

19

FACTS & INSIGHTS

for dealing with

REDUNDANCY



Wealth Adviser

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Before you get started

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Before acting on any information contained herein you should consider if it is suitable for you. You should also consider consulting a suitably qualified financial, tax and/or legal adviser.

Information in this handbook is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions. We would obviously love the opportunity to have that conversation with you, and at the rear of this handbook you will find information about our authorised representative and how to go about booking an appointment.

If ultimately you decide not to meet with us we still encourage you to consult with another suitably licensed and qualified financial adviser.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

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Letter from the Wealth Adviser Library

Dear Reader

Welcome to the Wealth Adviser Library

This library was built specifically to facilitate the provision of sound financial information to everyday Australians.

Our mission is to build an accessible, comprehensively supported team of members who share our vision and commitment to providing tailored financial advice and a new foundation of financial understanding and security for everyone.

With a national network of likeminded experts, we have the potential to provide the financial building blocks for future generations.

Knowledge gives you a huge advantage

We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That's why our team of experts has created this series of digital handbooks and manuals that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this publication and find it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

Take the next step

Wealth Adviser (a division of WT Financial Group Limited) supports more than 400 privately owned and operated advice practices around the country. We invite you to engage with one of our advisers to discuss what it was you were hoping to achieve when you obtained this handbook, and to establish if they can help you achieve your goals and objectives.

At the rear of this handbook you will find details on how to book an appointment.

Wealth Adviser Library

Introduction

Being retrenched from a job is not part of anyone's ideal career path. It is, however, something that will happen to many people over the course of their working lives.

Unfortunately, economic circumstances in Australia mean that often workers are experiencing the dislocation, uncertainty and confusion that comes with losing their job through redundancy. Some may see this situation as a set-back while others may see it as an opportunity. In either case it is important to assess your particular circumstances and make some financial decisions.

It is important to be familiar with the difference between redundancy and retrenchment. A job can be made redundant, which, in many cases, may lead to the person being retrenched, that is, no longer being employed by that employer as their role no longer exists.

When a person's job is made redundant and they are retrenched they may be lucky enough to receive a sizeable retrenchment payment and even luckier if they secure another position soon after. Often though, for many, retrenchment may be followed by a period of little or no income.

Retrenchment may even prompt the decision to either retire or cutback on hours of employment, opting for a lifestyle change. Whilst there is obviously no 'right' response to dealing with redundancy or retrenchment, it is important to be practical and level-headed following the event. If you can manage to make the right financial and professional decisions, redundancy and retrenchment can be successfully turned from bust to boom!

To make the right decision, you should analyse:

- Your current financial position
- The main questions and issues that you are faced with, especially those related to retrenchment payments, superannuation, possible government assistance and insurance

- Possible strategies for moving beyond redundancy and retrenchment to a secure financial future.

The purpose of this eBook is to briefly outline some of the financial issues related to redundancy and retrenchment and to identify some ways in which they can be addressed. Please remember that every situation is unique and that a guide like this can only offer general information.

If you need guidance specific to your circumstances it is strongly recommended that you consult a professional financial adviser.

Note: The rates referred to in this eBook apply to the 2017/18 and 2018/19 financial years as indicated.

Analyse your Personal Financial Needs

Your first step in designing your 'redundancy strategy' should be to obtain a good understanding of your current financial position. Having ready access to this information will greatly assist you in making solid financial decisions.

Some of the questions that you should ask yourself are:

- How much money do I need to cover my basic living expenses?
- Have I committed myself to major expenses over the short-term and over the next year?
- How much debt (e.g. home loans, personal loans, credit card debt) do I have and what does it cost me to service this on a monthly basis?
- Can I restructure my current financial commitments?
- How much money do I need to put aside in order to fund a comfortable retirement?
- Am I properly insured?

After you have written down your answers to these questions, you should then prioritise your spending commitments. A

suggestion would be to rank your commitments into groups such as 'Vital', 'Important' and 'Temporarily optional'. Doing this will help you to develop the best possible coping strategy until you can move back into full-time employment or make other arrangements and plans.

