

# A guide to managing redundancies



NICOLE HEALES FINANCIAL

Effectively manage your new financial position

[www.nicolehealesfinancial.com.au](http://www.nicolehealesfinancial.com.au) →





## Making a fresh start

If you are leaving your employer due to redundancy, you have a great opportunity to make a fresh start.

You could work for a different organisation or pursue a different role in the same industry.

You could even think about a career change, become self employed or consider retiring.

Regardless of your next steps, this guide may help you effectively manage your new financial position throughout this process.

### We suggest you follow these three steps.

1. Read about the payments you may receive from your employer and the tax implications.
2. Consider the financial issues likely to be relevant to your age and work aspirations thereafter.
3. Speak to a financial adviser about how you could manage your redundancy payments.

## Payments from your employer

Regardless of what you plan to do next, it's important you understand the types of payments you could receive from your employer and the tax implications.

When you leave an employer, you may be entitled to a range of payments. In this section we outline the tax implications if you're departing due to a genuine redundancy. This will generally be the case if:

- you are under Age Pension age<sup>1</sup>
- your employer has determined that your position no longer exists
- you are not replaced by another employee.

What is considered a 'genuine redundancy' for taxation purposes is complex, so visit the ATO website for more information. Some of the information in this section will not be relevant if you are leaving your employer voluntarily (e.g. if you are resigning or retiring).

1. Age Pension age is 67. See [www.servicesaustralia.gov.au](http://www.servicesaustralia.gov.au) for further information. This age test applies at the time your role is made redundant.

## Types of payments

The types of payments you may receive in the event of a genuine redundancy include:

- a genuine redundancy payment
- an employment termination payment
- other termination payments, such as unused annual and long service leave.

## Genuine redundancy payments

Genuine redundancy payments are tax free up to a limit based on your full years of service with your employer. The amount exceeding the tax free limit is classified as an Employment Termination Payment (ETP).

The tax free amount of a genuine redundancy payment is determined by a formula, which in the 2025/26 financial year is:  
 $\$13,100^2 + (\$6,552^2 \times \text{each completed year of service})$ .

### Example

If you have been with your employer for five and a half years, the maximum tax free redundancy payment you can receive is calculated as follows:  
 $\$13,100^2 + (\$6,552^2 \times 5) = \$45,860$

If you are entitled to a genuine redundancy payment of \$30,000, the entire amount is tax free, as it is within the threshold of \$45,860 determined by the formula. However, if your redundancy payment is \$50,000, then \$45,860 is tax free and the remaining \$4,140 is treated as an ETP.

2. These thresholds apply in the 2025/26 financial year and may be indexed on 1 July of each year.

## Employment termination payments

An Employment Termination Payment (ETP) is a lump sum payment you may receive when your employment arrangement has come to an end<sup>3</sup>.

Examples include:

- genuine redundancy payments exceeding the tax free limit
- unused sick leave
- unused rostered days off
- payments in lieu of notice
- golden handshakes (also known as 'ex gratia' payments).

## Other termination payments

Other payments you receive from your employer may include unused annual leave and long service leave<sup>4</sup>.

3. ETPs and other termination payments may increase your income. Where it exceeds \$250,000, you may be liable to pay 'Division 293 tax', which is an extra 15% tax on concessional super contributions. Speak to your financial adviser to find out if this applies to you.

4. In some cases, you'll need to have worked for your employer for at least 10 years to qualify for long service leave. However, some employers have a statutory obligation to pay prorated long service leave if you are made redundant after five years of service.



# Financial issues to consider if you plan to continue working

If you plan to find a new job or become self employed, it's important you address these key questions.

## How will you meet your living expenses?

You may need to use the payments you receive from your employer and possibly some savings to meet your living expenses while you look for another job.

If you meet certain conditions, you may be eligible to receive JobSeeker Payment.

If you are age 60 or over, you may be able to use your super to start a 'Transition To Retirement' (TTR) pension or account based pension (if eligible). This may be worth considering if you have used up your other available resources.

## Where can you put your employer's payments?

It may be important to be able to access the money you receive from your employer easily.

