

*Redundancy*

*A guide to  
The right choices*

July 2005



ASGARD

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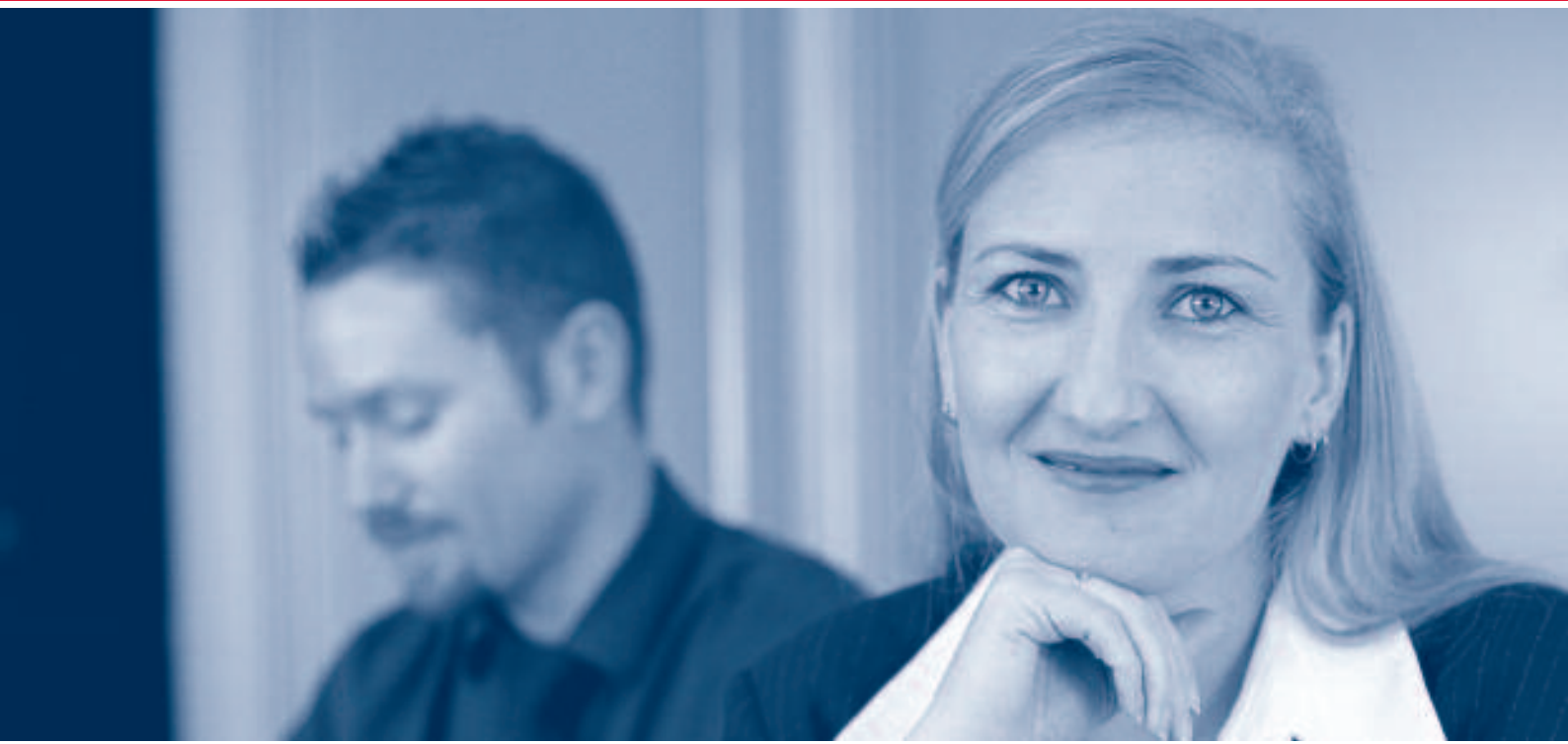
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*Simplicity*

# Introduction

## *Redundancy and early retirement involve important financial decisions that can only be made with consideration of an individual's circumstances.*

This guide provides a reference for employees facing the prospect of redundancy, retrenchment or other terminations of employment and identifies some of the issues that need to be considered. However, it is highly recommended that you consult your financial adviser who can assess your particular circumstances.

