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Career transition guide

This guide has been designed to assist employees facing the prospect of retrenchment, redundancy, or any other form of employment cessation. It provides important and relevant information that can be helpful in structuring financial affairs effectively, coping with emotional upheaval, and putting in place successful strategies for a new beginning.

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Introduction

In today's economic environment, the prospect of redundancy can become an unexpected reality or an unsettling concern for many.

We all have a lifestyle to maintain, some with dependants, and many with financial commitments such as mortgages, personal loans, and other obligations that require us to generate an income. Should your source of income suddenly cease, this could have a dramatic impact on your financial wellbeing and even serious consequences depending on your personal circumstances.

Redundancy can occur for any number of reasons. You may decide to leave your employer by accepting a voluntary redundancy, or you may be made redundant due to forces that are beyond your control – for example when your employer is forced to reduce headcount due to financial costcutting.

However redundancy doesn't have to be a cataclysmic event. For many people, redundancy can be an opportunity to reflect upon your achievements, re-evaluate your goals and career aspirations, and to plan a new path forward for the future.

Regardless of your current situation and future intentions, you will need to make some important decisions about your finances. This includes any redundancy or employee termination payments that you may be entitled to, your expenses, and how you can structure your affairs tax-effectively moving forward.

The choices you make now could have a significant impact on your financial position in the future. That's why it's important to get the right advice. We've developed this guide to assist you in coming to terms with the implications of redundancy, understanding any financial payments that you may be entitled to, and to provide you with general information about the options that may be available to you.

Once you've had the opportunity to review this guide, please contact us to discuss your own situation.

Coming to terms with redundancy

Like the end of any relationship, the unexpected termination of your employment can lead to feelings of grief and despair.

It is important to understand that these emotions are natural and, in time, will pass. Whether you are consciously aware of it or not, you may be grieving the loss of a network of friends, social status, a comfortable lifestyle, a comfort zone, peace of mind, an appreciation of self-worth, or even your dreams and ambitions.

Job loss can be a very stressful experience. Friends and family may be able to offer emotional and financial support while you assess your situation and options, and professional counselling may also be beneficial should you feel overwhelmed by your predicament.

Important considerations

Redundancy and early retirement involve important financial decisions that can only be made with consideration given to your personal circumstances. This involves:

1. Assessing your financial position and your ability to meet your financial commitments
2. Identifying and securing any employer payments that you may be entitled to
3. Understanding how redundancy may affect your superannuation
4. Identifying any Government assistance you may be entitled to
5. Understanding/assessing your personal insurance
6. Planning the way forward

Let's examine these considerations in further detail. While you progress through this guide, think about how these factors may relate to your own situation and the financial decisions you need to make.

Assessing your financial position

Gaining a sound understanding of your current financial position is the first and most important step in laying the foundations for a clear direction moving forward. This involves:

Identifying your living expenses

It is important to establish the full extent of your living expenses prior to, or upon redundancy. If you have not secured another source of employment, or plan to retire, you will need to ensure you have sufficient funds to accommodate your day-to-day living expenses. This may include the cost of utilities, transportation, fuel, vehicle maintenance, groceries and so on.

Quantifying your debt

Depending on the level of termination payout you receive upon redundancy, using the funds to pay off your mortgage or any other form of debt, partially or entirely, can seem like a sensible idea, however it is important to consider the taxation implications that may be applicable. Once you have quantified the extent of your debt, your financial adviser will be able to advise you accordingly as to the most tax-effective strategy.

Planning for future expenses

If you have already committed to future financial expenses such as an overseas trip or new vehicle purchase contract, it is important to have funds readily available to accommodate these commitments. In addition, it may be prudent to have an excess sum of money set aside for unexpected financial expenses that may arise in the future.

Do you have sufficient funds for retirement?

While redundancy may offer some people the opportunity of early retirement, for others ongoing participation in the workforce may be a financial necessity before retirement can become a feasible option.

Do you have adequate insurance?

Many Australians underestimate the level of insurance cover they need, which can have disastrous consequences in the event of an unexpected injury or illness. Certain types of insurance cover may cease upon termination of your employment, so it is important to review your insurance needs and requirements upon redundancy in order to ensure your ongoing needs are adequately covered in the event of death or disability.

