



AvSuper GUIDE TO REDUNDANCIES



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AvSuper guide to Redundancies

Becoming redundant may be a surprise and can carry a lot of emotion and potential confusion, even if you choose to take a voluntary redundancy. It's good to know that your AvSuper account continues and that our Member Advice Consultants can help you make some decisions.

Redundancy is more than just stopping a job, and there are financial implications to the decisions you make about your redundancy payments. Of course, your specific circumstances will determine what is the best approach for you and your family – this guide will give you some facts and highlight some important questions to consider while making your decisions.

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Where do I start?

Leaving your current employer can have a big impact on your life, but that doesn't mean it is all bad. This is a great opportunity to start afresh and make some changes in your life.

You can look for a new job straight away, take a holiday, change careers (and maybe get some training), set up your own business or even retire.

Whether the redundancy was voluntary or not, planned or unexpected, there are some key steps we recommend you take to effectively manage your finances from this point.

01

Find out about the redundancy payments

you will get – the components and their tax implications are explained in this guide.

02

Assess your current financial situation

and the issues you may face in the short to medium term. You may also like to set a budget.

03

Review all your finances

For example, now may be a good time to review your super investment choice and consolidate or refinance any loans.

04

Get some professional financial advice

about how to manage your redundancy payment and finances. Remember that AvSuper's Member Advice Consultants are fully qualified financial advisers and can work with you individually to choose your best options. **Call 1300 128 751 or AvChat us to set an appointment.**

What is a redundancy payment?

Your employer will usually advise you in writing if your role becomes redundant and if you are eligible for a redundancy payment. Your redundancy package will consist of your final pay, any accrued leave entitlements and a payment to compensate for the end of your job. There are three main categories in terms of the tax treatment of your payout, as detailed below for 2020-21 (it is likely that some figures will be different in future financial years).

Your employer will give you a statement explaining how your payment is calculated when making the redundancy offer. The offer must be in writing and include an acceptance deadline.

Genuine redundancy generally applies if...

- You are under Age Pension age
- Your employer decides your job is no longer required
- Nobody replaces you at work
- You are not retiring or resigning
- You are not dismissed for disciplinary or low performance reasons

Tax-free redundancy payment

For genuine redundancy payouts, a formula (provided by the Australian Tax Office (ATO)) is generally used to determine how much is tax-free. This formula includes a base amount (\$10,989 for 2020-21) and a service amount (\$5,496 for 2020-21) for each year of service. These amounts are indexed annually in line with Average Weekly Ordinary Time Earnings (AWOTE). The Fair Work Ombudsman website has a calculator to help you determine your payment entitlements.

For example, Charles has worked for his employer for 15 years and gets a redundancy payout of \$97,000 at age 50. $\$10,989 + (\$5,496 \times 15) = \$93,429$ of his payout will be tax-free and \$3,571 will be an ETP.

Note that some awards or agreements may use a different formula.

If you are 66 or older, all of your payout is treated as an Employment Termination Payment.

Employment termination payment (ETP)

An ETP is a lump sum payment received when terminating employment that may include:

- Redundancy payments above the tax-free threshold
- Unused sick leave
- Payment in lieu of notice
- Unused rostered days off
- A gratuity (or golden handshake)

The tax rate for your ETP will depend on your age and if some of your service was prior to 30 June 1983 (that component will be considered tax-free). Note that if an ETP is not received within 12 months of ceasing that employment, it will not qualify for concessional tax rates so higher tax rate may apply.