You may leave your employment for a variety of reasons. You may leave to take another job or to retire, you may be made redundant or you may be offered early retirement.

In some instances, employees may be offered a lump sum payment when they leave voluntarily, perhaps to encourage them to leave or perhaps in recognition of many years of loyal and valuable service. Such a payment is commonly known as a 'golden handshake' and may be subject to special taxation rules.

Payments made to employees under an 'approved early retirement scheme' or as a 'bona fide redundancy' generally qualify for concessional tax treatment as the employee is considered to have been dismissed through no cause of their own. This may apply even when the schemes are offered to employees as part of a voluntary package.

### **Bona fide redundancy payments**

These payments are made when your job is made redundant and will generally qualify for concessional taxation treatment. The concept of redundancy is unusual in that it primarily refers to the job rather than the employee. If the tasks that the employee perform are no longer required, or are required in a different form or at a different location, then the employee can reasonably be termed 'redundant'.

To receive a concessional tax payment, certain conditions have to be met. Broadly, these are:

- you must be dismissed from your job
- the dismissal is before your normal retirement date
- your job has been made redundant
- you must be under 65 or the normal retirement age for your position (whichever is the earlier), and
- at the time of termination, there must be no agreement between you and your employer for re-employment at a later date.

### **Approved early retirement schemes**

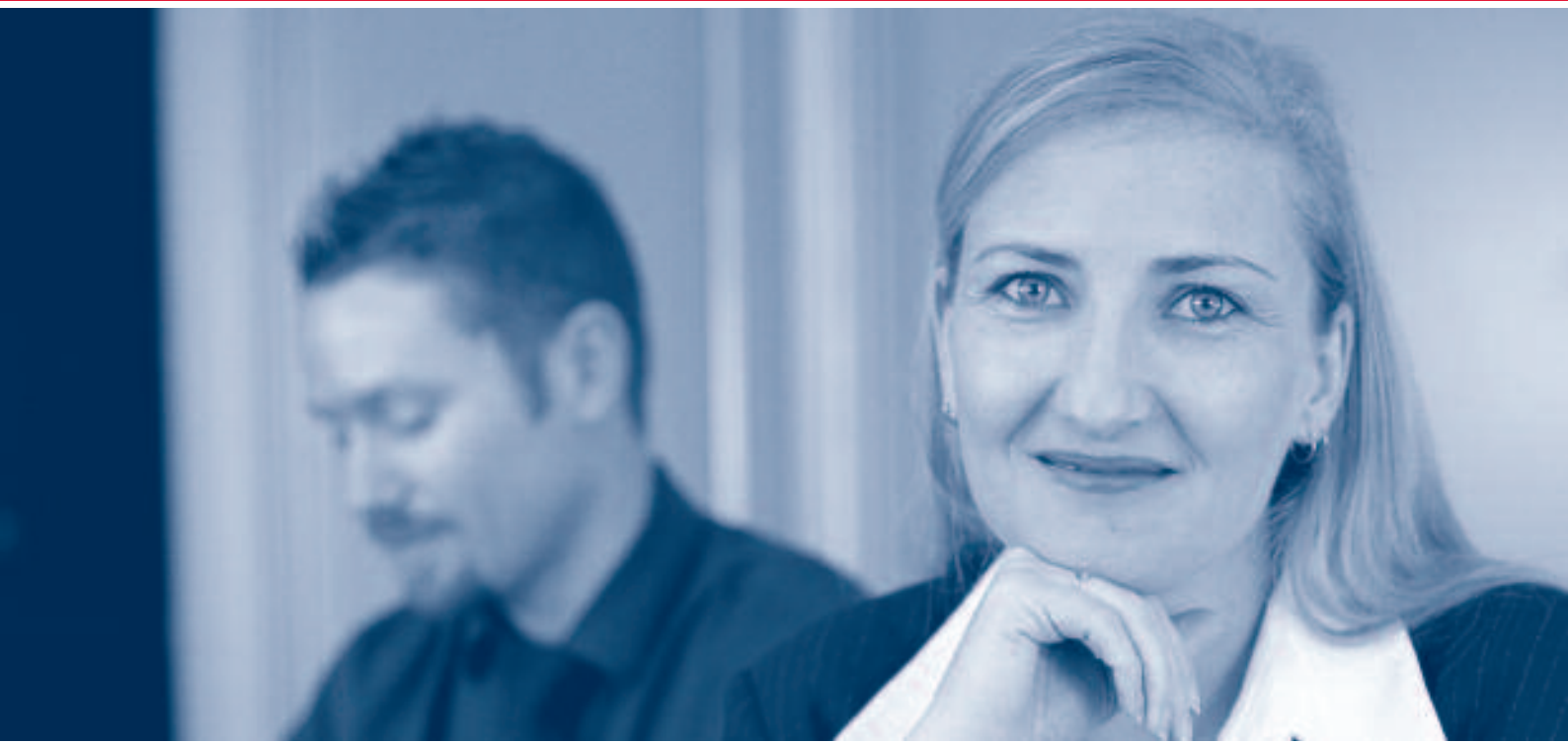
Approved early retirement schemes are implemented by the employer and must be submitted to the Australian Taxation Office (ATO) to be approved on a case by case basis.

