# Redundancy and you

Redundancy can be a stressful and confusing time for you and your loved ones. This fact sheet covers some important information, and the steps you need to take when facing redundancy.

### So what is a 'bona fide' redundancy?

A genuine or 'bona fide' redundancy payment is one that is received by an employee aged less than 65 years who is dismissed from employment because their position has become genuinely redundant. If you have been offered redeployment or other job opportunities, and have not accepted them, you should check with your HR department to see if you will be paid a genuine redundancy. There can be taxation implications if this is not the case.

There are generally two types of redundancy offers:

1. involuntary, where you do not have a choice
2. voluntary, where you may choose to accept your employer's offer to leave the company.

Regardless of the type of redundancy, there are a number of issues you will need to think about:

- Will you be able to get another job? Will you require retraining? Is there job-seeking support as part of your package?
- Can you afford to be out of work for some time? There may be a period where you may not be earning income in between jobs.
- If you have a partner, are they in a position to support your family if you can't find another job?
- How long do you have until you plan to retire? In some cases a redundancy can be a good way to leave the workforce.
- What are your regular cash flow needs? What liabilities do you have?

Once you have considered these questions, there are a number of steps you can take to make the most of your redundancy payment.

## Step 1: Check your employee entitlements

A redundancy payment can include:

- employment termination payments (ETPs) and/or
- other employer redundancy payments.

### Employment termination payments (ETPs)

ETPs are taxed depending on the amount received and whether you have reached preservation age.

ETPs may include:

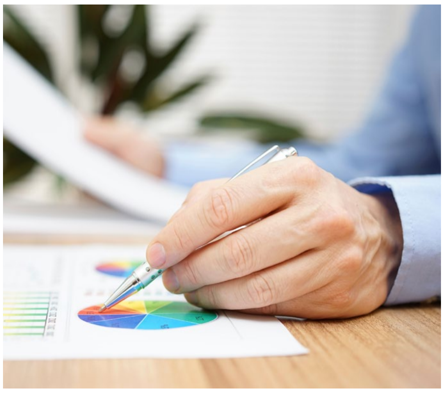
- bona fide redundancy payments over the tax-free limit
- payments in lieu of notice
- golden handshake or severance payment
- unused sick leave
- unused rostered days off.

Other payments you may receive that are not classified as an ETP include:

- bona fide redundancy payments within the tax-free limit
- unused annual, long service leave, leave loading and wages owed to you.

It is a good idea to check your award or employment contract to determine your entitlements. Not all contracts are the same, so don't assume anything. Generally, any unused annual and/or long service leave must be taken as cash and cannot be rolled over, although such payments are concessionally taxed.

If your employer is bankrupt or in liquidation and you do not believe you have received all your entitlements, you may be entitled to assistance under the General Employee Entitlements and Redundancy Scheme (GEERS). For information on this scheme, call 1300 135 040.



> One of our financial planners can show you how to arrange your affairs and provide advice on your redundancy entitlements

## Step 2: Consider your options for your lump sum payment

Your redundancy payment may be the largest lump sum payment you ever receive. It's a good idea to consider 'parking' your lump sum payment while you determine the best long-term strategy for your situation.

### Options to consider

- **Park the money in cash while seeking further employment** – the downside of this option is that it may be tempting to spend the money. However, it does allow you to access your lump sum to meet your living costs and debt obligations while you are not earning income.
- **Reduce or repay debt (i.e. mortgage, car loan, credit card)** – this can be useful if you are paying high interest rates, but it does mean that you won't have access to your lump sum to meet your living costs.
- **Mortgage offset account or redraw facility** – this can be a compromise between parking your funds and repayment of the mortgage. You can reduce the amount of interest you pay on your mortgage but still retain flexibility to access your lump sum if required.
- **Contribute to super** – this will depend on employment arrangements and flexibility to cover living costs using other financial assets. You will need to consider preservation rules that may be applicable. Depending on your age it may be many years until you can access this money. In other limited circumstances, you may be able to access some of your benefit, although strict conditions apply. You should also be aware that there are limits or caps on the amount of after-tax contributions that you can make into your super. For details about these caps, see our fact sheets *Access to your super* and *Adding to your super* available from **firststatesuper.com.au/factsheets**.

**TIP**

Redundancy can be a difficult time but we have a team of experts that can explain your options and help you make important decisions. It also makes sense to seek financial advice when considering your options. Some seemingly straightforward decisions may have unintended consequences at a later date.