Securing employer payments

When you leave your employer you may receive a range of payments. The payments you receive will depend on the circumstances surrounding your departure and your employment agreement.

The taxation of these payments will depend on whether the payment is classified as an 'Employment Termination Payment' (ETP) and if so, whether the payment was made solely as a result of redundancy.

The types of payments you could receive are listed below:

Table 1 – Summary of payments typically received upon redundancy

These payments are ETPs	These payments are not ETPs
■ Genuine Redundancy and Early Retirement Scheme payments in excess of the tax-free amount ■ A gratuity or golden handshake ■ Payments in lieu of notice ■ Unused rostered days off ■ Unused sick leave	■ Genuine Redundancy and Early Retirement Scheme payments within the tax-free amount ■ Unused annual leave ■ Unused long service leave

Payments which are classified as ETPs are subject to a common set of rules on how they are taxed. In contrast, payments that are not ETPs are subject to specific taxation based on the type of payment.

Let's examine some of these types of payments in further detail and how they may apply to you.

Payments that are ETPs

Genuine redundancy payments

These payments are made when your job is genuinely made redundant – sometimes referred to as "bona fide" redundancy. Essentially this means that your position is being made redundant if the tasks you perform are no longer required, or are required in a different form or at a different location. The concept of 'genuine' redundancy refers to the job function ceasing as opposed to you losing your job for other reasons. If you are leaving your employer as a result of genuine redundancy, some or all of your redundancy entitlement will be tax-free and payable in cash. However some conditions usually apply.

Approved early retirement schemes

Early retirement schemes usually apply to a group of employees that fall within a certain category (or categories), for example; a group of employees that perform a particular job function or perform their role at a particular location. Early retirement schemes are usually initiated by the employer but must be submitted to the Australian Taxation Office (ATO) for evaluation on a case by case basis. For the purposes of redundancy planning, it doesn't really matter whether your termination of employment is the consequence of genuine redundancy, or an approved early retirement scheme, as the taxation considerations and social security implications are essentially the same.

Tax-free portion of your genuine redundancy or early retirement scheme payment

Only the amount of genuine redundancy or early retirement scheme payments that exceed the tax-free portion are classified as ETPs.

In order to calculate the tax-free portion, take the figure of $10,989 and add $5,496 for each full completed year of service with your employer 1. For example, if you have been employed for 10 years, you will be entitled to receive a maximum tax-free redundancy payment of $65,949. In this situation, if your genuine redundancy or early retirement scheme payment totalled $70,000, $4,051 would be treated as an ETP.
If the dollar value of your redundancy payment falls under the amount determined using the above calculation, the entire amount will be tax-free and not classified as an ETP.

Other types of employer termination payments

You may also be eligible for other forms of termination payments. These commonly include unused rostered days off, unused sick leave or personal injury payments. As these payments are classified as ETPs, they are also subject to the same tax rules as are genuine redundancy and early retirement scheme payments exceeding the tax-free portion.

Taxation of ETPs

Generally speaking ETPs are taxed at the following rates:

Age	Tax Rate	%
If you are aged under preservation age	Up to the first $215,000 ^ Any remaining amount	32%* 49%*
If you have reached preservation age	Up to the first $215,000 ^ Any remaining amount	17%* 47%*

^ This cap is indexed annually in $5,000 increments

* Includes Medicare levy and the Temporary Budget Repair Levy

Up to the first $215,000 of your ETP is taxed at a more concessional rate of tax; this is referred to as the ETP cap. In practice, this cap may be less depending on whether your ETP was received as a result of genuine redundancy or an approved early retirement scheme, and the taxable income you generate during the year in which you received your ETP.

For example, given the nature of a gratuity or golden handshake made on a voluntary resignation, this payment may not benefit from the concessional rates of tax.

In certain circumstances, it may be possible to optimise the tax outcome by deferring your redundancy, if it includes non-redundancy payments.