Determine the Value of Termination and Redundancy Payments

There are several kinds of payments that you may receive from your employer when your employment is terminated due to redundancy and subsequent retrenchment. These can be divided into three main categories with specific tax implications applying to each. The categories of payments are:

- Tax-free redundancy payments
- Employment Termination Payments (ETPs)
- Unused leave payments.

Each of these will now be discussed in turn.

In Tax Free Redundancy Payments:

If the termination of your employment is classed as a 'genuine redundancy' you will be eligible for a tax-free retrenchment payment. The main criteria for a redundancy being considered genuine are:

- You are under age 65
- Your role is not to be replaced by anybody else; and
- At the time of termination there was no arrangement between you and your employer to be employed in any capacity after the termination of employment (including as a contractor).

If your retrenchment package meets these criteria it is a genuine redundancy payment

and it may be paid tax free. The table below shows the tax-free limits for a genuine redundancy payment.

Financial year	Base Limit	Per complete year of service
2018/19	\$10,399	\$5,200
2017/18	\$10,155	\$5,078

For example, if you were retrenched in the 2018/19 financial year and had provided 10 completed years' service to your employer, your tax-free limit for the year ending 30 June 2019 would be:

$$\$10,399 + (\$5,200 \times 10) = \$62,399.$$

If your total redundancy payment is less than the amount reached by applying the formula, the entire payment will be tax free. If your payment is more than the amount above the tax-free threshold, it will be treated as an Employment Termination Payment (ETP), discussed next.

Employment Termination Payments:

You may be entitled to an ETP upon termination of your employment. Examples of an ETP include retrenchment payments above the tax-free amount, accrued sick leave and ex gratia payments. These payments must be taken as cash. ETP's are made up of both tax free and taxable components. The tax-free component of a life benefit ETP (i.e. paid in consequence of a person's employment as opposed to death) is received tax-free. You would only be entitled to a tax-free component if your benefit includes a pre-July 1983 segment and/or an invalidity segment. The taxable component of the ETP will be added to your assessable income. This will be taxed according to your age and the amount you receive.

The tax treatment is shown in the following table:

Your Age	Applicable Financial Year	Tax Treatment
Below preservation age*	2018/19	Up to \$205,000 – Maximum of 30% tax Over \$205,000 – 45%
Preservation age* or over		Up to \$205,000 – Maximum of 15% tax Over \$205,000 – 45%
Below preservation age	2017/18	Up to \$200,000 – Maximum of 30% tax Over \$200,000 – 45%
Preservation age* or over		Up to \$200,000 – Maximum of 15% tax Over \$200,000 – 45%

* Preservation age depends on your date of birth and the tax rate payable is dependent upon whether you were at your preservation age or older on the last day of the financial year in which you received the payment. See table in the next section of this eBook regarding preservation ages.

Note: Medicare Levy of 2% may be paid in addition to the tax payable on an ETP.

The \$205,000 (2018/19) amount is known as the ETP cap and is a limit on how much of your ETP you can receive concessionally taxed and is indexed annually.

The ETP cap applies to excluded payments. Excluded payments include:

- Genuine redundancy payments and payments that would have been genuine redundancy had you not reached your retirement age, generally considered to be age 65, and are in excess of the tax-free limit
- Early retirement scheme payments in excess of the tax-free limits

- Invalidity payments not included in the tax-free component
- Death benefit ETPs
- Compensation payments principally for personal injury, unfair dismissal, harassment or discrimination
- Payments that do not meet the ETP rules.

The ETP cap should not be confused with the whole-of-income cap, which only applies to certain non-excluded ETPs. Non-excluded ETPs include:

- Payments that do not meet the genuine redundancy rules
- Golden handshakes
- Payment for rostered days off
- Payment for unused sick leave
- Gratuities.

