How to plan for a redundancy

Redundancy can be a stressful time. This seven step guide provides useful information to help you plan your best financial options.

Redundancy and redundancy payments

Redundancy is when an employer reduces their workforce because a job or jobs are no longer needed. Redundancy payments are then provided to employees who are retrenched.

If you are offered redeployment or other job opportunities within the company and don't accept them, you need to check with your HR department to see if the money you receive will be a genuine redundancy payment. If not, there could be tax implications.

There are generally two types of redundancy offers:

1. **involuntary**, where you don't have a choice, and
2. **voluntary**, where you can choose to accept your employer's offer to leave the company.

Whichever type of redundancy you've been offered, it could help to have a clear picture of your options and what you might like to do.

- **Your redundancy package** – What's included? How much money will you receive? Will you get support looking for a new role? How long until your last day?
- **Your job options** – What kind of new role would you like to do? It may be easy to get a similar role in a new company. Or it may be that your industry or the work you do is becoming less relevant. Maybe think about retraining in another area.
- **Your lifestyle options** – Can you afford not to work for a while? Do you have a partner who can support the family while you look for work? Or maybe you're thinking about retiring?
- **Your financial options** – Now could be a good time to look at your outgoings and any debts, and see how long your redundancy payment will last.

Once you've considered what you might like to do, there are some steps you can take to make the most of your redundancy payment.

Step 1: Check your entitlements

A redundancy payment can include your employment termination payments (ETPs) and/or other employer redundancy payments.

Employment termination payments (ETPs)

ETPs are taxed depending on the amount and type of payment you receive, how your employment was terminated, and your age. ETPs can 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 not classified as an ETP include:

- bona fide redundancy payments within the tax-free limit
- unused annual leave, 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.

If your employer is bankrupt or in liquidation and you do not believe you have received all your entitlements, you may be able to get help under the Fair Entitlements Guarantee (FEG). For information on this scheme, call **1300 135 040** or go to ag.gov.au/feg

Step 2: Decide what to do with the money

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

Options to consider

1. **Park the money in cash while you look for a job** – the downside is that you may be tempted to spend the money. However, it means you'll have access to your money to meet your living costs and debt obligations while you're not earning an income.
2. **Reduce or repay debt** (like your mortgage, car loan or credit card) – this can be useful if you're paying high interest rates, but it does mean you will have less money available to meet your living costs.
3. **Put your money in a mortgage offset account or redraw facility** – this can be a compromise between option 1 and option 2. You reduce the interest you pay on your mortgage and still have access to your money when you need it.
4. **Invest it or contribute to super** – if you're lucky enough to find a job quickly or have other income. You'll need to consider how long it will be until you can access your super.

All redundancy payments must be taken as cash and cannot be rolled into super. However, you can use the cash to contribute to super, subject to eligibility and the contribution caps.

Step 3: Check how much tax you'll need to pay

Genuine redundancy payments are tax free up to certain limits.

Financial year	Base limit	For each complete year of service
2023/24	$11,985	$5,994

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.

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 *Tax rates on benefits that exceed the tax-free amount* section below.

If you reach age pension age before your employment ends, 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 $75,000 in the 2023/24 financial year. This is treated as a genuine redundancy payment so the tax-free payment she can receive is:

$11,985 + (11 x $5,994) = $77,919

Kylie will not pay tax on her $75,000 payout as this is less than the tax free component of her redundancy ($77,919).

Tax rates on benefits that exceed the tax-free amount

These rates apply for genuine redundancy payments, or payments that would be a genuine redundancy except for age. In other cases, such as golden handshakes, the ETP is taxed differently.

Age	Tax on taxable component*	
Before preservation age	30%	up to $235,000
	45%	> $235,000
Preservation age and over	15%	up to $235,000
	45%	> $235,000

* The Medicare levy is payable in addition to these rates.

When you take your redundancy could affect the tax you pay

Depending on your situation, you may wish 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 isn't always possible, but you may be able to use your long service leave or accumulated leave to delay your departure date. Keep in mind that delaying your departure date would mean you receive your lump sum later, and the cost of not paying off debts or earning interest on investments should be weighed against any tax savings you might make by delaying.

This is something you can discuss with your HR department. And you may also want to get financial advice so you can consider your options.

Step 4: Assess your expenses and think about your budget

You may also want to review your budget and look at any discretionary expenses you can cut or reduce.

A budget helps 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. See Step 2 for what to do with the rest of your money.

Step 5: Check if you're eligible for Centrelink Income Support

You may be entitled to income support payments from Centrelink. These income payments are means tested, so use income and assets tests to determine if you're eligible. In most cases, if you're younger than the age pension age and you're not able to find another job, you may consider applying for the JobSeeker Payment.

If you're eligible for JobSeeker, you may have to wait for a while to receive payments depending on how big your redundancy payment is. For example, a 10-week redundancy payment may mean you have to wait 10 weeks to receive JobSeeker payments. For more information go to **servicesaustralia.gov.au**

Step 6: Decide what you'll do with your super account

You won't be receiving any super contributions while you're not working. If you decide to put some of your redundancy money into super, keep in mind that you generally won't be able to access it until you reach your preservation age and meet a condition of release.

This may be a good opportunity to review your super and make sure you're making the most of your money.

You could consider:

Consolidating your super

If you've changed jobs during your career you may have lost track of some super, or ended up with more than one super fund. To save paying fees on multiple accounts you might want to consolidate everything into one super account.

Making extra contributions

If you're close to retirement you may want to look at contributing some of your redundancy money to boost your super savings. A financial planner can help you determine if making extra contributions makes sense in your situation.

In limited circumstances, you may be able to access some of your super, although conditions do apply. For more information read *How to access to your super* available at **aware.com.au/factsheets**

Step 7: Check what happens to your insurance

It may save you money, but cancelling your health, life, income protection and house and contents policies could have long-term and unplanned consequences.

If you have insurance through your super fund, you should ask if there is an option to maintain this cover (known as a continuation option) if you change jobs. Your decision to retain your existing insurance will depend on your circumstances, but if you cancel it, you may not be able to get new cover (depending on your medical history).

You'll also need to check if your premiums will rise after you stop working as an employee. Usually, insurance through your super fund is very cost-effective. Before you make a decision regarding your insurance cover, consider talking with a financial planner.

Some employees may also have group insurance policies directly with their employer. Again, you should confirm if there is a continuation option which, depending on your circumstances, may be right for you.

Consider seeking financial advice

We're here to help you get the right help, right now. If it's advice about your Aware Super accounts you're after, than it's included in your membership, so there's nothing extra to pay.

If your circumstances are more complex, consider tailored advice and planning from our qualified planners. They can show you how to arrange your affairs to qualify for relevant Centrelink entitlements. They can also give you advice about how to set up and manage your investments (including any life insurance you have) so you're not set back by your redundancy and stay on track with your retirement plans. This service does cost extra, but your first meeting is obligation free. Once we assess your needs, we'll tell you exactly how much you'll pay for our advice – there are no hidden surprises.

Book online at **aware.com.au/advice** or call **1300 650 873** to arrange an appointment.

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