Primarily, the conditions required for classification as an approved early retirement scheme are:

- the scheme must be offered to all employees in the same class identified by the employer
- it must be implemented with a view to rationalising and/or re-organising the employer's operations, and
- it must be approved by the Commissioner of Taxation before retirement occurs.

Whilst these schemes must apply to all employees in a particular category (eg all with a particular job skill or of a particular age), a scheme may be targeted narrowly such that only a small number of employees, perhaps just one, is offered early retirement.

Essentially, it does not matter whether your cessation of employment is due to a bona fide redundancy or an approved early retirement scheme as they each lead to the same tax and social security treatment of the benefit paid.



*Freedom*

# What benefits will I receive?

*Upon leaving your employment you may receive a range of payments that relate to your current remuneration and, in some instances, compensation for your dismissal.*

The value of these payments is often set out in industrial awards or employment contracts. You may also have to leave your employer-sponsored super scheme and roll your accumulated superannuation entitlements to a new superannuation fund.

## Payments

The payments that you receive at termination will probably include some or all of the following:

- *accrued annual leave*
- *accrued long service leave*
- *rostered days off*
- *sick leave*
- *payment in lieu of notice*
- *ex-gratia payment.*

## Payments from your employer

Part of the payment you receive from your employer in compensation for dismissal may be tax-free. Some or all of the remainder is an 'employer ETP'.

This is an Eligible Termination Payment (ETP) and may be either:

- *cashied in (ie taken in hand) and subject to concessional taxation treatment, or*
- *rolled over to a superannuation fund.*

In contrast to payments from your super fund, some amounts received directly from your employer are not ETPs and cannot be rolled over. The decision to rollover or take the cash may have significant social security implications.

The most common benefits you may receive upon leaving your employer are outlined on page 6.

## Payments from your superannuation fund

This payment represents the superannuation benefits accumulated during your period of employment at the company and may also include amounts previously rolled into the fund from other sources. These payments are known as Eligible Termination Payments (ETPs).

Your ability to either cash-in or roll-over any ETPs from your employer-sponsored super fund will depend upon whether the amounts are 'preserved' or 'non-preserved'. Preserved funds will generally have to be rolled over and retained in the superannuation system until you reach preservation age (currently 55) and are retired (although there are exceptions in cases of permanent disability, severe financial hardship and specific compassionate grounds). Non-preserved ETP funds may be cashed, although there may be some restrictions on the manner in which the funds can be cashed.

ETPs from a superannuation fund that are cashed are subject to special taxation rates. ETPs from a superannuation fund that are rolled over are generally not subject to tax.

Your superannuation benefit will be comprised of at least one of the following components:

- *undeducted*
- *concessional*
- *invalidity*
- *pre-July 1983*
- *post-June 1983 (taxed)*
- *post-June 1983 (untaxed)*
- *excess*
- *CGT Exempt Component.*

The taxation of the above components will be discussed in more detail in the following section.