## Step 3: Check the tax treatment of your redundancy payout

Genuine redundancy payments are tax free up to certain limits.

| Financial year | Base limit | For each complete year of service |
|---|---|---|
| 2019-20 | $10,638 | $5,320 |

This amount is indexed each year to the average weekly ordinary time earnings (AWOTE). The tax-free part of the payment is not included in assessable income for income tax purposes and you do not have the option to roll this amount into super.

Amounts above the tax-free component are treated as an employment termination payment (ETP) and will be taxed according to rules set down by the government – see *What tax rate will you pay on the part of your benefit that exceeds the tax-free amount?* section below.

If you have service prior to 1 July 1983, the portion of your ETP reflecting that prior service will also be tax free.

If you are over the age of 65, the entire amount will be treated as an ETP.

### How to calculate your tax-free component

Kylie has worked at ACME Technology for 11 years. She has been offered a redundancy payout of $70,000 in the 2019-20 financial year. The tax-free redundancy payment she can receive is:

$10,638 + (11 x $5,320) = $69,158

Kylie will pay tax and applicable levies on $842 of her $70,000 payout.

$70,000 – $69,158 = $842

## What tax rate will you pay on the part of your benefit that exceeds the tax-free amount?

| Age | Tax on taxable component[1] |
|---|---|
| Before preservation age | 30% ($0-$210,000[4]) |
| | 45% ($210,000 plus) |
| Preservation age and over | 15% ($0-$210,000[4]) |
| | 45% ($210,000 plus) |

[1] The Medicare levy is payable in addition to these rates.

[2] The ETP cap amount for the 2019-20 financial year. (The ETP cap is a limit on how much of your ETP can receive concessional tax treatment. The amount over this cap will be taxed at the highest marginal tax rate.)

## Does the date you take your redundancy change your tax?

Depending on your situation, you may wish to consider trying to time your departure until after the end of the financial year, when your marginal rate of tax may be lower, or entitlements higher. This is not always possible, however you may be able to use your long service leave or accumulated leave to delay your departure date. This is an issue to discuss with your HR department.

## Step 4: Assess your expenses and think about your budget

If you're made redundant, one of the first things you will need to do is review your budget. Are there any discretionary expenses which you can cut or reduce, such as pay tv or magazine subscriptions? Discretionary expenses can quickly add up without you noticing.

A good way to get an overview of your expenses is to write out a budget. You can go to **firststatesuper.com.au/budgetcalculator**. This will help you see where your money is going and if there are any areas where you could trim your spending.

Generally, paying off debt such as credit cards and personal loans is a good idea, particularly if you are paying high interest rates. And although it may seem tempting, completely paying off your home loan may not be a good idea as you may use up the whole package leaving you with little financial flexibility.

## Step 5: Determine if you are eligible for Centrelink income support

If you're made redundant, you may be entitled to receive income support payments from Centrelink. These income payments are means tested, which means there are income and assets tests used to determine your eligibility. In most cases, if you are under age pension age (66 years of age for both women and men[1] at 1 July 2019) and you are not able to find another job, you may want to consider applying for the Newstart job seeking allowance.

If you are eligible for Newstart, your payment may be delayed because of your redundancy payments as well as your existing financial assets. These factors can impact the Income Maintenance Period (IMP) and the Liquid Assets Waiting Period (LAWP).

The IMP is a period of time where leave and redundancy payments received are treated as income. For example, a 10-week redundancy payment would result in a 10-week IMP from the date it was received.

The LAWP is a period of time when a person is determined to have access to liquid assets such as cash or shares. This period may extend from 1 to 13 weeks depending on what money is readily available.

It's important to note that the IMP and the LAWP can be served at the same time.

[1] The age pension age progressively increases from 65 and six months every two years from 1 July 2017 onwards to age 67 (from 1 July 2023).

## Step 6: Decide what you will do with your super account

Although you will be receiving a lump sum redundancy payment, you may not have access to your super. Your super is to be used to provide money for your retirement so any money you put into your super is 'preserved' and must stay there until you reach your preservation age and meet a condition of release.