The whole-of-income cap is a non-indexed cap of \$180,000. As the whole-of-income cap is not indexed it remains at \$180,000

and applies to all financial years. The whole-of-income cap is reduced by any other taxable income received in the financial year (i.e. \$180,000 – Taxable Income) but cannot be reduced below zero.

If the person's non-excluded ETP exceeds this adjusted cap (i.e. \$180,000 – Taxable Income), the amount in excess of the adjusted cap is taxed at 45% plus Medicare Levy. Therefore, if a person's taxable income before receiving the non-excluded ETP is greater than \$180,000 the entire non-excluded ETP is taxed at 45% plus Medicare Levy.

Preservation age:

As mentioned in the table above, your preservation age depends on when you born.

If you were born	Preservation
before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
After 30 June 1964	60

Unused Leave Payments:

Most employees are entitled to at least some of the following payments when leaving an employer:

- Accrued Unused Annual Leave
- Accrued Unused Long Service Leave
- Final Salary - The full amount will be included in your assessable income and the taxable income taxed at your marginal tax rate plus Medicare Levy.

The tax on the accrued unused leave is determined on whether the termination of employment was due to genuine redundancy, invalidity or an early retirement scheme, or was "normal" (i.e. due

to resignation, termination due to inefficiency, retirement, etc.) and the dates the unused leave accrued.

The taxation of unused accrued annual and long service leave is shown in the following tables:

Accrued Unused Annual Leave:

Reason for Termination	Leave Actual Dates	Tax
Redundancy, invalidity or an Early retirement scheme	N/A	Included in assessable income and taxed at a maximum of 30% plus Medicare Levy.
Normal termination (i.e. due to resignation, termination due to inefficiency, retirement, etc.)	Pre-18 August 1993	Included in assessable income (i.e. taxed at marginal tax rate) plus Medicare Levy.
	Post-17 August 1993	Included in assessable income (i.e. taxed at marginal tax rate) plus Medicare Levy.

Accrued Unused Long Service Leave:

The tax for most of the payments listed will be withheld and paid to the Australian Taxation Office by your employer.



Reason for Termination	Leave Actual Dates	Tax
Genuine redundancy, invalidity or an Early retirement scheme	Pre-16 August 1978	5% of amount included in assessable income (i.e. taxed at marginal tax rate) plus Medicare Levy.
	Post 16 August 1978	100% included in assessable income and taxed at a maximum of 30% plus Medicare Levy.
Normal termination (i.e. due to resignation, termination due to inefficiency, retirement, etc.)	Pre-16 August 1978	5% of amount included in assessable income (i.e. taxed at marginal tax rate) plus Medicare Levy.
	16 August 1978 - 17 August 1993	100% included in assessable income and taxed at a maximum of 30% plus Medicare Levy.
	Post 17 August 1993	10% of amount included in assessable income (i.e. taxed at marginal tax rate) plus Medicare Levy.



Determine the Value of Termination & Redundancy Payments

Making the right decisions about what to do with your superannuation should be very high on your list of priorities after losing your job through redundancy.

Some of the things that you should consider in relation to your superannuation are whether you can:

- Remain with your current superannuation fund
- Rollover to another superannuation fund
- Start an income stream
- Have some, or all, of your superannuation paid out as a lump sum.

Determine the current status of your superannuation:

The first thing that you need to do before you can make any decisions is to verify the current status of your superannuation, as this will determine what access you have to your superannuation benefits. Your superannuation benefit may be one or combination of the following preservation conditions:

- **Preserved:** Your money will have to remain in a superannuation fund, either your current fund or another eligible fund. Preserved benefits can only be fully released if you meet a full condition of release (e.g. permanent incapacity, retirement after reaching preservation age, turning age 65, or terminal illness). If you are over your preservation age you may be able to start an income stream from your preserved benefits but would not be able to receive a lump sum benefit payment.
- **Restricted Non-Preserved:** Most funds in this category are employment related contributions made prior to 1 July 1999. If your employer contributed to the fund, it

may become 'unrestricted non-preserved' (see below) upon the termination of your employment. For the superannuation benefits to become unrestricted non-preserved an application is usually required to be made to the superannuation fund before rolling over the benefits to another fund otherwise it will remain restricted non-preserved. In all other way it is treated in the same way as a preserved benefit.