<b>Payments from your employer</b>	
Annual Leave Payment	<ul style="list-style-type: none"> <li>• Upon ceasing employment you may have accrued annual leave. This payment must be cashed in – it cannot be rolled over as it is not an ETP.</li> <li>• The taxation treatment of this component varies depending on whether the termination was due to a bona fide redundancy or an approved early retirement scheme.</li> </ul>
Long Service Leave Payment	<ul style="list-style-type: none"> <li>• Upon ceasing employment you may still have some long service leave owing to you. This payment must be cashed in – it cannot be rolled over as it is not an ETP.</li> <li>• The taxation treatment of this component varies depending on whether the termination was due to a bona fide redundancy or an approved early retirement scheme.</li> </ul>
<b>Balance of payment</b>	
Tax Free Amount	<ul style="list-style-type: none"> <li>• Where termination of your employment occurs as a result of a bona fide redundancy or an approved early retirement scheme, a portion of the balance of any payment you receive will be tax free. The maximum tax free portion is calculated as follows:   <math display="block">\\$6,491* + [\\$3,246* \times \text{whole years of service}]</math> </li> <li>• The tax free portion must be cashed in – it cannot be rolled over as it is not an ETP.</li> </ul>
Employer ETP	<ul style="list-style-type: none"> <li>• The remainder of any termination payment received above the tax free amount is regarded as an employer ETP and will be comprised of other payments received, such as: <ul style="list-style-type: none"> <li>- accrued sick leave payments</li> <li>- payments in lieu of notice</li> <li>- ex gratia or golden handshake amounts.</li> </ul> </li> <li>• As an ETP, you have the option of cashing this amount or rolling it over to your super fund.</li> <li>• For taxation purposes, the employer ETP is required to be split into 'pre-July 1983' and 'post-June 1983' components.</li> </ul>
Employer ETP – 'pre-July 1983'	<ul style="list-style-type: none"> <li>• The pre-July 1983 component represents that portion of the employer ETP which relates to employment service before 1 July 1983. It is calculated as follows:   <math display="block">\text{Pre-July 1983 component} = \text{Employer ETP} \times (\text{Service Days before 1 July 1983} / \text{Total Service Days})</math> </li> <li>• If you started employment with your current employer after 30 June 1983, your pre-July 1983 component will be nil.</li> </ul>
Employer ETP – 'post-June 1983'	<ul style="list-style-type: none"> <li>• The post-June 1983 component represents that portion of the employer ETP which relates to employment service after 30 June 1983. It is calculated as follows:   <math display="block">\text{Post-June 1983 component} = \text{Employer ETP} \text{ less Pre-July 1983 component}</math> </li> </ul>

\*These amounts are for the 2005/06 income year and are indexed annually.

## How are these benefits taxed?

	Taxation treatment (amounts include Medicare levy of 1.5%)	
Component of payment	If cashed in (employee taxed)	If rolled over (super fund taxed)
<b>Employer payments</b>		
Annual Leave Payment	<ul style="list-style-type: none"> <li>If employment ceases due to a bona fide redundancy or approved early retirement scheme:               <ul style="list-style-type: none"> <li>- 100% assessable, but subject to a maximum tax rate of 31.5%.</li> </ul> </li> <li>If not covered by the above:               <ul style="list-style-type: none"> <li>- portion relative to pre 18 August 1993 service fully assessable, but subject to a maximum tax rate of 31.5%</li> <li>- balance fully assessable and taxed at your marginal tax rate.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>This payment cannot be rolled over as it is not an ETP.</li> </ul>
Long Service Leave Payment	<ul style="list-style-type: none"> <li>If employment ceases due to a bona fide redundancy or approved early retirement scheme:               <ul style="list-style-type: none"> <li>- 5% of portion relative to pre-16 August 1978 service assessable at your marginal tax rate</li> <li>- balance fully assessable but subject to a maximum tax rate of 31.5%.</li> </ul> </li> <li>If not covered by the above:               <ul style="list-style-type: none"> <li>- 5% of portion relative to pre-16 August 1978 service assessable at your marginal tax rate</li> <li>- portion relative to service between 16 August 1978 and 17 August 1993 fully assessable but subject to a maximum tax rate of 31.5%</li> <li>- balance fully assessable and taxed at your marginal tax rate.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>This payment cannot be rolled over as it is not an ETP.</li> </ul>
Tax Free Amount	<ul style="list-style-type: none"> <li>Only arises where employment ceases due to a bona fide redundancy or approved early retirement scheme</li> <li>This amount is not assessable and is tax free.</li> </ul>	<ul style="list-style-type: none"> <li>This payment cannot be rolled over as it is not an ETP.</li> </ul>
Employer ETP – 'pre-July 1983' component	<ul style="list-style-type: none"> <li>5% included as assessable income and taxed at your marginal tax rate.</li> </ul>	<ul style="list-style-type: none"> <li>No tax payable on rollover.</li> </ul>

