Be super careful of pitfalls

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PAINFUL traps await some of the estimated 2.2 million people who are withdrawing part of their superannuation early to help them through COVID-19's financial impacts.

Scammers, bad timing and insurance issues are among the potential threats, and money specialists say it's wise to seek advice from your fund or a professional planner before making rash decisions.

People suffering financial strain can withdraw up to $20,000 from their super fund this year – $10,000 before June 30 and another $10,000 from July 1. Money is already flowing to people after the Australian Taxation Office approved about one million applications in the first fortnight.

Financial strategist Theo Marinis said despite criticism of the early withdrawal scheme, he thought it was a good idea "as a last resort".

"But you shouldn't do it as a knee-jerk reaction," he said. "It is borrowing from your future."

Whether you're making a super withdrawal or thinking about switching your super fund assets after recent heavy falls in financial markets, knowing the potential pitfalls can save you a pile of money and stress.

SUPER SCAMS

Authorities have noticed a spike in scam activity around the government's early super withdrawal scheme.

Some scammers are sending SMS messages, claiming to be from the Australian Taxation Office, in relation to bogus withdrawal requests, and asking for personal details such as tax file numbers as they attempt to steal identities.

Other scammers are offering to help people withdraw their super for a fee. But the application process is free through myGov and the ATO.

Colonial First State's general manager of product, marketing and remediation, Kelly Power, said scam attempts were rising.

"One of the most recent is a text going to our members saying 'this is the ATO and we are confirming your earlyrelease payment' but the member has not actually ever applied for that payment," she said. Ms Power said people could protect themselves by:

› **Never** providing personal details over the phone to unsolicited approaches.

› **Calling** their fund directly if they were concerned about any requests for information.

› **Updating** their virus software regularly.

› **Understanding** that super funds would never ask for passwords or personal details by text or email.

INSURANCE STING

A side effect of the rush on super withdrawals is workers being left without life insurance protection.

Their fund balance might reduce to zero or their account might be closed, causing them to lose protection such as life, disability or income protection insurance.

"There could be consequences of having no additional funds to pay your insurance premium," Ms Power said.

Australian Securities and Investments Commission chair James Shipton said new rules that started last month automatically cancelled insurance if people had less than $6000 in their account and had not contributed since November last year.

People who withdraw their superannuation through the new government scheme might slip into this category.

“Contact your super fund and tell them you want to opt-in for insurance for your cover to continue,” Mr Shipton said.

“Those under 25 and opening a new super account will also need to opt-in for insurance cover. ASIC’s MoneySmart website has more information about insurance.”

Mr Marinis said people who inadvertently cancelled insurance such as income protection might make a bad financial situation worse. “What if you need it in six or 12 months’ time but you don’t have that protection any more?” he said.

FEE FRUSTRATION

A shrinking super balance can result in fund members paying proportionately higher fees, as many funds charge flat rates for administration and other charges. And some funds are raising fees. AustralianSuper, the nation’s biggest industry fund, is increasing its insurance premiums from May 30 after a rise in claims and payments. Mr Marinis said some industry super funds were also struggling with falling valuations of their unlisted assets. “A lot of administration fees are going up as well,” he said. Now is the time to check what fees you are paying on your super, and consider consolidating or switching funds if it makes financial sense.

BAD TIMING

The worst time to sell out of an investment – whether it’s super or any other asset – is when prices are weak, and that’s exactly where we are right now. Sharemarkets have plunged up to 30 per cent below February’s record highs, and while they have recovered slightly in recent weeks, asset prices are still down sharply. Weak super fund returns have reflected these falls, just as hundreds of thousands of Australians are withdrawing money from their funds. Funds have also reported a rush of investors switching their asset mix from a growth or balanced mix of investments to the safety and certainty of cash. “You are selling when the market’s down so you are taking a loss,” Mr Marinis said. AMP financial adviser Dianne Charman said it was difficult to determine the gravity and length of the pandemic’s impact on financial markets and super fund balances. She said people needed to ensure their tolerance to risk matched their financial goals. “Investing is a long-term game, and investing through your super is no different,” Ms Charman said. “Market crashes and corrections are always going to happen.”

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