Managing your finances after accepting a redundancy

If you accept a redundancy offer you may receive a number of payments including a redundancy payout and payments for unused leave in addition to your final salary. Whilst a lump sum may appear attractive, there are many things to consider to manage finances throughout a period of unemployment.

Things to consider

Redundancy payment

If you are under age 66.5 and have accepted a genuine redundancy offer, part of your payments may be tax-free. For 2023/24 financial year the tax-free amount is $11,985 plus $5,994 for every complete year of employment with that employer.

The balance is paid as an Employment Termination Payment (ETP). A portion of the ETP may also be tax-free if you started employment before July 1983. The taxable amount is then taxed at the following rates (2023/24):

Age	Maximum rate of tax*
Under preservation age	30% on first $235,000 45% on balance
Preservation age or older	5% on first $235,000 45% on balance

* Plus Medicare if applicable

Unused leave payments

In cases of genuine redundancy, payments of unused annual and long service leave are concessionally taxed. They are subject to a maximum tax rate as shown below. These payments are included in your assessable income and can impact your entitlements to certain benefits, concessions or entitlements based on your assessable or taxable income.

Leave type	Age Service period	Taxation*
Annual leave	Any	100% included in assessable income and taxed at 30% maximum
Long service leave	To 15 August 1978	5% included in assessable income and taxed at your marginal tax rate
	From 16 August 1978	100% included in assessable income and taxed at the 30% maximum

* Medicare and other levies may apply

Superannuation

Unless you have reached your preservation age, your superannuation generally remain preserved and cannot be accessed.

If you do not need access to funds prior to retirement, you may wish to contribute some of your redundancy payments (after tax have been deducted) as additional contributions into your superannuation.

If you were in the employer's superannuation fund you may need to find a new fund to roll your superannuation into. It is important to confirm your current level of insurances within your super and ensure this is available in your new fund or can be transferred.

It is also a good time to review your superannuation investment strategy and check that your investments match your time horizon and risk profile.

Mortgage and other debts

If your mortgage has a re-draw facility you also have the option of depositing funds into this account. This has the potential to save interest and tax, as well as reduce your assessable assets for Centrelink purposes. This option will also provide you access to your funds, when you need it.

If your mortgage does not have a re-draw facility, you may wish to to consider an offset account to also reduce your interest however, this will be treated as an assessable Centrelink asset.

You can also speak to your lender to discuss your mortgage repayments if you need access to cashflow.

Qualifying for Centrelink benefits

If you are under pension age you qualify for JobSeeker Payment to provide income while you are looking for a new job.

Eligibility is subject to both income and assets testing.

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 under age pension age).
- Funds placed in a mortgage account with a re-draw facility (offset accounts are assessable).

It is important to consider your current and future financial situation when making plans for your redundancy funds.

The payments received may create a 'waiting period' during which you will not qualify for any income support from Centrelink.

This can be a substantial period of time so you need to ensure you have access to money to meet your living expenses during this time.

Your life insurance

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

Some insurers will offer a continuation option when leaving an employer so that you do not have to undergo medical assessments to continue cover.

If you have income protection insurance you should either contact your financial adviser or your insurer to determine the impact of your redundancy on the policy. Depending on the policy terms, you may not be able to claim an income protection benefit while you are unemployed. For some policies if you have been unemployed for a prolonged period your policy terms may change from "own occupation" to "any occupation" as prolonged unemployment may make it hard to determine what your regular occupation is.

Finally, if you have an "indemnity" term income protection policy, in the event of claim the amount payable in the event of claim is based on your income at the time of injury or illness.

If you are unemployment at the time, it may affect the payable amount in the event of claim.

Considerations on re-entering the workforce

Superannuation

All of your superannuation should be invested to generate returns that match your investment timeframe. You need to consider which asset allocation and investments will help you to do that.

Wealth and retirement planning

You should seek financial advice to determine the best way to get your savings back on track and how much you should be contributing to superannuation and other investments to achieve your wealth and retirement objectives.

Mortgage and other debts

Once you are re-employed you may be able to afford to use surplus funds to repay all or some of your mortgage and other debts. This could save you a significant amount in interest repayments, and free up salary to fund other investment strategies.

Case study

Qualifying for Centrelink benefits whilst unemployed

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

Unused annual leave (after tax)	$25,000
Employer termination payment (ETP,after tax)	$64,734
Preserved superannuation balance	$120,000
Total	$209,734

Jane and Bill have an outstanding mortgage of $160,000. Jane's redundancy was unexpected and as her industry is in a downturn, she may be unemployed for a significant period. Jane plans to apply for JobSeeker Payment and has calculated a 30 week waiting period due to the payments received. Both Jane and Bill would like to reduce their mortgage however need access to funds for living expenses while they wait for JobSeeker payments to begin.

Options they could consider include:

- Deposit both the $64,734 ETP and $25,000 leave payments into the offset account connected to their mortgage to reduce interest without locking the money away.

  Ensure the $120,000 of preserved superannuation is invested in an appropriate asset allocation for their long term needs and objectives.
- Once Jane finds a new job they can review their situation for a longer-term strategy.