- **Unrestricted Non-Preserved:** This is the scenario where you have the most options. Your money can stay in your current fund, be rolled over into another eligible fund, have full access to the funds, and can be paid as a lump sum or be used to start an income stream.
- Understanding the status of your fund will help you decide whether or not to pursue the following options.

Receive your superannuation as a lump sum:

A major factor in deciding to receive your superannuation as a lump sum benefit payment is how much tax you will pay when doing so. The tax payable on the Taxed Element of the Taxable Component of a lump sum benefit payment is:

- **Under preservation age** – The entire amount is included in your assessable income and taxed at a maximum of 20% plus Medicare Levy.
- **Between preservation age and less than age 60** – The entire amount is included in your assessable income. However, the first \$205,000 (2018/19) is paid tax free with amounts in excess of \$205,000 taxed at a maximum of 15% plus Medicare Levy.
- **Over age 60** – The total amount is not included in your assessable income and you will not have to pay any tax on the lump sum benefit payment.
- **The amount of the Tax Free**

Component that is paid as part of a lump sum benefit payment is paid tax free.

Note: The \$205,000 for the 2018/19 financial year is indexed. The amount for 2017/18 is \$200,000.

Keep your money in your superannuation fund:

The main benefit of keeping your money in superannuation is that any investment earnings within the superannuation fund are taxed at a maximum of 15%. Further, if you receive a lump sum benefit payment after age 60 the benefit payment is paid tax free.

These are obviously significant benefits. If you do decide to keep your funds in superannuation, the next major question becomes whether you will stay with your current fund or whether you should join another eligible fund.

Rollover your benefits into a different superannuation fund:

It is sometimes the case that you have virtually no choice in having to rollover your superannuation into a new fund. This may be the case with employer sponsored funds where you have to be currently employed by the employer to be eligible for membership. In other cases, it would simply make more sense to move to a new fund (e.g. where you could expect a better return on investment or when you consolidate several funds into one in order to save on administration and fees).

It would be prudent to spend some time researching the best new 'home' for your superannuation.

Some of the things that you should consider when selecting a new superannuation fund are:

- Whether the fund has a good track record and solid management systems
- If the fund offers a variety of investment options
- If the fund is active in communicating and provides ready

access to information.

Use your superannuation to commence an income stream:

If some, or all, of your superannuation is available to you as a lump sum you could benefit from commencing an income stream (sometimes known as a superannuation pension), for example, an account-based pension.

With a superannuation income stream you receive an income stream as a series of regular payments from your superannuation fund to help you manage your income and spending.

The main benefits associated with this option are:

- Where a full condition of release has been satisfied (i.e. permanent incapacity, retirement, being over the age of 65, terminal illness) the underlying investments supporting the income stream are not taxed within the superannuation fund.
- The income stream benefit payments are paid tax free if you are over the age of 60.

A 15% tax offset based on the proportion of the income stream attributable to the Taxed Element of the Taxable Component is applied where you are aged between preservation age and less than age 60. Further, if the income stream is a disability income stream paid due to you satisfying the permanent incapacity condition of release, the 15% tax offset also applies below preservation age.

Transition to retirement

Once you have reached your preservation age (refer above) you can begin a transition to retirement income stream.

Under this arrangement, you can receive regular income stream benefit payments from your superannuation fund while you continue working.

The amount you can assess as a transition to retirement account-based pension is determined by the amount you have in your superannuation fund. The minimum that

must be paid is 4% up to a maximum of 10% of the account balance in your transition to retirement account-based pension at the start of each financial year.

Investigate the possibility of government assistance

NewStart is a government income support payment with the aim of helping those who are actively looking for work to meet their living expenses.