Component		Tax payable* for ETP amounts in 2020-21	
		Up to \$215,000	Above \$215,000
Tax free		nil	nil
Taxable	If under preservation age	32%*	\$65,600 plus 49%*
	If preservation age or older	17%*	\$34,850 plus 49%*

* Tax includes Medicare levy

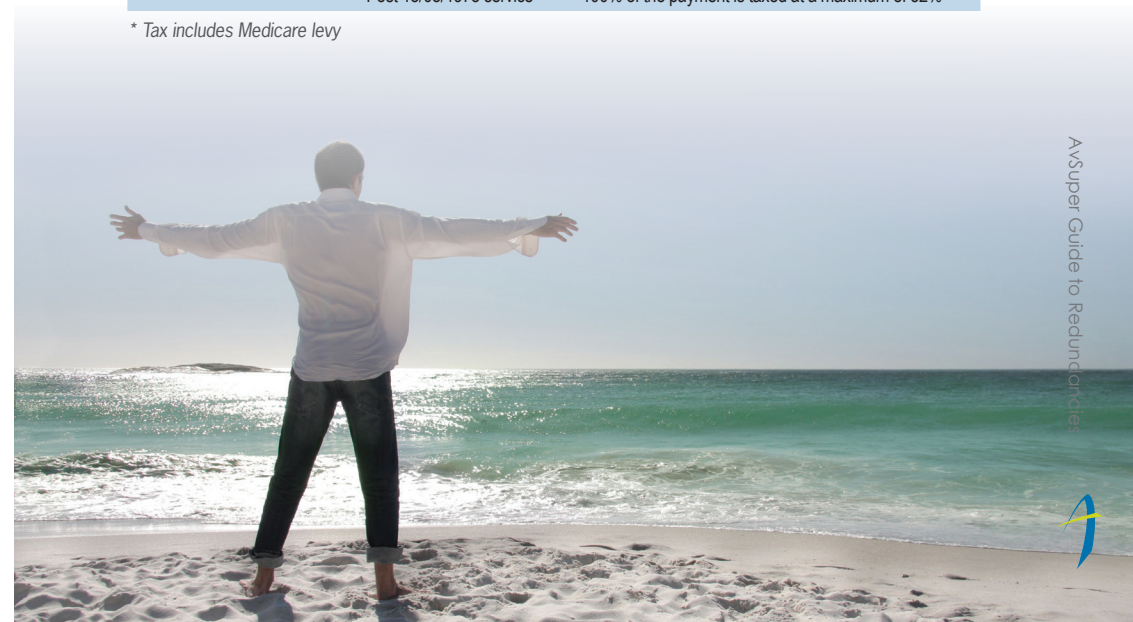
The ETP caps apply to all payments for one termination, even if the payments are paid in segments. An ETP must be taken as a lump sum and cannot be rolled into super – the money can, however, be used as a non-concessional contribution to your super account at any time.

Unused leave

You may also receive your final pay and some accrued leave entitlements in your redundancy payout. When these are paid for a genuine redundancy, your employer is expected to deduct tax at the following rates:

Component		Tax treatment
Accrued annual leave		Maximum rate of 32%*
Accrued long services leave	Pre 16/08/1978 service	5% of the payment is taxed at your marginal rate
	Post 15/08/1978 service	100% of the payment is taxed at a maximum of 32%*

* Tax includes Medicare levy



Superannuation and redundancy

Redundancy has no direct impact on your super, although your employer will stop making contributions into your account. Any outstanding Superannuation Guarantee (SG) payments will generally be paid into your super account around the date of redundancy.

You can stay with AvSuper indefinitely, although if you were a Corporate member there will be some changes to your account (see page 12 for details).

If you are a member of CSS/PSS, you may be entitled to a redundancy pension/benefit - refer to the Commonwealth Superannuation Corporation website to check your eligibility.

Growing your super

Even while unemployed, if you are under 67 years, you can contribute to your super account regularly or by making a lump sum contribution – just deposit the money into our bank account using your member number as the reference, then let us know via our online form.

Any future employers can contribute to your AvSuper account – simply give them our *member choice form* when you start your new job. Employers can also make salary sacrifice and after-tax contributions on your behalf.

If you are on a low income, you may be eligible for the Government Co-contribution or Low Income Superannuation Tax Offset (LISTO), or enable your spouse to get the spouse tax offset.

