



Avery Financial Planning

Dealing with Redundancy

Reports in the Australian media over recent months have suggested that the Australian economy is slowing and the outlook for economic growth in the near future may not be as bright as we have enjoyed in the boom times of recent years.

One of the often unfortunate side effects of a slowing economy is a contraction of the work force. That is, there are simply not enough new employment opportunities being created and even those of us in employment may be faced with an uncertain future as employers tighten their belts. Media reports announcing staff cuts in both large and small companies are appearing almost on a daily basis.

As a result, some of us may find ourselves out of work. The effects can be devastating, both from a personal and a financial perspective.



When an employer decides to downsize, the staff affected may be entitled to a number of payments. Often these are set out in an award or agreement, or an employment contract.

Where a person ceases to be employed, they will be entitled to their wages or salary for work completed up to the time they cease to be employed. In addition, they may be entitled to payment for any unused rostered days off (RDOs) and any accumulated leave they have not taken, be it annual leave and/or long service leave.

Payment for unused sick/personal leave does not generally form part of a payment to terminated employees although some employers may offer this.

Awards, agreements and employment contracts may also make provision for the payment of a lump sum on termination of employment as a result of genuine redundancy or an approved early retirement scheme. These payments may be referred to as 'severance payments' and are often expressed by way of a formula such as 'x' weeks pay for each year of service. In some circumstances the maximum amount that can be paid on this basis may be capped.



Let's look at a simple example.

Bryan has worked with his current employer for the past 15 years. At the time of being made redundant, he was in receipt of a gross salary of \$1,200 per week. He had accumulated six weeks annual leave and a remaining long service leave entitlement of ten weeks. Under the terms of his employment contract, both he and his employer are required to give four weeks' notice in the event that either wishes to terminate the employment contract.

In addition to the accumulated leave, Bryan's employment contract provides for two weeks' severance pay to be paid for every year of service in the event of genuine redundancy.

In summary, on being made redundant, Bryan will be entitled to the following payments:

Summary	
Accrued annual leave (6 weeks x \$1,200)	\$ 7,200
Accrued long service leave (10 weeks x \$1,200)	\$12,000
Payment in lieu of notice (4 weeks x \$1,200) <i>(Where the employee is not required to work out the notice period)</i>	\$ 4,800
Severance pay (2 weeks x \$1,200 x 15years)	\$36,000
Total	\$60,000

Where a payment such as the example mentioned for Bryan is made, special taxation treatment applies. In other words, the redundancy payment is not simply included as assessable income and taxed at Bryan's marginal tax rate.

In Bryan's case, the accrued annual leave and long service leave will be included as part of his assessable income but tax will be limited to a maximum rate of 30% (plus Medicare Levy, and Medicare Surcharge if applicable).

Had Bryan been with the same employer since before the 15th August 1978, the tax treatment of these payments would change.

Bryan's payment in lieu of notice and severance pay of \$40,800 will be tax free. In cases of genuine redundancy and early retirement scheme payments, the first \$7,350, plus \$3,676 for each completed year of service, is tax free. These figures apply to the 2008/09 financial year. Should a redundancy payment exceed the tax free allowance, the balance is treated as an Employment Termination Payment and is taxable. The rate of tax payable is dependent on a number of factors including the age at time of payment and the date the employment contract was signed. Where a person has an employment contract in place that was signed before 10th May 2006, they may be entitled to concessional tax treatment in relation to amounts they receive as an Employment Termination Payment.

What happens to my super if my employment ceases?



When a person ceases to be employed, whether it be voluntary or in other circumstances such as redundancy, it is important to review superannuation.

Generally, simply terminating employment will not be sufficient to get access to preserved superannuation benefits. Preserved benefits may only be accessed if a 'condition of release' has been met. Conditions of release include:

- Retiring from the work force on or after reaching 'preservation age' (currently 55),
- Reaching 65 years of age,
- Death, permanent disablement or on diagnosis of a terminal illness,
- In limited cases, on compassionate grounds or severe financial hardship.

Preserved benefits can also be accessed from preservation age where the benefit is to be taken as an income stream (a pension), even if not retired. This is known as 'transition to retirement'.

Where employment has ceased, there may be a number of options available in relation to accumulated superannuation benefits.

In many cases it may be possible to simply leave superannuation in the fund to which the former employer was contributing. In other cases it may be prudent to move the super to another fund. This is referred to as 'rolling over' super.

When considering the options, it is vital to take into account a number of important issues such as:

- Can I remain in my current fund?
- If I 'rollover' my super to another fund, what fees and charges will I pay?
- If 'rolling over' to another fund, will I receive better investment options and other benefits?
- If I 'rollover' to another superannuation fund, will I lose my insurance cover?



The management of termination payments can be quite challenging, particularly for people on higher salaries with a long standing relationship with their employer.

Irrespective of the length of time employed, or the amount of a termination payment, advice from a financial planner may prove to be invaluable in times of difficulty, such as redundancy.

Source: Peter Kelly - Professional Investment Services - November 2008



Many super funds include life Insurance cover for their members. If you move from one fund to another, it may not be possible to replace the life insurance cover. For this reason, it is extremely important to seek advice before transferring accumulated superannuation benefits from one fund to another.

Source: Peter Kelly - Professional Investment Services - November 2008

Disclaimer:

The material provided in this document is provided for Information only and constitutes general financial product advice. It does not take into account your personal financial situation, objectives and needs. Consequently before acting upon the information in this brochure you should consider its appropriateness to your financial situation, objectives and needs.

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