Can Super Soften the Blow?

With Australia now facing a severe economic (as well as a health) crisis, there have been calls to allow people to access their super to obtain cash. That makes a lot of sense. What is the benefit of having assets tied up to get a slightly better retirement outcome if the misery of current life can be softened by accessing those assets now?

But allowing that could make the economic situation even worse. If super funds are to provide cash to their members they have to get that cash somehow. If they sell the assets they hold (shares, bonds etc) that will further depress already depressed asset prices. The last thing we need is such sales solely for the purpose of obtaining cash, particularly if the assets have long term value.

How to overcome that? Simple in principle, if a bit complicated in practice. Let individuals borrow against their super assets at a zero interest rate with repayments (to the super fund) only needing to be made after their income has returned to "normal". Those repayments could be via a marginally higher tax rate on future earnings (much like we do in the case of higher education) or by voluntary contributions.

But where would the super funds get the cash to distribute to members? Simple, via a novel form of Quantitative Easing. The super funds could borrow from the RBA, using super fund assets as collateral (a practice known as repurchase agreements or repos). These specific repos would need to be at a zero interest rate, to match the zero interest rate being paid by members. Given the current level of interest rates, and with strong collateral making the repo loans virtually risk free, that is not unreasonable in the current troubled times.

This solution has the advantage that super funds would not be dumping assets into already depressed markets. It is no more costly to the government than giving cash hand-outs. It should be able to be quickly implemented and provides cash in a targeted manner (albeit not to those with no super balances) rather than like a "helicopter drop". But it would enable the government to more specifically direct cash handouts to those without access to super balances.

Importantly, while the solution requires temporary, crisis, adjustments to the super framework, it does not undermine our retirement income system.

Can it be done, or are there major impediments? One problem is getting bipartisan support for enabling legislation – but one hopes that should be possible given the current crisis.

At an operational level, what would super funds and the RBA need to do? First, super funds could give a special designation to those members receiving the interest free loans – switching their accounts into drawdown mode but with special conditions (involving the loan agreement) attached. That enables cash to be withdrawn. Second, the ATO would be notified of those members and accounts so as to be able to implement repayments via annual tax calculations or via advising employers to withhold and transfer a larger sum as regular PAYG amounts.

The RBA would need to introduce a new special form of zero interest rate, long term, repo, available on demand to super funds (up to a limit equal to amounts distributed to members).

There are other options for individuals to get cash by drawing on other assets, particularly their homes. They could accessing the equity in their homes (after drawing on amounts available in offset accounts) by reverse mortgages or borrowing additional amounts from their bank. But at the current time, with uncertainty about what the crisis will do to housing prices, increasing indebtedness in this way with an interest cost does not seem preferable.

Desperate times call for innovative solutions. A “Super Access” scheme such as outlined here is worth considering. There are undoubtedly practical complications involved in implementation, but no obvious ones which would derail it.

It won’t help everyone, but it will help some and enable government to target cash handouts and other strategies towards those unable to benefit from “Super Access”.

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