Remember that investing within super is taxed concessional relative to other investments. However, there are tax implications if you exceed the contributions cap (see page 10). Everyone under 75 can claim a tax deduction on eligible personal contributions.

Managing your super

This may be a good time to review all your super accounts and consolidate them, saving yourself fees and administration time. Make sure you consider any benefits before closing an account though. To consolidate your accounts, simply log into Member Online at www.avsuper.com.au and fill in the eRollover form – we'll contact your old fund(s) and manage the transfer for you.

It may also be timely to review the investment options your super is invested in – and potentially adjust them. There are no switching fees in AvSuper and our Member Services Team can discuss your investment choice with you if you want some help.

Reviewing your insurance cover is probably a good idea, too - see page 7 for more information.

Any part of your redundancy payment you don't need can be contributed into your super – but don't forget to take contributions caps and preservation issues into account.

Access to super as a lump sum

You may be able to access some or all of your superannuation at this stage, for instance if you are over 60 (because you are changing employers), have a balance under \$200 or meet a condition of release (as explained on our website). Alternatively, you can convert your super into an Income Stream if you have reached your preservation age.

Before withdrawing any super, however, it is worth considering the value of having that money to spend compared to

- reducing your retirement savings
- reducing the balance accruing compound interest
- removing money from a concessional taxed environment, especially if you are under your preservation age[#], and being liable for marginal tax rates up to 47%.

Age	Tax rate on the taxable component of a lump sum*
Below preservation age [#]	22%
Preservation age to 59	Nil up to \$215,000; 17% for amounts over \$215,000
60 and over	Nil

* For 2020-21 year and includes the Medicare levy.

[#] Allowed only in limited circumstances as defined by legislation.

Preservation status

Your super consists of three major status types (although you may not have money in each component), and the rules around withdrawing each component are different.

Preserved: this part of your super is preserved until you reach preservation age and permanently retired from the workforce, change employers after age 60, turn 65 or meet another legislated condition of release.

Restricted non-preserved: Your restricted non-preserved amount may be paid in cash when your employment is terminated. You may be taxed if you withdraw this amount.

Unrestricted non-preserved: You can access this money at any time, regardless of your preservation age. You may be taxed on this amount.



Why get financial advice?

Getting advice helps you have a structure for achieving your financial and retirement goals – and developing a strategy for achieving your medium and long term goals. It is particularly useful when changes like redundancy are impacting your finances.

Good financial advice such as through AvSuper Advice, can make the most of your money and give you

- greater control over YOUR finances and super
- clarity about your financial goals
- confidence in your plans for the future
- protection for your assets
- some safety against mistakes and knee-jerk reactions
- potential growth outcomes from your assets
- a better understanding of financial issues
- information about any and all Government entitlements, including any tax minimisations, you may be eligible for



Financial issues to consider

Although your redundancy payment may seem like a lot of money compared to your usual income, it is worth remembering that it may need to cover your living expenses for a while before you get another income source. You can maximise the value of your payout by making decisions about it rather than just using it up in daily living.

Financial situation

Heading into redundancy can be stressful, but it can also be a great time to review your overall financial situation.

You can assess your debts and living expenses to get a better idea of where you are, and then contemplate what your financial goals are. Is it time to consolidate or remove some of those debts? Are you in a position to consider full or partial retirement?

With some of that information in mind, you can then make informed decisions about what to do with your redundancy payment – use it for living expenses, invest it in super, pay off outstanding debts or something else.

Insurance

Any cover you have with AvSuper will continue past your redundancy, although details may change if you leave Corporate membership or your new job has a different occupation class. However, cover must end if you don't contribute to your account for over 16 months unless you tell us otherwise. **Call our Member Services team for information about your situation.**

Likewise, if you have any private insurance cover, is it affected by your change of employment status? What notifications are required by your insurer?

Without your regular income, paying for insurance may be more difficult than usual. You may want to consider:

- if the policy allows a 'premium waiver period' so you can not pay for a set time
- if you can get the right cover through your super fund instead as fees are deducted from your super, not your bank account
- shopping around for better cover options
- contacting your insurer for any payment options so you can keep the policy open
- talking to an AvSuper Adviser about how much cover you and your family need.