Payments that are not ETPs

Generally, payments that are not ETPs are subject to their own specific rates of tax. For instance while the tax-free portion of a genuine redundancy or early retirement scheme payment is naturally tax-free, payments for unused annual leave and long service leave are taxed at the following rates:

Type of payment	Taxation implication in the context of genuine redundancy	When tax is payable
Accrued annual leave	100% of your entitlement is taxed at a maximum rate of 32%*	This is deducted by your employer
Accrued long service leave – for service up until 16 August 1978	5% of your entitlement is taxed at a marginal tax rate	Payable when you file your tax return
Accrued long service leave – for service after 15 August 1978	100% of your entitlement is taxed at a maximum rate of 32%*	This is deducted by your employer
Accrued long service leave - for service post 17 August 1993	100% of your entitlement is taxed at your marginal tax*	This is deducted by your employer

* This includes a Medicare levy of 2%.

1 Please note, these thresholds are indexed annually in line with AWOTE (Average Weekly Ordinary Time Earnings).

Redundancy and your superannuation

You should also consider the impact of a redundancy on your superannuation.

For instance, you may need to transfer your superannuation into a new fund, or you may wish to withdraw some of your superannuation as a lump sum payment.

Accessing your superannuation

There are various criteria you need to meet in order to pursue different strategies, as well as corresponding taxation implications. The first step is to identify whether you are eligible to access the funds you have accumulated in superannuation. This is determined by your date of birth and is sometimes referred to as your "preservation age." Other conditions of release may also apply.

Date of birth	Preservation age
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

You can find out what your preservation status is by contacting the administrator of your superannuation fund. There may be a number of options available to you so it is important to discuss these and the associated implications with your financial adviser.

Typically, the options available to you will fall within one of the following categories:

1. Preserved

Preserved status applies if you are yet to reach preservation age (as specified in the preceding table) and/or you intend to find new employment. If you are deemed to have "preserved status," you will usually have to keep your accumulated superannuation funds within an accumulation account.

You will not be able to withdraw any of your accumulated superannuation held in your employer's fund as cash at the time of your redundancy.

2. Non-preserved

Unrestricted non-preserved status generally applies when you have reached preservation age and intend to retire. There are a number of options available to you under unrestricted non-preserved status and some of these options will depend on your employment status.

For instance, you may be eligible to receive your accumulated superannuation as a lump sum payment, or you may be able to create an income stream from your superannuation fund.

The transition to retirement measure allows people who have reached their preservation age but have not retired, to have access to their superannuation benefits without having to retire or leave their job.

This measure allows people to access their superannuation savings by drawing down a non-commutable superannuation income stream, called a transition to retirement income stream.

How much tax will you pay if you decide to redeem some or all of your superannuation?

If you decide to withdraw some or all of your accumulated superannuation as a lump sum payment, you will be taxed according to your age and the amount withdrawn.

Component	Tax Rate
Tax-free component	Nil
Taxable component	
■ If you are less than your preservation age	22%*
■ Between preservation age and 60	First $195,000^ is tax-free and the remaining excess is taxed at 17%*
■ If you are aged 60 or more	Nil

Notes:

Lump sum payments received if you are 60 years of age or more do not need to be included in your tax return.

* This includes a Medicare levy of 2%.

^ This lifetime cap is indexed periodically in accordance with adjustments in AWOTE in increments of $5,000, and only applies to the taxable portion of your lump sum.

Get the right advice about your superannuation

Superannuation is a complex area that requires specialist advice. You will face a number of important decisions to make about your superannuation upon redundancy, so it's important to get the right advice to ensure that the decisions you make are in your best interests and are consistent with your future retirement plans.

Government assistance

The advent of redundancy presents the opportunity to reassess your career goals and objectives. You may decide to pursue a new career direction in terms of your skills and employment. If you do not already have another job lined up, you may be eligible to receive financial support from the Government via the JobSeeker Payment.

You may be eligible for the JobSeeker Payment if you are:

- aged 22 or over, and under the Age Pension age, and
- looking for paid work, and prepared to enter into an activity agreement, and
- not involved in industrial action.

You will need to satisfy an income and assets test. In terms of the income test, income from a range of sources will be taken into account. This can include, but is not necessarily limited to, your personal income (such as a salary or wages) as well as any income you receive from investments (such as investment property rental income or dividends from shares).

The asset test will vary depending on whether you are a home owner or not. You may also be eligible to apply for a hardship grant if you have a certain dollar value of assets but very little income.

