

Facing a redundancy?

Redundancy can be a time of uncertainty, as there are many issues to face and decisions to be made in a short space of time.

Restructuring your financial affairs can be the first step to achieving a new sense of direction.



If you are about to receive a redundancy payment, there are a number of financial issues that you will need to consider:

- ✓ How can you best utilise the redundancy payment that you will receive?
- ✓ Do you need to alter your current superannuation and insurance arrangements?
- ✓ How will you fund your ongoing living expenses while you transition to new employment or to retirement?
- ✓ Will you need to contact Centrelink to apply for income support from the Government?

Your financial adviser is here to assist you through the process of getting your financial affairs in order, allowing you to take the time to set your new employment and lifestyle goals.

Your redundancy payment

At the time of your redundancy you will receive from your employer a lump sum payment which can contain up to three separate parts:

- Payment for any unused annual leave,
- Payment for any unused long service leave,
- Compensation for your redundancy.

Each part of your total payment will be taxed in a different way.

Unused annual leave

An employer is required to pay you as a lump sum amount the value of any unused annual leave that you have accrued but not used prior to your redundancy.

This amount will be added to your other assessable income for tax purposes, and taxed at your marginal tax rate.

However, you will also be eligible for a tax offset to ensure that the total tax that you will pay on this portion of your redundancy payment will not be more than 31.5% including the Medicare levy.

Unused long service leave

If you were entitled to long service leave which was not taken prior to your redundancy, your employer must pay you a lump sum amount which is equal to the value of this long service leave.

The portion of your payment which will be taxable and the rate of tax you will pay on that portion depends upon the period to which the payment relates:

Period of accrual	Taxable portion	Tax rate*
Before 16 August 1978	5%	Your marginal tax rate
After 16 August 1978	100%	Maximum of 31.5%

* Includes the Medicare levy

Compensation for redundancy

The amount of the payment which you receive which is compensation for being made redundant may be split into two parts for tax purposes.

- The tax-free amount, and
- The Employment Termination Payment (ETP)

You will only be entitled to a tax-free amount if you are under 65 years of age and that your redundancy was a genuine redundancy.

This means that there is no arrangement which would lead you to be employed again with the employer from whom you were made redundant.

The amount of the tax-free part of your redundancy amount will equal:

\$8,435 + \$4,218 for each full year of service that you completed with that employer.

The remainder of the redundancy amount will be treated as an ETP, and will be taxed according to its components and your age at the time you were made redundant.

	Under 55 years of age	55 years of age or more
Tax-free component	0%	0%
First \$165,000	31.5%	16.5%
Remainder	46.5%	46.5%

However, if the payment which you are receiving was as the result of a clause in a qualifying contract which you had in place with your employer prior to 10 May 2006, it will be treated as a transitional ETP and the tax you will pay may be lower:

	Under 55 years of age	55 years of age or more
Tax-free component	0%	0%
First \$165,000	31.5%	16.5%
Next \$835,000	31.5%	31.5%
Remainder	46.5%	46.5%

You should discuss with your adviser if you believe that you may be entitled to a transitional ETP, and whether you should rollover your transitional ETP into your superannuation fund.

Superannuation accounts

Many employees have accounts in a superannuation fund which is either managed or otherwise supported by their employer.

When the employee leaves their employer they may be required to rollover superannuation benefits which have accumulated in that fund into another fund.

Whether you are in this situation or not, leaving an employer is always a good opportunity to:

- review your current superannuation arrangements, and
- discuss with your financial adviser how you can best position your superannuation benefits for future investment growth.

Your adviser will be able to assist you in positioning your superannuation portfolio, and organising any 'rollovers' which may be appropriate.

Insurance policies

Leaving employment is also good time to review your existing insurance arrangements.

This review is particularly important if you:

1. Will be rolling out of a superannuation fund in which you have insurance cover, or
2. Hold income continuance insurance which is designed to replace your salary if you were to become sick or injured and could no longer work.
3. Are thinking of transitioning to retirement.

Your financial adviser will be able to provide a full review of your current insurance arrangements, and recommend any adjustments which need to occur with your current insurance cover.

Funding your short-term lifestyle

Although the receipt of a redundancy payment may assist you to fund your lifestyle in the short-term, you may need to consider how you and your family will fund living expenses over the longer term.

This may require you to make short-term changes to your budget, such as:

- re-aligning investment portfolios to provide you with access to more liquid assets,
- reducing mortgage payments
- ceasing regular superannuation contributions or other types of regular investment plans
- eliminating other non-essential expenditure.

If you are transitioning to retirement, there are retirement strategies which are available which may assist you to improve your retirement lifestyle.

Whatever your circumstances, your financial adviser will be able to assist you to reformulate a budget and financial strategy to meet the needs of you and your family over the coming period.

Applying for income support

The Commonwealth Government has in place a number of pensions, allowances and other forms of financial assistance which may be available to assist you in meeting your basic financial requirements.

There are generally stringent conditions attached to these payments, so you should discuss with your financial adviser whether or not you will be eligible to apply.

To locate a Consultum Financial Adviser who can assist you with your financial planning needs, visit www.consultum.com.au

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