Letting payments lapse or cancelling a policy may leave you and your family financially unprotected, and could result in higher fees if you open a new policy later on.



What income sources can I use?

Having stopped work, one concern may be how to fund your lifestyle. How you manage those living expenses will depend on your plans and how long it takes to implement those plans – for instance, if you find a new job in a week you won't need to use much of your redundancy package for general living expenses, but if it takes a lot longer to find a job, the package may be critical.

If you suspect you will need to use at least some of your redundancy payment for living expenses, you will need to keep the money accessible. Your usual savings account is one option, but it may be worth looking at a mortgage offset account (to save some interest) or a higher interest account to hold most of your savings.

In the longer term, you have a number of income options to consider.

Looking for new employment

Finding a new job can be stressful and it is hard to know how long it will take. From a purely financial perspective, you may choose to take a less appealing job to help pay the bills until you get a more rewarding job. This reduces the need to dip into savings or your redundancy payout.

Once you get a steady income from employment, you can then review what is left in your redundancy payment and can look at options such as growing your super and reducing your debts.

You may choose to start (or build) your own business. The redundancy payment may help fund the business start up or pay living expenses until the business makes sufficient profit.

This is probably a good time to think about the future implications of your options and to talk to our qualified financial advisers (they can help with more than choosing an investment option! Note that fees may apply for personalised advice but we'll let you know before providing the advice.)

Retirement

If you have reached your preservation age, you can choose to start a tax-effective AvSuper Income Stream.

Investment earnings within an income stream are tax free. All pension payments are tax free from age 60 and do not have to be included in your tax return.

The quarterly retirement standard from Association of Superannuation Funds of Australia (ASFA) (available on our website) can give you an idea of how much money retirees need each year. Alongside our *member guide to retiring*, these figures can help you decide if retiring now is a financially feasible option for you.

Government assistance

You may be entitled to Government assistance whilst unemployed. As there can be a delay before obtaining a payment after a redundancy, you may want to apply to Centrelink soon to find out what income maintenance period applies to you and to ensure you get paid as soon as possible.

If you are over 65, you may be eligible for the Age Pension (of up to \$944.30 per fortnight for a single and \$711.80 if you have a partner) and/or a Commonwealth Seniors Card.

JobSeeker

A JobSeeker allowance is a Government payment for eligible job seekers who genuinely need financial support for living expenses until they find a job. Currently, a single person without dependants gets up to \$565.70 per fortnight while a partnered person gets up to \$510.80 (from March 2020). A COVID-19 supplement may also be payable.

To obtain JobSeeker, you must be between 22 and 65 years, looking for paid work, meet income and assets tests, and be an Australian resident. However, JobSeeker doesn't start until you have been unemployed for at least 9 continuous months if you are aged 60 or more. You may also need to agree to a job plan and meet the Mutual Obligation Requirements (such as training or actively looking for work).

Generally, you will not get a JobSeeker payment until the period of redundancy payments has expired – so if your payout covers 10 weeks of service, you will not get JobSeeker until 11 weeks after you cease work.

The Government also offers employment services to help you find alternative work, which may include help with preparing a resume and access to further training.

Please refer to www.servicesaustralia.gov.au for further details on JobSeeker, including calculation of waiting periods and payment entitlements.

Find out about your choices when it comes to retirement



Download the AvSuper Retirement Guide at
www.avsuper.com.au

GET YOUR FREE COPY



Common questions

Can I still grow my super?

Absolutely! Whether or not you are employed, as long as you have a super account you can make contributions. You can also influence the growth of your super by investment choices.

