

What is the best way to manage your finances after *accepting a redundancy offer?*

When you accept a redundancy offer you may receive a number of payments including a redundancy payout, other non-super or 'ordinary' money, and superannuation. Correct use of these monies should enable you to optimise your finances during any period of unemployment and your re-entry to the workforce.

Considerations if you will be unemployed

- **Your redundancy payment:**

This payment may have two components. The first is the non-taxed component. It cannot exceed \$8,435 plus \$4,218 for every year of completed service.

You may also receive a second component called an Employer Termination Payment (ETP). Any part of this ETP that relates to pre-July 1983 service will be tax free, and the remainder will be taxed as follows:

- If you are over 55 it will be taxed at up to 16.5% up to \$165,000, and at 46.5% above that.
- If you are under 55 it will be taxed at up to 31.5% up to \$165,000, and at 46.5% above that.

You cannot 'roll over' this payment into superannuation.

- **Your other non-superannuation payments:**

This money usually comes from payments in lieu of annual leave and long service leave and is generally subject to tax of up to 31.5%. It cannot be rolled over into a super fund.

- **Your preserved superannuation:**

Some or all of your superannuation may be 'preserved'. This means it must remain in the superannuation system at least until you are 55 years old. This money should therefore be invested to generate greater returns over the long term. You need to consider which asset allocation and investments will help you to do that.

- **Your non-preserved superannuation:**

If you have any superannuation money which is not 'preserved', it might be prudent to roll it over into a super fund which has a no-fee cash option. This will give you easy access to the money if you need it whilst you are unemployed... and it may help you to qualify for Centrelink benefits and save tax.

Case Study: Qualifying for Centrelink benefits whilst unemployed

Jane, 45, has just accepted a redundancy offer. Her husband, Bill, is a home-maker who looks after the couple's two young children. Jane receives the following payments:

Holiday pay (after tax)	\$25,000
Employer termination payment (after tax)	\$61,650
Preserved super	\$120,000
	\$206,650

Jane and Bill have a mortgage that still has \$160,000 outstanding. They have recently received an inheritance of \$120,000 that they were intending to use as a deposit on an investment property before the unexpected redundancy. Jane expects to be unemployed for a while because she has skills which suit an industry which is in a downturn. However, Jane's non-super payout of \$86,650, plus the \$120,000 inheritance and the \$60,000 value of their car and home contents, means she exceeds the Newstart Allowance assets test cut-off limit for a married homeowner.

Our advice to Jane might be:

- Park the \$120,000 inheritance and \$20,000 of cash in their mortgage which has a re-draw facility
- Put the balance of \$66,650 of non-super money into a cash account
- Roll over the \$120,000 of preserved super into a super fund with an appropriate asset allocation for the long term
- Value their car and home contents at \$30,000 (i.e. at garage sale value) for Centrelink purposes.

The couple's assessable assets for Centrelink are now only \$96,650 and they should qualify for benefits of \$22,292 p.a. after a 13-week waiting period.

- **Your mortgage and other debts:**

If your mortgage has a re-draw facility, it might pay to park some of your payments there. This strategy could save you interest and tax, and may help you to qualify for Centrelink benefits. And, importantly, the re-draw facility should mean you can withdraw money as you need it.

If your mortgage does not have a re-draw facility, consider making only the minimum monthly repayments. The same advice applies to your other debts. The objective is to help you keep as much cash in reserve as possible while you are looking for a new job.

- **Qualifying for Centrelink benefits:**

You may qualify for Newstart Allowance if you are aged 21 or over and under Age Pension age (65 for a man and 64 for a woman), are unemployed, and satisfy the income and assets tests.

It's important to note the following are not assessed as assets by Centrelink:

- Your home and improvements you make to it
- Your superannuation (while you are less than Age Pension age)
- 'Ordinary money' you invest into a super fund (while you are less than Age Pension age)
- Money you place in a mortgage account with a re-draw facility.

Note that a waiting period usually applies before you can begin receiving Newstart Allowance.

Considerations on re-entering the workforce

- **Your superannuation:**

All of your superannuation should be invested to generate greater returns over the long term. You need to consider which asset allocation and investments will help you to do that. A Self Managed Super Fund may be an option for you.

- **Your wealth and retirement planning:**

You may need to seek financial advice to determine how much you now need to be contributing to superannuation and other investments in order to achieve your wealth and retirement objectives. Other strategies such as investment gearing might also be considered.

- **Your mortgage and other debts:**

A prudent strategy can be to use your cash reserves to repay some or all of your mortgage and/or other debts once you are re-employed. This could save you a significant amount in interest repayments, and free up salary to fund other investment strategies.

- **Your risk insurance:**

You may need to re-apply for health, life, trauma, TPD and/or income protection insurances if these were covered by your previous employer or superannuation fund.

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Importantly, our initial advice isn't a 'set and forget' service. Instead we offer you regular financial mentoring and ongoing guidance – in all aspects of your personal finances – to set you, and keep you, on the path to financial wellbeing.

Our team of experienced financial professionals can provide you with a detailed and totally tailored blueprint for financial success in any or all of the following areas:

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- Retirement planning
- Superannuation
- Wealth creation
- Investments
- Home loans

- Commercial loans
- Equipment finance
- Personal estate planning
- Personal risk insurance
- Investment loans
- Car finance
- Business estate planning
- Business risk insurance.

Australian Unity has a proud 170 year heritage of helping Australians create secure financial futures. This pedigree and experience, combined with our corporate strength and leading edge strategic advice capability, means we are uniquely placed to offer you high quality personal financial services... each finely tuned to your particular needs to ensure you achieve your vision of a secure financial future.

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Because knowledge is the first step to creating a secure financial future.

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