A guide to managing redundancies 2017/18

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this guide may help you effectively manage your new financial position.

Contents

Important information

The information and strategies provided are based on our interpretation of superannuation, social security and taxation laws as at 1 July 2017. Because the laws are complex and change frequently, you should obtain advice specific to your own personal circumstances, financial needs and investment objectives before you decide to implement any of these strategies.

If you wish to rely on the general tax information contained in this guide to determine your personal tax obligations, we recommend that you seek professional advice from a registered tax agent.

Making a fresh start

If you are leaving your employer due to redundancy, you have a great opportunity to make a fresh start.

You could work for a different organisation or pursue a different role in the same industry.

You could even think about a career change, become self-employed or consider retiring.

Regardless of what your next steps might be, this guide may help you effectively manage your new financial position throughout this process.

To do this, we suggest you follow these three steps.

1. Read about the payments you may receive from your employer and the tax implications.
2. Consider the financial issues likely to be relevant to your age and work aspirations thereafter.
3. Speak to a financial adviser to find out how you could better manage your redundancy payments.

Payments from your employer

Regardless of what you plan to do next, it's important you understand the types of payments you could receive from your employer and the tax implications.

Overview

When you leave an employer, you may be entitled to a range of payments. In this section we outline the tax implications if you're departing due to a genuine redundancy. This will generally be the case if:

- you are under age 65
- your employer has determined that your position no longer exists, and
- you are not replaced by another employee.

What is considered a 'genuine redundancy ' for taxation purposes is complex. Please visit the ATO website at **ato.gov.au** for more information.

Some of the information in this section will not be relevant if you are leaving your employer voluntarily (eg if you are resigning or retiring).

Types of payments

The types of payments you may receive in the event of a genuine redundancy include:

- a genuine redundancy payment
- an employment termination payment, and
- other termination payments, such as unused annual and long service leave.

Genuine redundancy payments

Genuine redundancy payments are tax-free up to a limit based on your full years of service with your employer. The amount exceeding the tax-free limit is classified as an Employment Termination Payment (ETP) – see page 6.

The tax-free amount of a genuine redundancy payment is determined by a formula, which in the 2017/18 financial year is:

$10,155[1] + ($5,078[1] x each completed year of service)

Example

If you have been with your employer for five and a half years, the maximum tax-free redundancy payment you can receive is calculated as follows:

$10,155[1] + ($5,078[1] x 5) = $35,545

If you are entitled to a genuine redundancy payment of $30,000, the entire amount is tax-free, as it is within the threshold of $35,545 determined by the formula. However, if your redundancy payment is $50,000 instead, then $35,545 is tax-free and the remaining $14,455 is treated as an ETP.

1 These thresholds apply in the 2017/18 financial year and may be indexed on 1 July of each year.

Payments from your employer

Employment Termination Payments

An Employment Termination Payment (ETP) is a lump sum payment you may receive when your employment arrangement has come to an end. Examples include:

- genuine redundancy payments exceeding the tax-free limit (see page 5)
- unused sick leave
- unused rostered days off
- payments in lieu of notice, and
- golden handshakes (also known as 'ex-gratia' payments).

The following table summarises the tax rates payable in the 2017/18 financial year on ETPs that are received as a result of a genuine redundancy or other involuntary terminations of employment[2].

Component	Tax payable[2]
Tax free	Nil
Taxable[3]: • If under preservation age[4]	First $200,000[5] taxed at 32%[6] and excess taxed at 47%[6]
• If preservation age[4] or over	First $200,000[5] taxed at 17%[6] and excess taxed at 47%[6]

Note: An ETP must generally be made within 12 months of terminating employment in order to qualify for concessional tax rates.

Other Termination Payments

Other payments you receive from your employer may include unused annual leave and long service leave[7]. The following table summarises the tax treatment of these payments in the 2017/18 financial year in the event of a genuine redundancy.

Payment	Tax treatment[8] in the event of a genuine redundancy
Unused annual leave	100% of payment taxed at maximum rate of 32%[6]
Unused long service leave[7]: • Pre 16/08/1978 service	5% of payment taxed at your marginal rate
• Post 15/08/1978 service	100% of payment taxed at maximum rate of 32%[6]

2 A different tax treatment may apply to payments received when leaving an employer voluntarily and payments received for a redundancy which is not considered genuine.

3 If you receive an ETP not in circumstances of genuine redundancy/approved early retirement, an additional cap (called the "whole of income" cap) may also apply to the taxable component of ETPs. The whole of income cap rules are complex. Please visit the ATO website at ato.gov.au for more information.

4 Preservation age is 55 for those born before 1 July 1960 and gradually increases to 60, depending on your date of birth. Please visit the ATO website at ato.com.au for more information.

5 This is the ETP cap. This cap is current for 2017/18 and is an annual limit that applies to all ETPs received as a result of a genuine redundancy or other involuntary terminations of employment in a financial year (or related to that year). The ETP cap rules are complex. Please visit the ATO website at ato.gov.au for more information.