Contribution type	Age range			
	< 67	67 - 69	70 – 74	> 75
Superannuation guarantee	yes	yes	yes	yes
Additional employer contributions*	yes	yes if you meet the work test [#]		no
Government co-contribution	yes	yes	no	no
Government low income tax offset	yes	yes	yes	yes
Personal	yes	yes if you meet the work test [#]		no
Spouse	yes	yes if your spouse meets the work test [#]		no

* Includes above SG amounts from your employer and any salary sacrifice contributions

[#] The work test – do paid work for at least 40 hours over 30 consecutive days in a financial year or the previous financial year in certain circumstances.

Note that under current laws you can't contribute to an income stream once it has commenced so it is advisable to consolidate all your super prior to opening an income stream. However, you can have a super account and an income stream at the same time.

What are the contributions caps?

The Government restricts the amount of money you can contribute to your super account at concessional tax rates – and there are tax implications once your contributions reach these limits.

For the 2020-21 financial year the limit on concessional contributions (made via your employer or where a tax deduction has been claimed) is \$25,000.

The limit on non-concessional (personal and spouse) contributions is \$100,000 for 2020-21, as long as you have less than \$1.6 million in super savings. There is also a 'bring forward' option, which allows you to contribute up to \$300,000 over 3 years if you are under age 65 and have less than \$1.5 million* in super (eg you could make non-concessional contributions of \$300,000 in 2019-20 but you could not make further non-concessional contributions until 2022-2023) without paying additional tax.

Please refer to the understanding contribution limits factsheet on our site or call our Member Services Team to understand how the caps may effect your super.

* A restricted bring forward option applies to members with \$1.4 to \$1.5 million in super

Tax rates increase for amounts above those caps but may be better than paying your marginal tax rate and being taxed on any associated earnings outside super. Additionally, you won't get the benefit of compound earnings on your retirement savings which may be greater than any additional tax liabilities.

Defined benefits and caps

In defined benefit schemes, such as for some AvSuper Corporate members, a notional contribution amount is calculated and used for determining if a cap is exceeded.

Some grandfathering rules apply to protect defined benefit savings – please read our *understanding contributions limits* factsheet and call us for help with assessing your contribution levels.

By being made redundant, you will no longer be an AvSuper Corporate member and your defined benefit will be crystallised. AvSuper Member Advice Consultants understand your defined benefit arrangements and can help you work through the contribution cap issues.

Can I claim a tax deduction on super contributions?

You can claim a tax deduction for after-tax (non-concessional) contributions you make into your super account. Prior to 1 July 2017, you could only do this if no more than 10% of your income came from an employer, you were fully self-employed or you were employed but not eligible for the SG (eg earning less than \$450 a month or for SG exempt work).

Once contributions are claimed as a tax deduction, they are counted as concessional contributions and are taxed at 15%. To make a claim, you must give your super fund an *intent to claim a deduction for personal contributions* form. You do not have to claim all of your personal contributions from a financial year.

It can be a complex decision as you consider the potential advantages of a tax deduction versus your concessional contributions limit (and any associated additional taxes) and the loss of any co-contribution entitlement. If you think you might claim a tax deduction, call our Member Services Team for assistance.



Get started with AvChat

AvChat is a quick way to get in touch with us – you can ask a question, make a booking, update details or request a form/document.

Sitting at your desk but without enough privacy to call us, AvChat is the perfect option. It's easy to access at the top right of most of our web pages.