You may therefore want to keep the money in your regular bank account or transfer some of it into an online savings account.

But if you have a home loan, you may like to put this money in an offset account which is linked to your mortgage. This will reduce the balance on which the home loan interest is calculated and can provide some interest savings.

By doing this, you can effectively 'earn' a better return than what a bank account can offer and still be able to access this money to meet your other living expenses.

## What is JobSeeker Payment?

JobSeeker Payment is a social security payment for eligible job seekers who are in genuine need of Government assistance to help meet their basic living expenses.

To be eligible for JobSeeker Payment, you must generally attend an interview and be prepared to disclose evidence that your employment arrangement has come to an end. You must also satisfy a number of tests. These include income and assets tests, a liquid assets test and an income maintenance period. You might also have to comply with the 'Mutual Obligation Requirements' which are designed to help you get back to work faster.

To find out more about the JobSeeker Payment and other income support payments, go to the Services Australia website and select 'Work' or phone 132 850.

## Will you need to move your super to another fund?

Even if you can't (or don't want to) access your super now, you may still have to move your money into a new fund or another division of the same fund. This is more likely to be the case if your former employer has been contributing into a fund they arranged or selected for you.

The fund administrator will let you know if you need to take any action by a certain date. This is particularly important if you want to continue certain benefits without letting them lapse.

If you don't supply your new employer with a super fund of your choice, the employer will request if you have a stapled super fund from the ATO. A stapled fund is an existing active super account linked to you that follows you when you change jobs. If you have a stapled fund, your new employer will pay contributions into that fund. If you don't have a stapled fund, the employer may pay your contributions into their default fund.

## Do you have multiple super accounts?

If you are a member of several super funds, now may be a good time to consider the benefits of merging them. These could include saving on fees, cutting back on the amount of paperwork you receive and taking greater control of your super and retirement planning.

## Do you have any insurances connected with your job?

You should find out if any insurance policies you own will cease when you leave your employer and consider restructuring them so that you and your family continue to be adequately covered.

You may have had an insurance policy held inside the superannuation fund that your employer was contributing to for you.

Many life companies will allow you to continue your cover under your own personal contract, with little to no medical assessment. However, this offer usually has an expiry date. This offer is commonly called a 'continuation option'. Contact your former employer, superannuation fund or life insurer to see if this offer is available to you.

## Do you have any personal insurance policies?

It's also important to continue any insurance policies you have arranged yourself. If your next job differs to the role from which you were made redundant, you may also need to let your insurer know.

There are some things you could do to make your cover more affordable. For example:

- If you selected a 'premium waiver option' when you took out your insurance, you may not be required to make premium payments for a pre determined period of time after you are made redundant.
- You may be able to rearrange your policy so that the premiums are paid from your super fund, not from your bank account.

You should contact your insurer to see what features and options are available that could help you retain the cover you need rather than let the policy lapse and potentially place your family's future at risk.

You should also think twice before you cancel a policy if you have been paying a level premium for a while. This is because level premiums are based on your age when the policy commenced so you could end up paying a higher level premium if you let the policy lapse and start a new one at a later date.

## What issues should you consider when you start working again?

If you still have a mortgage, you may want to retain any leftover redundancy payments in an offset account or use this money to make a one off loan repayment.

If you don't have any debts, you could consider investing any leftover redundancy payments and any of your surplus cashflow within or outside of superannuation.

Super can be a tax-effective way to save for retirement, as you may be able to:

- arrange with your new employer to contribute<sup>5</sup> some of your pre-tax salary into super
- claim personal super contributions<sup>5</sup> as a tax deduction.

Also, investment earnings in super are generally taxed at a maximum rate of 15%.

However, saving more in super may not be suitable if you need to access the money and you have not met a 'condition of release', such as reaching age 60 and permanently retiring.

5. Contribution caps limit how much you can put into super each year and tax penalties may apply if you exceed these limits. Specific steps must be taken to claim a super contribution as a personal deduction. Please visit the ATO website for more information.

