

Are you facing redundancy?



We see creating and looking after your wealth as a lifelong commitment. That's why we offer regular financial advice and guidance throughout the different stages in your life. Together, we can build the financial wealth that lets you enjoy the truly important things in your life.

Provided it's not forced on you, an offer of redundancy is often seen as an unexpected cash windfall. But there are some important considerations to take into account such as how can you maximise the benefit of your payout?

What exactly is on offer?

The first thing you need to organise is a complete written estimate of the redundancy package on offer (after tax) including:

- your various leave entitlements;
- the gross redundancy payment; and
- the current value of your super fund.

It is also important to realise that only a portion of the total amount received is compensation for being made redundant. Remember, you were entitled to (eventually) receive your leave entitlements and super anyway; you've just received them earlier than expected.

Most of the redundancy payment will be a tax-free cash payment, but there could also be an amount that you can roll over into an approved deposit fund, deferred annuity or alternative super fund (if you are under 65). Depending on your age and circumstances, these options might be more appropriate than a cash payment. Reasonable Benefit Limit (RBL) issues also need to be considered.

Debt

It's generally recommended that you pay off non-deductible debts as quickly as you can, to improve your cash flow and give you peace of mind. But bear in mind there may be tax implications of paying off debts, particularly if you have borrowed to invest. Seek professional advice prior to making any (potentially costly) decisions.

Once you know what your debts are, and how much you would like to repay, you must determine the best way to pay them off. You could use some of the redundancy payment, your leave entitlements, or money from other investments. Each source

of funds will involve different tax treatment, so we strongly recommend you seek advice before making any decision, such as cashing in your super.

Income needs

Establish what income you are likely to need each month. You should ensure that you are able to generate income for 12 months (or whatever period you believe to be reasonable) to counter the impact of losing your salary. This is especially true during any initial waiting period for Centrelink benefits, when you will experience the greatest reduction in income.

What bills do you need to pay in the next 12 months? You may need to set aside some money for paying bills as part of your planned expenditure.

How much is your planned expenditure? This may include:

- repaying debts;
- covering regular bills for 12 months; and
- accounting for large expenses (e.g. renovations to your home).

You will need to set aside funds to cover planned expenditure, either in a high interest-bearing cash management account, or in very short-term investments (if you don't require quick access to your funds).

You should also consider setting aside an amount of cash (around \$5,000 if possible) for emergencies or unforeseen expenses. This can be deposited in a high-interest, readily accessible cash management account.

Superannuation

You need to find out the current balance of your super fund, how much is preserved and nonpreserved, and the components within your fund (especially 'undeducted contributions'). If you are close to retirement age the balance of your super could change your outlook considerably. You may want to consider early retirement, for example.

Lump sum tax

If you want to use some of your super for planned expenditure (such as repaying debts), you need to estimate the level of lump sum tax that will be levied on withdrawals. If you are close to 55 years old, it is vital you receive advice regarding your options as lump sum tax rates reduce dramatically after age 55 (depending on what year you were born).

The amount of tax payable on your lump sum will depend on the period in which it was accrued, and the type of payment (whether it was a payment for long service or for annual leave, for example).

Generally, the tax will be 31.5% if you're under 55, with little or no tax if you're over 55. If you roll over your superannuation, you may be required to pay contribution tax. In addition, you will be required to pay lump sum tax upon withdrawal.

Centrelink entitlements

You may be able to claim an allowance from Centrelink, payable after an initial waiting period if necessary.

There are two waiting periods you may have to serve: the Liquid Assets Waiting Period (based on your readily accessible funds, to a maximum 13 weeks) and the Income Maintenance Period (based on your leave entitlements). The waiting periods can be served concurrently. A wealth adviser can help you maximise any Centrelink payments, which are determined by your level of income and assets.

Insurance

It is critical that you replace any life insurance you may have taken through your super fund, before you leave your employer. In fact, it would be a good opportunity to review your

entire insurance needs, especially given that redundancy may change your circumstances dramatically. For example, you may start a business, which would alter your insurance needs considerably. A wealth adviser can identify any areas that may need attention.

Retirement planning

Have you started to plan for your retirement? If you need to draw heavily on your capital to supplement your income now, this will ultimately affect your income in retirement. While you are considering your redundancy, you should also be thinking about your retirement.

What is the worst case scenario?

You need to make sure that you plan for the 'worst case' (usually being unable to find suitable work within a reasonable period). How will you cope financially? What government assistance are you likely to be able to claim? In this case, the most important consideration will be what level of income you need, and how you can generate it.

The next step

The issues surrounding redundancy can be complicated, so we strongly recommend you seek professional advice.

Note: Advice contained in this flyer is general in nature, and does not consider your particular situation or needs. Please do not act on this advice until its appropriateness has been determined by a qualified adviser.

For more information about redundancy or to arrange a no-cost, no-obligation first consultation, please contact:

Chiltern Peak Pty Ltd*

(03) 9852 7500

Suite 3, 400 High Street, KEW, VIC 3101

PO Box 2548, KEW, VIC 3101

* MEMBER FIRM AND CORPORATE AUTHORISED REPRESENTATIVE OF GENESYS WEALTH ADVISERS LTD

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