A redundancy may be a good opportunity to review your super and ensure you are making the most of your retirement savings. This might include:

- **Finding your lost super**
  Statistically, there are roughly four super accounts for every working Australian. If you have changed jobs in the past, you may have lost track of one or more of your super accounts.
- **Consolidating your super accounts**
  Having more than one super fund means you may be paying several sets of administration, investment and insurance fees. And that's money that would be better off in your account working hard for your retirement.
- **Making extra contributions**
  Lump sum contributions can really boost your super savings. But there are limits on the amount you can contribute. A financial planner can help you determine whether making extra contributions makes sense in your situation.

## When can you access your super?

Your super is to be used to provide money for your retirement so any money you put into super must stay there until you reach your preservation age.

Your preservation age depends on your date of birth, as shown in the table.

| Date of birth | Preservation age |
|---|---|
| Before 1 July 1960 | 55 |
| 1 July 1960 to 30 June 1961 | 56 |
| 1 July 1961 to 30 June 1962 | 57 |
| 1 July 1962 to 30 June 1963 | 58 |
| 1 July 1963 to 30 June 1964 | 59 |
| After 30 June 1964 | 60 |

In other limited circumstances, you may be able to access some of your benefit, although strict conditions apply. For details about this, see our fact sheet *Access to your super.*

## Want to consolidate?

Visit **firststatesuper.com.au/combine** to get started.

## Step 7: Check what happens with your insurance

Most Australians are underinsured. Although it may seem like an area where you can make savings, cancelling your health, life, income protection and house and contents policies can have long-term and unplanned consequences. You should seek advice from a financial planner before you take any action.

If you have taken life insurance and/or income protection insurance with your super fund, you should ask if there is an option to maintain this cover (known as a continuation option) if you change jobs. If there is, check what you need to do to keep the insurance cover in place and maintain your protection. You'll also need to check whether your premiums will rise after you cease to be an employee. Usually, insurance cover through your super fund is a very cost-effective option. Before you make a decision regarding your insurance cover, you should speak to a financial planner.

Some employees may also have group insurance policies directly with their employer. Again, you should confirm whether there is a continuation option which you need to exercise in order to maintain this cover.

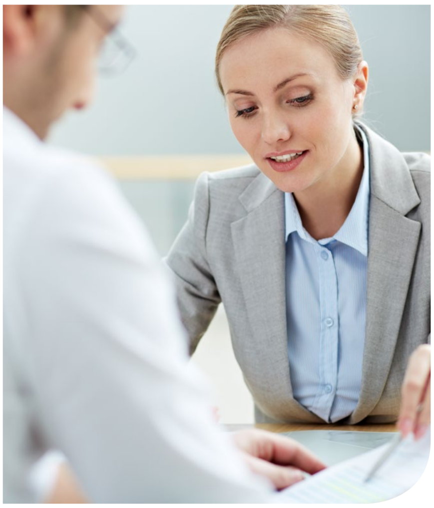
## Step 8: Consider seeking financial advice

StatePlus is our financial planning business. One of their financial planners can review your affairs, discuss your circumstances and goals, and recommend a strategy tailored specifically for you.

A strategy doesn't have to be complex. It can be as simple as preparing a budget, deciding how much money you need each week, and recommending investments that match your cash flow needs.

But if your circumstances are more complex, a planner can show you how to arrange your affairs to maximise Centrelink entitlements, and give you advice about investments, life insurance, salary sacrifice, voluntary contributions, transition to retirement and starting an income stream.

The important thing to remember is that you choose the type of advice you need, and you only pay for the services you use. Book online at **firststatesuper.com.au/advice** or call **1800 620 305** (Monday to Friday 8.15 am to 8.15 pm AEST/AEDT) to arrange an appointment.



> A financial planner can help you determine your eligibility for Centrelink support

## We're here to help!

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Super can be quite complicated and sometimes you just want to know that you're making the right decisions. Because the right decisions about your super can make a real difference to your financial future.

So if you've got any questions, or you just want the comfort of knowing you're on the right track, getting some advice can help.

StatePlus[1] is our financial planning business and is wholly owned by us. The team at StatePlus can answer simple questions about your super over the phone, or if your situation is more complex, prepare a full financial plan for you. It's all up to you, no obligation. Book online at **firststatesuper.com.au/advice** or call **1800 620 305** (Monday to Friday 8.15am to 8.15pm AEST/AEDT) to arrange an appointment.

[1] Financial planning services are provided by our financial planning business, State Super Financial Services Australia Limited, trading as StatePlus ABN 86 003 742 756 AFSL No. 238430. StatePlus is wholly owned by First State Super.



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