## What is a Transition to Retirement (TTR) pension?

A TTR pension is a type of superannuation pension that allows you to access your superannuation as an income stream from age 60 until age 65, without having to fully retire.

A TTR pension could help you to:

- make ends meet while you look for another job
- top up your income if you get a part-time job; receive a lower salary or work reduced hours.

Earnings from investments held in TTR pensions are taxed at a maximum rate of 15%. From age 60, pension payments are tax free and you won't have to include these payments in your income tax return.

The amount of income that can be received from a TTR pension is capped at 10% of the account balance each year and a minimum income must be received.

In some cases, you may be eligible to commence a retirement phase pension.

To find out how you could make the most of the payments you receive from your employer, you should consider speaking to your financial adviser and/or a registered tax agent.



# Financial issues to consider if retiring

If you plan to retire after becoming redundant it's important you address these key questions.

## Do you have any debts?

You may decide to use some (or all) of your redundancy payments from your employer to reduce your outstanding debts.

You may also need to withdraw some of your super<sup>6</sup> to ensure you pay off your debts completely. If you are aged 60 or over, you will not pay tax on super withdrawals<sup>7</sup>.

## What are you going to do with your super?

While it may be tempting to withdraw your super as a lump sum payment and invest outside super, this may not be the best strategy.

If you invest the money in your own name, earnings will be taxed at your marginal tax rate of up to 47%<sup>8</sup>. For many people, using their super to start a 'retirement phase' pension can be a more tax effective strategy.

## What is a 'retirement phase' pension?

A 'retirement phase' pension is a pension that can be started with superannuation money when you have met a full condition of release, such as reaching age 60 and permanently retiring.

No tax is payable on investment earnings in the fund. However, there is a limit on the amount that can be transferred into retirement phase pensions over your lifetime. This limit is known as the 'transfer balance cap' and it is \$2 million in 2025/26.

If you are 60 or over, all pension payments will be tax free<sup>7</sup> and you won't have to include these payments in your income tax return.

A minimum income payment must be received each year depending on your age. This minimum is 4% of the account balance in 2025/26 for people under age 65. Higher minimums apply from age 65.

## Are you eligible for the Age Pension?

Generally, if you are aged 67 or older, you may be eligible for the Age Pension. To qualify, you will need to meet an income and assets test and satisfy certain other conditions.

To find out more about the Age Pension, go to the Services Australia website and select 'Ageing' on the home page or phone 132 300.

6. Assumes a 'condition of release' has been met, such as reaching age 60 and permanently retiring. Please visit the ATO website for more information on conditions of release.
7. Assumes the payment is made from a taxed super fund.
8. Includes Medicare Levy joining a book club, local charity or community group.

## The value of advice

After reading this guide, you may have lots of questions.

A financial adviser could help you:

- decide what to do with the payments you are eligible to receive from your employer.
- make the most of your super, to help you become financially secure in retirement.
- ensure you and your family are adequately protected in the event of death or disability, through having appropriate insurance policies in place.
- determine whether you are eligible for any Government income support payments.

An adviser can also help with improving your cashflow, growing your investments, managing your debt and addressing your estate planning.

Source: MLC

Disclaimer: Information contained in this document is of a general nature only. It does not constitute financial or taxation advice. The information does not take into account your objectives, needs and circumstances. We recommend that you obtain investment and taxation advice specific to your investment objectives, financial situation and particular needs before making any investment decision or acting on any of the information contained in this document. Subject to law, Capstone Financial Planning nor their directors, employees or authorised representatives, do not give any representation or warranty as to the reliability, accuracy or completeness of the information; or accepts any responsibility for any person acting, or refraining from acting, on the basis of the information contained in this document.



# Get in touch with us, we're here to help.

0417 167 024

[nicole@nicolehealesfinancial.com.au](mailto:nicole@nicolehealesfinancial.com.au)

[www.nicolehealesfinancial.com.au](http://www.nicolehealesfinancial.com.au) →

Nicole Heales (T/A Nicole Heales Financial) is an Authorised Representative (No. 312479) of Capstone Financial Planning Pty Ltd. ABN 24 093 733 969. Australian Financial Services Licence No. 223135.