<b>Taxation treatment (amounts include Medicare levy of 1.5%)</b>		
<b>Component of payment</b>	<b>If cashed in (employee taxed)</b>	<b>If rolled over (super fund taxed)</b>
<b>Employer Payments (continued)</b>		
Employer ETP – 'post-June 1983'	<ul style="list-style-type: none"> <li>If aged under 55 at the time of cashing in:               <ul style="list-style-type: none"> <li>- 100% of this component is assessable but subject to a maximum tax rate of 31.5%.</li> </ul> </li> <li>If aged 55 or over at the time of cashing in:               <ul style="list-style-type: none"> <li>- the first \$129,751* is fully assessable, but subject to a maximum tax rate of 16.5%</li> <li>- the balance (to the extent it is not excessive) is fully assessable to you but subject to a maximum tax rate of 31.5%.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>The full amount of this component is subject to contributions tax in the fund at a rate of 15%. This applies regardless of the age of the employee at termination of employment.</li> </ul>
Excessive Component	<ul style="list-style-type: none"> <li>Where the amount of the employer ETP results in you being in excess of your applicable Reasonable Benefit Limit (RBL), the excess portion of the employer ETP is known as an 'excessive component'.</li> <li>The excessive component is fully assessable and subject to tax as follows:               <ul style="list-style-type: none"> <li>- pre-1 July 1983 component 48.5%</li> <li>- post-30 June 1983 untaxed component 48.5%</li> <li>- post-30 June 1983 taxed component 39.5%</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>The full amount of this component is subject to contributions tax in the fund at a rate of 15%. This applies regardless of the age of the employee at termination of employment.</li> </ul>
<b>Super Fund Payments</b>		
Undeducted Components	<ul style="list-style-type: none"> <li>Where paid as a lump sum, the amount is not assessable and is tax free.</li> <li>If the amount forms part of a purchased pension or annuity, a portion is returned tax free each year.</li> </ul>	<ul style="list-style-type: none"> <li>No tax payable on rollover. The amount retains its status as an undeducted contribution.</li> </ul>
Concessional Component	<ul style="list-style-type: none"> <li>If the amount is paid as a lump sum, 5% is assessable at your marginal tax rate.</li> <li>If the amount is used to purchase a pension or annuity, it will be part of the taxable amount received each year and taxed at marginal rates.</li> </ul>	<ul style="list-style-type: none"> <li>No tax payable on rollover. The amount retains its status as a invalidity component.</li> </ul>
Invalidity Component	<ul style="list-style-type: none"> <li>Where paid as a lump sum, the amount is not assessable and is tax free.</li> <li>If the amount forms part of a purchased pension or annuity, a portion is returned tax free each year.</li> </ul>	<ul style="list-style-type: none"> <li>No tax payable on rollover. The amount retains its status as an undeducted contribution.</li> </ul>
Pre-July 83 Component	<ul style="list-style-type: none"> <li>If the amount is paid as a lump sum, 5% is assessable at your marginal tax rate.</li> <li>If the amount is used to purchase a pension or annuity, it will be part of the taxable amount received each year and taxed at marginal rates.</li> </ul>	<ul style="list-style-type: none"> <li>No tax payable on rollover. The amount forms part of the pre/post amount in the new fund.</li> </ul>
*These amounts are for the 2005/06 income year and are indexed annually.		