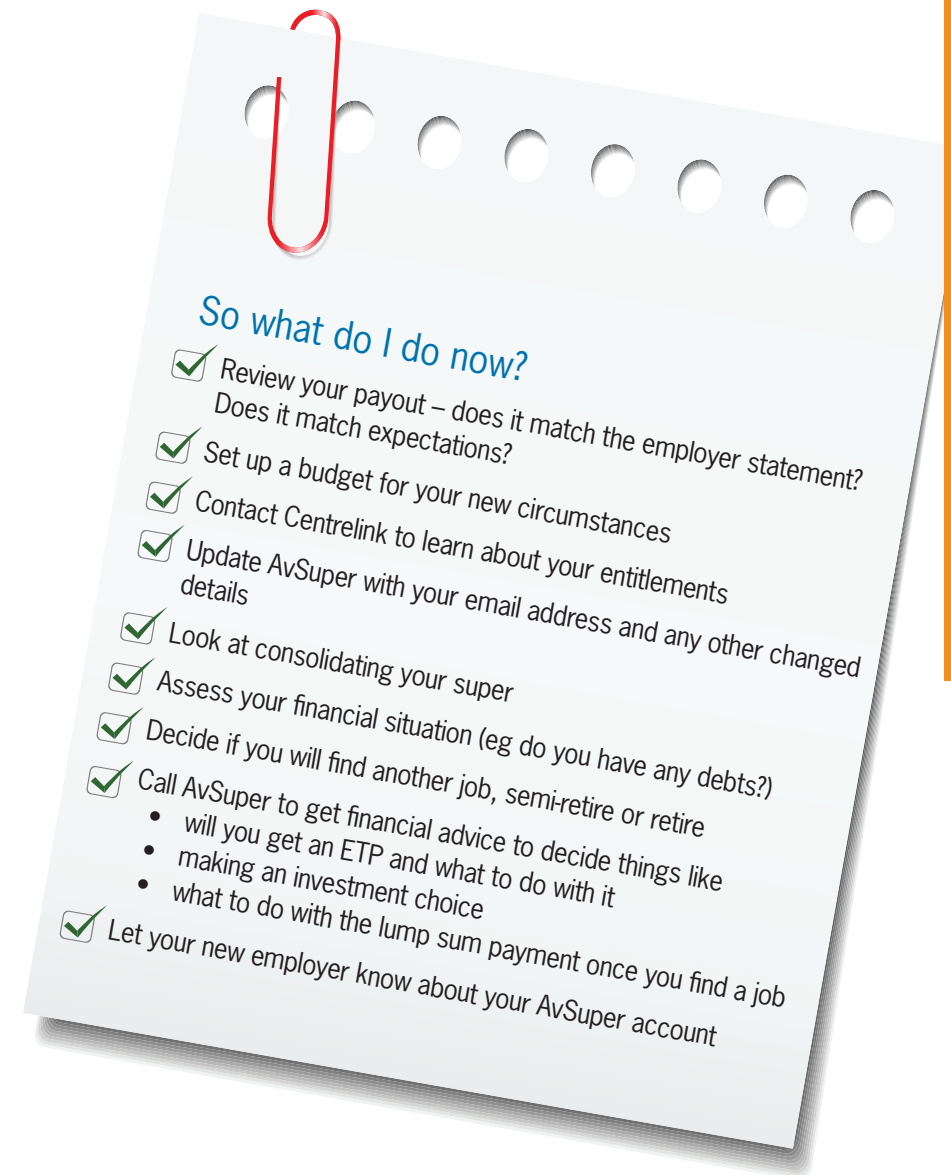
Go to www.avsuper.com.au

What happens to my AvSuper account?

You can stay in AvSuper despite leaving your current employer. If you are leaving one of our Corporate employers, your account will be transferred to a non-Corporate accumulation account which means

- your insurance cover will convert to units of voluntary cover which may change your insurance fees and amount of cover
- your defined benefit, if any, will be crystallised and transferred to an accumulation account where you will pay a weekly administration fee
- any outstanding surcharge debt will be deducted from your Defined Benefit
- you will have member investment choice and retain all other member benefits, such as access to personalised advice, competitively priced insurance cover and 24-hour online access to your account.

Any future employers can contribute to your AvSuper account, whether it is superannuation guarantee or salary sacrifice contributions. Simply give them a *Member choice* form so your employer knows where to make contributions for you.



AvSuper Advice

- > Thinking about your investment choices?
- > Unsure about how to start an Income Stream?
- > Not sure about your drawdown strategy?



AvSuper's Member Advice Consultants can answer these questions, and more, so book your appointment* today!

Call 1300 128 751 for details or visit www.avsuper.com.au



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* Fees may apply

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