Sydney Wealth Aged Care Financial Planning Investor Investment Tax Accountant Accessing Superannuation Before Retirement

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There are some circumstances – usually total and permanent disability or terminal illness and sometimes financial hardship – when you may be able to access your superannuation before retirement.

When times are tough and money is tight, it may be frustrating to look at the balance of your superannuation account and realise that you aren't able to access that money to get through the difficult times.

Superannuation is designed to encourage (or force) you to put aside money for retirement. Tax concessions provide incentives and, in return, the money is locked away until you retire. For many of us, this is not until we reach at least 60 and terminate an employment arrangement. If you were born before July 1, 1964, your preservation age may be a couple of years younger.

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There are some circumstances when you may be able to access the money before retirement. But these are very defined and often dire situations such as a total and permanent disability or terminal illness. But in some cases, compassionate grounds or financial hardship may also allow you to access your superannuation. The rules are, however, quite specific, limited in their application and are often misunderstood.

Thomas Mousa is a leading Australian financial expert, chartered accountant, director and partner at Sydney-based TLK Partners.

Mousa says, "You may be able to release some of your superannuation savings before retirement under compassionate grounds but only if you meet the specific criteria set out in superannuation legislation. Some changes have been made in recent years to expand the opportunities for release."

The eligibility criteria include meeting unpaid expenses for:

Medical treatment and medical transport for you or a dependant; Palliative care for you or a dependant; Making a payment on a loan or council rates to avoid losing your home; Modifications to your home or car or the purchase of disability aids to cater for a severe disability for you or a dependant; and To pay for a dependant's funeral (does not cover costs of the wake).

"Early release will not be approved for just any medical condition. It needs to be a life-threatening illness or injury or acute/chronic pain or acute/chronic mental illness. The expenses may have been incurred for either treatment and/or transport associated with the illness," Mousa says.

Another example Mousa cites is, "If you are paying off your home and are behind on loan payments which have put you at risk of foreclosure, you may be able to apply for the release of funds to cover three months of mortgage repayments within a 12-month period."

"You may also be able to apply for enough money to cover the arrears on your council rates. In both cases, the release may only apply if required to stop foreclosure. If the loan or ownership of the home is only in your dependant's name, you will not be able to access your superannuation to meet payments," Mousa said.

Although access to your money may get you out of a difficult situation before retirement, it can come at a cost as it reduces the money available for retirement. Tax is also due on the amounts withdrawn.

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Depending on age, the tax rate (on the taxable component) will be either 17 or 22 per cent (including Medicare). So as well as reducing the superannuation balance by the amount withdrawn, the balance of the account is also reduced by the tax payable.

"If you are applying for release on the grounds of your own illness, you may instead wish to consider applying directly to the trustee of your superannuation for release on the grounds of a terminal illness. This would allow you to make a tax-free withdrawal," Mousa advises.

"The taxable component of any amount released before your preservation age will also count as assessable income. You won't be liable for marginal rates of tax as the flat rates of 17 or 22 per cent apply, but it may affect your eligibility for family tax benefits or child support," Mousa said.

"There are pros and cons in every situation, and knowing how to achieve a particular outcome is daunting for most, that's where TLK Partners can help," Mousa concludes.

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