The extent of Government assistance offered under the Newstart Allowance will also vary depending on whether you are single, or part of a couple, your age, and whether you have any children. You may also be eligible to receive rental assistance.

How long will you have to wait to receive the JobSeeker Payment?

The ordinary waiting period before the JobSeeker Payment will commence is seven days. However other waiting periods may apply, for example in the following circumstances:

Income maintenance period

With this period, your payment is generally delayed from the date you received any leave entitlements and/or a time related redundancy payment up until the conclusion of the period covered by these entitlements. There is no limit on the length of the income maintenance period. It is common for the income maintenance period to apply for a period of six months to two years.

Liquid assets waiting period

This waiting period applies if you have money available to you (liquid assets) of more than $11,000 if you have a partner or dependent children or $5,500 if you are single on the day you or your partner became unemployed or unable to work because of sickness or accident.

This waiting period can apply for up to 13 weeks.

Will redundancy payments affect your eligibility for the JobSeeker Payment?

Any payments you invest outside superannuation will usually be assessed under the income and assets tests. However, it is important to note that any money held in a superannuation fund will not be counted until you reach Age Pension age. Accordingly, you may be able to maximise your JobSeeker Payment entitlement if you elect to:

- Make additional after-tax contributions into superannuation from the redundancy payments you receive from your employer
- Retain unrestricted non-preserved accumulated superannuation funds within a superannuation fund.

Planning the way forward

While redundancy may cause a great deal of emotional distress and financial upheaval, there are some clear steps you can take to ensure your personal wellbeing and your family's interests are protected and maintained. Regardless of whether you intend to retire or look for a new job, the first and most important step is to seek advice from a qualified financial adviser.

A qualified financial adviser can accurately assess your situation and provide you with the right advice in relation to your redundancy entitlements, the taxation implications associated with the various options available to you (depending on your age and other circumstances), and provide you with a clear direction forward.

Naturally this advice is based on a sound understanding of the conditions of your redundancy, your personal situation and lifestyle objectives in the future.

This can include advice in relation to:

- Quantifying the payments you are entitled to according to the circumstances of your redundancy
- Minimising the tax that you may have to pay from your redundancy entitlements via tax-effective strategies
- Assisting you with your superannuation and how this may be best structured in the context of redundancy and retirement needs
- Managing any debt and other financial outgoings
- Ensuring you have adequate insurance cover to protect you and any dependants in the event of your death or disability
- Improving your cashflow and potentially creating an income stream through superannuation (depending upon your age and eligibility)
- Reducing your ongoing taxation obligations
- Structuring or re-structuring an appropriate investment portfolio
- Protecting and maintaining your investments
- Ensuring you have an appropriate estate plan in place

Take control of your situation

If you are facing the prospect of redundancy, the most important decision you can make right now is to take control of your situation. With the right guidance and direction you can ensure that you receive all the financial benefits you are entitled to and put in place a plan that accommodates your immediate needs and requirements as well as your longer term lifestyle objectives.

We believe that sound financial advice is the cornerstone of a comfortable lifestyle ahead. We invite you to take the first step towards a secure financial future. Call us today to arrange an initial obligation-free appointment to discuss your situation.

Your personal insurance

It is fairly common for employees to have some form of personal insurance such as income protection, or death and permanent disability as part of their superannuation arrangements with their employer. When you leave your employer as a result of redundancy these arrangements may cease.

Therefore it is important to review your insurance requirements as soon as possible to ensure that you and any dependants are suitably covered, particularly in the context of your new circumstances moving forward.

Your financial adviser can assist you in ascertaining the level of insurance cover you need according to your personal situation. Naturally this will be affected by your future intentions and whether you intend to retire or remain in the workforce.

For instance, if you intend to remain in the workforce, you may be eligible to secure insurance cover from a superannuation fund using 'before tax' salary sacrifice contributions.

You can also have the insurance premiums deducted from your existing accumulated superannuation funds without necessarily having to make additional contributions to cover the cost of your new insurance cover.

This approach essentially provides you with an affordable way to fund insurance cover if you wouldn't otherwise have sufficient cash to pay insurance premiums while looking for a new source of employment.

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