6 Includes Medicare Levy.

7 In some cases, you'll need to have worked for your employer for at least 10 years to qualify for long service leave. However, some employers have a statutory obligation to pay pro-rated long service leave if you are made redundant after five years of service.

8 This tax treatment also applies in the event of permanent disability or approved early retirement. If you leave your employer in other circumstances (eg upon resignation), different tax rates may apply to unused annual leave and long service leave payments.

When tax is paid

Tax on ETPs and other termination payments is deducted by your employer and remitted to the ATO. You are required to include the payment amounts in your tax return. For more information, please speak to a registered tax agent or visit the ATO website at **ato.gov.au**.

Financial issues to consider if you plan to continue working

If you plan to find a new job or become self-employed, it's important you address these key questions. If you plan to retire, turn to page 10.

How will you meet your living expenses?

You may need to use the payments you receive from your employer and possibly some savings to meet your living expenses while you look for another job.

If you meet certain conditions, you may be eligible to receive the Newstart Allowance (see below).

If you are preservation age[1] or over, you may be able to use your super to start a 'Transition To Retirement' (TTR) pension. This may be worth considering if you have used up your other available resources (see page 9).

Where can you put your employer's payments?

It may be important to be able to access the money you receive from your employer easily.

You may therefore want to keep the money in your regular bank account or transfer some of it into an online savings account.

But if you have a home loan, you may like to put this money in an offset account which is linked to your mortgage.

This will reduce the balance on which the home loan interest is calculated and can provide some interest savings.

By doing this, you can effectively 'earn' a better return than what a bank account can offer and still be able to access this money to meet your other living expenses.

What is the Newstart Allowance?

Newstart Allowance is a social security allowance for eligible job seekers who are in genuine need of Government assistance to help meet their basic living expenses.

To be eligible for Newstart Allowance, you must generally attend an interview and be prepared to disclose evidence that your employment arrangement has come to an end.

You must also satisfy a number of tests. These include income and assets tests, a liquid assets test and an activity test.

You might also have to comply with the 'Mutual Obligation Requirements' which are designed to help you get back to work faster.

The allowance is currently up to $483.60[2] per fortnight for each member of a couple and $535.60[2] per fortnight for a single individual with no children.

To find out more about the Newstart Allowance and other income support payments, go to the Department of Human Services website at **humanservices.gov.au** and select 'Job Seekers' on the home page or phone **132 850**.

1 Preservation age is 55 for those born before 1 July 1960 and gradually increases to 60, depending on your date of birth. Please visit the ATO website at ato.com.au for more information.

2 Current as at 20 March 2017. Rates may be indexed on 20 March and 20 September of each year.

Financial issues to consider if you plan to continue working (continued)

Will you need to move your super to another fund?

Even if you can't (or don't want to) access your super now, you may still have to move your money into a new fund or another division of the same fund.

This is more likely to be the case if your former employer has been contributing into a fund they arranged or selected for you.

The fund administrator will let you know if you need to take any action by a certain date. This is particularly important if you want to continue certain benefits without letting them lapse (eg Life and Total and Permanent Disability insurance currently held inside super).

Do you have multiple super accounts?

If you are a member of several super funds, now may be a good time to consider the benefits of merging them. These could include saving on fees, cutting back on the amount of paperwork you receive and taking greater control of your super and retirement planning.

Do you have any insurances connected with your job?

You should find out if any insurance policies you own will cease when you leave your employer and consider restructuring them so that you and your family continue to be adequately covered.

You may have had an insurance policy held inside the superannuation fund that your employer was contributing to for you.

Many life companies will allow you to continue your cover under your own personal contract, with little to no medical assessment.

However, this offer usually has an expiry date. This offer is commonly called a 'continuation option'. Contact your former employer, superannuation fund or life insurer to see if this offer is available to you.

Do you have any personal insurance policies?

It's also important to continue any insurance policies you have arranged yourself. If your next job differs to the role from which you were made redundant, you may also need to let your insurer know.

If things are tight while you look for another job, there are some things you could do to make your cover more affordable. For example:

- if you selected a 'premium waiver option' when you took out your insurance, you may not be required to make premium payments for a pre- determined period of time after you are made redundant, or
- you may be able to re-arrange your policy so that the premiums are paid from your super fund, not from your bank account.

You should contact your insurer to see what features and options are available that could help you retain the cover you need rather than let the policy lapse and potentially place your family's future at risk.

You should also think twice before you cancel a policy if you have been paying a level premium for a while. This is because level premiums are based on your age when the policy commenced so you could end up paying a higher level premium if you let the policy lapse and start a new one at a later date.

Financial issues to consider if you plan to continue working (continued)

What issues should you consider when you start working again?

If you still have a mortgage, you may want to retain any leftover redundancy payments in an offset account or use this money to make a one-off loan repayment.

If you don't have any debts, you could consider investing any leftover redundancy payments and any of your surplus cashflow within or outside of superannuation.