Taxation Treatment (amounts include Medicare levy of 1.5%)		
Component of payment	If cashed in (employee taxed)	If rolled over (super fund taxed)
<b>Super Fund Payments (continued)</b>		
Post-June 1983 Taxed Component	<ul style="list-style-type: none"> <li>If aged under 55 and received as a lump sum at the time of cashing in, the amount (to the extent it is not excessive) is fully assessable but subject to a maximum tax rate of 21.5%.</li> <li>If aged 55 or over and received as a lump sum: <ul style="list-style-type: none"> <li>- the first \$129,751* is not taxed</li> <li>- the balance (to the extent it is not excessive) is fully assessable but subject to a maximum tax rate of 16.5%.</li> </ul> </li> <li>If used to purchase a pension or annuity, the amount forms part of the annual taxable amount and is taxed at marginal rates.</li> </ul>	<ul style="list-style-type: none"> <li>No tax payable on rollover. The amount forms part of the pre/post amount in the new fund.</li> </ul>
Post-June 1983 Un-taxed Component	<ul style="list-style-type: none"> <li>If aged under 55 at the time of cashing in: <ul style="list-style-type: none"> <li>- 100% of this component is assessable but subject to a maximum tax rate of 31.5%.</li> </ul> </li> <li>If aged 55 or over at the time of cashing in: <ul style="list-style-type: none"> <li>- the first \$129,751* is fully assessable, but subject to a maximum tax rate of 16.5%</li> <li>- the balance (to the extent it is not excessive) is fully assessable to you but subject to a maximum tax rate of 31.5%.</li> </ul> </li> <li>If used to purchase a pension or annuity, the amount forms part of the annual taxable amount and is taxed at marginal rates.</li> </ul>	<ul style="list-style-type: none"> <li>The full amount of this component is subject to contributions tax in the fund at a rate of 15%. This applies regardless of the age of the employee at termination of employment.</li> <li>The amount forms part of the pre/post amount in the new fund.</li> </ul>
Excessive Component	<ul style="list-style-type: none"> <li>If paid as a lump sum, subject to tax as follows: <ul style="list-style-type: none"> <li>- pre-1 July 1983 component 48.5%</li> <li>- post-30 June 1983 untaxed component 48.5%</li> <li>- post-30 June 1983 taxed component 39.5%</li> </ul> </li> <li>If used to purchase a pension or annuity, the amount forms part of the annual taxable amount and is taxed at marginal rates. However, the excessive component will reduce the rebate which may be available.</li> </ul>	<ul style="list-style-type: none"> <li>An excessive component does not arise when the payment is rolled over. The excessive component only arises when benefits are withdrawn from super.</li> </ul>
CGT Exempt Component	<ul style="list-style-type: none"> <li>If you do not exceed your RBL, the payment of the amount is treated the same as an undeducted contribution.</li> <li>If you exceed your RBL, the excessive amount is treated the same as an excessive component.</li> </ul>	<ul style="list-style-type: none"> <li>No tax payable on rollover. The amount retains its status as a CGT exempt component.</li> </ul>

\*These amounts are for the 2005/06 income year and are indexed annually.



*Choice*

# Should I rollover or cash in my termination payments?

*There is no one answer. It depends on your personal circumstances.*

Once you know what payments you will receive you will have to ask yourself the following questions:

- *Do I hope to find work in the near future?*
- *Do I have a reasonable expectation of finding work in the near future?*
- *How long before I would normally expect to retire?*
- *What is the level of my debts?*
- *What are my existing financial resources?*
- *How much do I need to meet my normal living expenses?*
- *What are my plans for the future?*

Where you have sufficient cash reserves or realistic prospects of finding a suitable job, you may well decide to roll your existing superannuation and the employer ETP into a superannuation fund. Rolling over the payment will avoid crystallising any ETP tax, and, where the ETP contains a 'pre-July 1983' component, significant tax advantages may arise on future ETP payments.

If your employment period commenced prior to 1 July 1983, there are usually some taxation advantages in rolling over your employer and superannuation ETPs on ceasing employment. By rolling over at least some of these funds, you may be able to maximise that portion of future ETPs which will be classified as a 'pre-July 1983' component. Remember, only 5% of the 'pre-July 1983' component is assessed for taxation purposes.

In addition, rolling over your ETP ensures that the super benefit will not be counted for Social Security purposes when you are under age-pension age.

Issues that you should consider include:

1. *the difference between the lump sum tax payable if benefits are cashed out and the contributions tax incurred on rolling over*
2. *Reasonable Benefits Limit (RBL) implications*
3. *Social Security implications*
4. *insurance continuation.*
5. *superannuation and termination payments surcharge*

We will discuss each of these in turn.

Freedom

Choice

## 1. Lump sum tax and contributions tax

Generally, ETPs cashed by those aged under 55 will incur a higher lump sum tax liability than when cashed by those aged 55 and over.

Rolling over your ETP components will defer having to pay lump sum tax and may reduce the tax rate. However, contributions tax will have to be paid on the post-June 1983 'untaxed' component (this would be the post-June 1983 component of an employer ETP).