You may be eligible for NewStart if you are:

- Age 22 years or older and under the Age Pension age
- Actively looking for paid work
- Prepared to enter into an activity agreement
- Meet an income and assets test.

How much you receive from NewStart will be determined by several factors:

- Whether you are single or married
- Your age
- Whether you have any children
- Value of your income and assets
Determined through income and asset testing.

If you apply for NewStart, your payment will generally start after the 'ordinary waiting period' (i.e. 7 days). However, it could be the case that if you received leave entitlements or time related redundancy payments, you will also have to wait for an 'income maintenance period' to run out.

If you have liquid assets of more than \$10,000, if you have a partner or dependent children, or \$5,000, if you are single, you may also have to wait up to 13 weeks under the 'liquid assets waiting period' before payments commence. The income maintenance period and the liquid asset waiting period are applied concurrently. The way in which you manage your retrenchment payments will have a definite impact on your eligibility for NewStart.

If you want to make use of NewStart, your

first port of call should be the Department of Human Services, which is generally accessed via a Centrelink office, as they will be able to supply you with all the necessary information on the program.

Review your personal insurance needs

Leaving your current employer could mean that you cease to be eligible for certain types of insurance directly related to your employment.

Examples of insurances you may lose as a result of redundancy include:

- life, Total and Permanent Disability (TPD) and income protection cover linked to a superannuation fund, which your employer was making payments
- sick leave or insurance provided by your employer, that was not part of any superannuation fund.

Some insurance providers offer a continuation option so that you may be able to continue your insurance cover outside of the employer sponsored superannuation scheme. A continuation option typically needs to be actioned within 30 days of leaving your employer.

Ensure your insurances are adequate:

After determining whether you would be losing any insurance benefits you should do a broader analysis of your insurance needs to determine whether you are adequately covered. The meaning of 'adequate' in each case will most likely be influenced by your answers to the following questions:

- Do you have family or other dependents?
- Do you have significant amounts of debt?
- How much 'backup finance' do you have available to draw upon in case of illness or serious injury?

Designing a new insurance portfolio in response to your assessment of your current situation can be quite complex and you would be well advised to get some

professional advice in doing so. There are, however, a few basic considerations that you should take into account.

Chief considerations in reviewing your insurance needs:

- It is often possible to commence insurance cover within a superannuation fund. The main benefits of doing this are that you can make significant tax savings and, under certain conditions, premiums can be deducted from your superannuation account balance. This means that you can remain adequately insured even when faced with a severely reduced cash flow.
- It might be possible to simply continue with the insurance arrangements that were in place when you were employed. Your superannuation fund will be able to inform you whether a continuation option is available in your case.

However, as the premiums for life insurance via superannuation are paid from either the superannuation balance or contributions into the fund, it is likely that this would reduce the amount available in superannuation at retirement.

Conclusion

It should be clear from all of the above that with redundancy and retrenchment comes serious financial decisions. The way in which you make those decisions will have a definite impact on your financial future.

When you are in a position of being retrenched from your job, you need to make sure that you are well informed of your options and of the various taxation consequences and benefits available to you.

It is also strongly suggested that you receive the best possible advice as you consider the alternatives open to you. Doing so could make your transition to a new position just that little bit easier as it will allow you to concentrate on taking the next step in your career rather than having to worry constantly about your long term

financial future.

We wish you the very best in your financial future. Please contact us if we can assist you to make the right decisions, during this time.

Take the next step

We trust you enjoyed this publication and found it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

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We look forward to meeting you soon.



Appointment booking request form

About the Adviser

Please complete the Appointment Booking Request below and scan and email to:

Appointments are available Monday-to-Friday.

Please nominate your preferred day, date and time to meet with us. One of our client services representatives will call you to confirm your appointment.

Our services

Preferred appointment day and time

Day

Date

Time am/pm

Contact details

If you would like us to contact you via email to confirm your appointment or to answer any questions you have, please provide a valid email address for our records.

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Reader Notes



Reader Notes



Reader Notes



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