Super can be a tax-effective way to save for retirement. This is because you may be able to:

- arrange with your new employer to contribute[3] some of your pre-tax salary into super, or
- claim personal super contributions[3] as a tax-deduction.

Also, investment earnings in super are generally taxed at a maximum rate of 15%.

However, saving more in super may not be suitable if you need to access the money and you have not met a 'condition of release', such as reaching your preservation age[4] and permanently retiring.

What is a Transition to Retirement pension?

A Transition to Retirement (TTR) pension is a type of superannuation pension that allows you to access your superannuation as an income stream from preservation age[4] or over, without having to fully retire.

A TTR pension could help you to:

- make ends meet while you look for another job, or
- top-up your income if you get a part-time job, receive a lower salary or work reduced hours.

Earnings from investments held in TTR pensions are taxed at a maximum rate of 15%. If you are between preservation age[4] and 59, the taxable component of pension payments you receive will be taxed at your marginal rate, less a 15% tax offset[5]. If you are 60 or older, all pension payments will be tax free[5] and you won't have to include these payments in your income tax return.

The amount of income that can be received from a TTR pension is capped at 10% of the account balance each year and a minimum income must be received, which for people preservation age[4] to 64 is currently 4%[6].

To find out how you could make the most of the payments you receive from your employer, you should consider speaking to your financial adviser and/or a registered tax agent.

3 Contribution caps limit how much you can put into super each year and penalties may apply if you exceed these limits. Please visit the ATO website at ato.gov.au for more information.

4 Preservation age is 55 for those born before 1 July 1960 and gradually increases to 60, depending on your date of birth. Please visit the ATO website at ato.com.au for more information.

5 Assumes the payment is paid from a taxed super fund.

6 Higher minimum pension amounts apply after age 65 depending on your age.

Financial issues to consider if retiring

If you plan to retire after becoming redundant it's important you address these key questions.

Do you have any debts?

You may decide to use some (or all) of your redundancy payments from your employer to reduce your outstanding debts.

You may also need to withdraw some of your super[1] to ensure you pay off your debts completely.

If you are aged 60 or over, you will not pay tax on super withdrawals[2]. But if you are aged between preservation age[3] and 59, tax of 17%[4] may be payable on lump sum withdrawals exceeding $200,000[5].

What are you going to do with your super?

While it may be tempting to withdraw your super as a lump sum payment and invest outside super, this may not be the best strategy.

As stated above, you could pay tax on super lump sum withdrawals if between preservation age[3] and 59. Also, if you invest the money in your own name, earnings will be taxed at your marginal tax rate of up to 47%[6].

For many people, using their super to start a 'retirement phase' pension can be a more tax-effective strategy.

What is a 'retirement phase' pension?

A 'retirement phase' pension is a pension that can be started with superannuation money when you have met a full condition of release, such as reaching your preservation age[3] and permanently retiring.

No tax is payable on investment earnings in the fund. However, there is a limit on the amount that can be transferred into retirement phase pensions over your lifetime. This limit is known as the 'transfer balance cap' and it is $1.6 million in 2017/18.

If you are aged from preservation age[3] up to age 59, the taxable component of pension payments you receive will be taxed at your marginal rate, less a 15% tax offset. If you are 60 or over, all pension payments will be tax-free[2] and you won't have to include these payments in your income tax return.

A minimum income payment must be received each year that depends on your age. This minimum is currently 4% of the account balance for people between preservation age[3] and 64 and higher minimums apply from age 65.

Are you eligible for the age pension?

Generally, if you are aged 65 or over, you may be eligible for the age pension.

To qualify, you will need to meet an income and assets test and satisfy certain other conditions.

To find out more about the age pension, go the Department of Human Services website at **humanservices.gov.au** and select 'Older Australians' on the home page, or phone **132 300.**

1 Assumes a 'condition of release' has been met, such as reaching preservation age[3] and permanently retiring.

2 Assumes the payment is made from a taxed super fund.

3 Preservation age is 55 for those born before 1 July 1960 and gradually increases to 60, depending on your date of birth. Please visit the ATO website at ato.com.au for more information.

4 Includes Medicare Levy and assumes withdrawals have been made from a taxed super fund.

5 This cap applies in 2017/18 financial year and may be indexed in future financial years.

6 Includes Medicare Levy.

The value of seeking advice

Financial advice can be invaluable in helping you assess your options and make the right decisions.

The value of advice

After reading this guide, you may have lots of questions to ask and want to make sure you make the right financial choices.

If that's the case, we recommend you speak to a financial adviser, who could help you:

- decide what to do with the payments you are eligible to receive from your employer
- make the most of your super, to help you become financially secure in retirement
- ensure you and your family are adequately protected in the event of death or disability, through having appropriate insurance policies in place, and
- determine whether you are eligible for any Government income support payments.

An adviser can also help with a range of other needs including:

- improving your cashflow
- growing your investments
- managing your debt, and
- addressing your estate planning.

We believe in the difference financial advice can make to achieving your financial and lifestyle goals.

For more information call MLC from anywhere in Australia on 132 652 or contact your financial adviser.

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