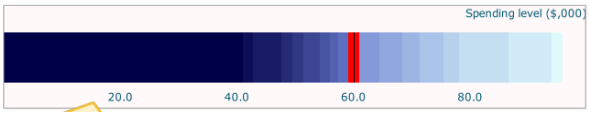
The Effect of Withdrawals and Future Decisions

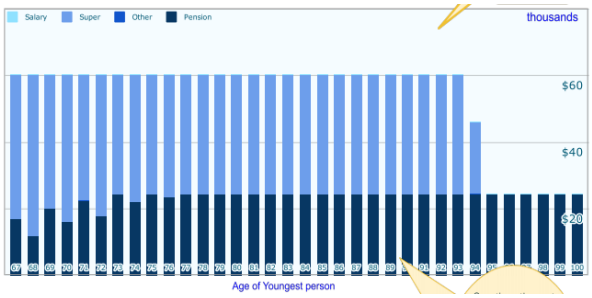
The future is very uncertain and decisions must be made. Not doing something is itself a decision. Our analysis shows the impact, before and after a withdrawal of between $1 and $20,000 ($40,000 for 2 persons) from a superannuation account Our analyses do not try to hide the uncertainties, showing their full effect on the future outcomes of the decisions that can be made on superannuation.

Our report shows:

- the size of the fund at retirement, in today's dollars
- fortnightly and annual tax-free income in retirement, including the Government age pension, in today's dollars,
- the sources of that income for a typical scenario,
- At the time of withdrawal, which is a major decision, there is also the opportunity to make more decisions.







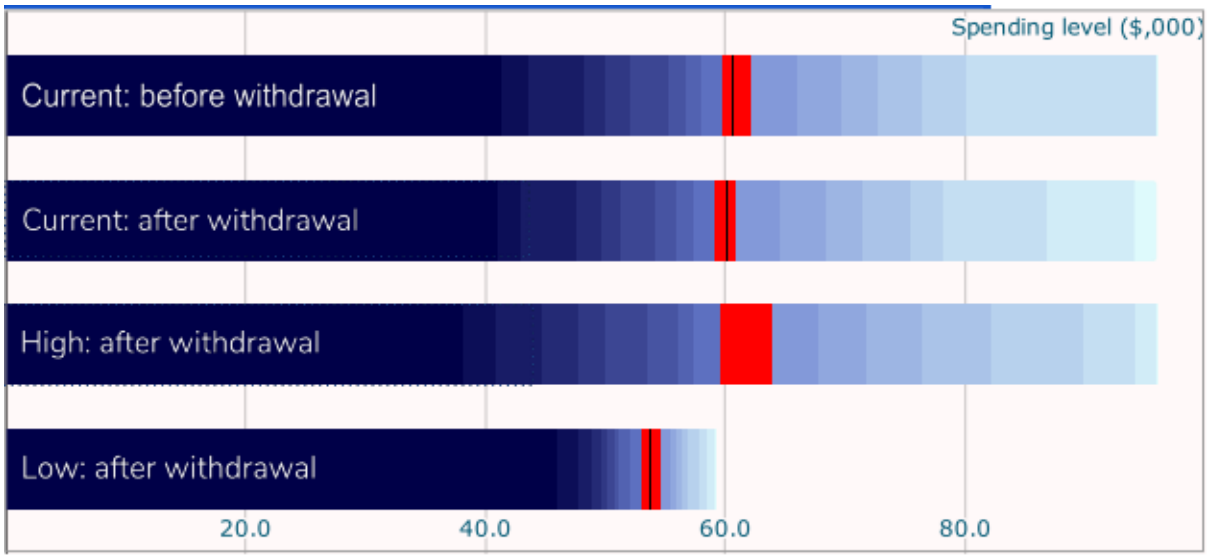
Rather than just showing the effect of the decision to withdraw we also analyse what would happen, after withdrawal, if the Investment Option was changed to a higher level of growth assets, or to a lower level. Investing in growth assets, such as Australian and International share markets, infrastructure, and property, comes with a higher expected long-term return than more defensive asset classes, such as government and corporate bonds. But that higher return comes with a significantly higher uncertainty in the actual level of return.

Of course, the effect will depend on time to retirement, current investment options, and a host of other factors, but we can observe some broad trends. In many cases, a superannuation fund that is moved to a growth Investment Option may provide greater benefits in retirement than if no withdrawal or change in investment options had occurred.

The results are shown with the amount of risk that the different investment options have. Again, importantly, assuming a withdrawal, an increase in member benefits may be possible with a change to growth investment options with possibly only slight increase in risk.

A Typical Example

These horizontal bars, taken from page 9 of our Analysis, show tax-free retirement income (including the age pension) on the horizontal axis and the likelihood of that income lasting 25 years in retirement, depicted by the darker or lighter color. The darkest blue shows a high chance of maintaining an income (95% chance of lasting 25 years in retirement) of up to approximately $40,000pa in all four scenarios, with the chance reducing (lighter blue colours) as the retirement income is increased.



The mid-point of the red colour (a black line, if it appears on your screen or printed page) shows a 50:50 chance of the fund paying the level of income, shown on the horizontal axis below it, till age 92, while the outside boundaries of the red colour show the maintainable income level possible with a 5% higher or lower likelihood than the 50:50 chance in the mid-point.

Each band of colour shows a drop in the likelihood of 5%, as we move from left to right ie from levels of income that are highly likely to last for 25 years, to income levels that are likely to run out before the 25 years.

The first bar shows the projected retirement income that is based on a pre-withdrawal fund held in the balanced (65% growth assets) Investment Option. This can be directly compared with the second bar that shows the sustainability of the income levels after the withdrawal. It's not surprising that all the likelihoods are lower.

The third bar shows the projected retirement income from the Hi Growth Investment Option (85% growth assets), assuming the withdrawal has been made. The higher expected return can be seen in the shift of the middle range of incomes (the red area) to higher values. But this is not without an increase in risk. If we want a high chance of our income level lasting 25 years then our spending level needs to decrease by about $2,000 in this example.

The fourth bar shows the projected retirement income from the Low Growth (Conservative) Investment Option (15% growth assets), also assuming the withdrawal has been made.

Overall, the results show that there may be a higher chance (eg 50:50) of maintaining a higher retirement income if the Fund is invested in the Hi-Growth investment rather than the usual 'balanced fund' option that the majority of superannuation Members hold.

Summary

This Report can be used to confidently estimate the effect on a fund based on a withdrawal from the fund now, and also shows the impact of a change in investment options.

Such a change of investment options to Hi-Growth has an important benefit. The Member can have confidence that the income benefits will likely be higher in retirement by switching to a Hi-Growth Investment option.

There is also be a beneficial side effect. The Australian economy can benefit from super funds having more funds to invest in growth assets such as infrastructure, which Governments and Super funds alike agree is a major contribution to economic growth and higher expected returns.

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25 Sept 2020

The model requires information such as current superannuation fund size, contributions, age, investment options (asset allocation), and an optional second person, to allow an analysis of a particular scenario. This allows for an easy analysis of SMSFs. Users have the opportunity to provide more information to give an analysis of more specific scenarios in which they may be interested.