For details on the taxation implications, see page 7 'How are these benefits taxed?'

## 2. Reasonable Benefit Limits (RBLs)

Reasonable Benefit Limits are the limits to amounts that may be accumulated in superannuation and then taken as a pension or lump sum at concessional tax rates. Amounts above these limits are known as 'excessive benefits' and are taxed at the highest marginal tax rate if taken as a lump sum. If the excessive benefits are taken as a pension, no rebate will be allowed to offset tax payable on that excess benefit.

There are two limits – the Lump Sum RBL and the Pension RBL. The Lump Sum RBL will automatically apply unless the individual qualifies for the higher Pension RBL. To qualify for the Pension RBL, at least 50% of 'counted' benefits must be taken in the form of a 'complying' pension or annuity. These investments are generally paid for life, cannot be cashed and are exempt under the social security assets test.

The Reasonable Benefit Limits are indexed each 1 July, and for the 2005/06 financial year are:

Lump Sum: \$648,946

Pension: \$1,297,886

Some people may be entitled to higher RBLs, which are called transitional RBLs. People who qualify for transitional RBLs are those who may otherwise have been disadvantaged by the introduction of the fixed RBLs on 1 July 1994. If you had a high salary and/or high vested superannuation benefits on 1 July 1994, you may be entitled to a transitional RBL. If you do not have a transitional RBL, but consider that you may be entitled to one, it is not too late to apply to the Australian Taxation Office. You should consult your financial adviser if you believe you may be entitled to a transitional RBL.

### What is generally counted for RBL purposes?

Upon redundancy, part or all of your payments may be 'counted' towards your reasonable benefit limits. These include:

- *pension benefits paid to you from a superannuation fund*
- *lump sum benefits paid from a rollover fund, a superannuation fund or RSA*
- *85% of the post-June 1983 portion of ETPs paid to you by your employer when cashed, or*
- *85% of the post-June 1983 portion and 100% of the pre-July 1983 portion of ETPs paid to you by your employer if the payment has not been made on an arm's length basis.*

If you roll your employer ETP into your super fund, no amount will be counted against your RBL at the time of rollover. However, all of the pre-July 1983 component and all of the post-June 1983 component (less tax incurred on the rollover) will count towards your RBL when you subsequently withdraw the money from your super fund.

### Included in RBL if Harriet rolls over her employer ETP:

Harriet is 56 and commenced work on 1 July 1980. She has been retrenched after 25 years of service and received the following payments on 1 July 2005:

Superannuation benefits	\$250,000
Taxable income (for the financial year)	\$5,850
Tax-free redundancy payment	\$81,149
	(\$3,246 × 23 years + \$6,491)
Employer ETP	\$120,000*

\* consists of \$14,389 pre-July 1983 component and \$105,611 untaxed post-June 1983 component.

#### Now:

- No amount is assessed as she has rolled over her ETP money into her super fund

#### On withdrawal from super fund (ignoring any growth):

- The amount assessed is calculated as follows:

Superannuation benefits	\$250,000
This year's contributions	\$5,850
Rolled over employer ETP:	
Pre-July 1983 component	\$14,389
Post-June 1983 component	\$105,611
Less contributions tax (15% of post July 1983 component)	(\$16,719)
Less surcharge payable by superannuation fund	
Total	\$359,131

### Included in RBL if Harriet cashes out her employer ETP and superannuation benefits:

Superannuation benefits	\$250,000
This year's contributions	\$5,850
85% of post-July 1983 component	\$89,769
Total	\$345,619

### What is generally excluded for RBL purposes?

Not all of your superannuation entitlements and other benefits taken are included in calculating your RBL. The following will not be counted towards your RBL:

- benefits that were paid, or commenced to be paid, before 15 February 1990
- undeducted contributions
- concessional components
- post-July 1994 invalidity component or non-qualifying component.

### Lump sum RBL is discounted for people under age 55

Your lump sum RBL will be discounted by 2.5% for each year or part year that you are younger than 55. If you receive an ETP or a pension/annuity (that does not qualify for the pension RBL) from a super fund before age 55, these benefits will count against this reduced lump sum RBL.

For example, you are 52 and have cashed out an amount from your superannuation fund. The lump sum RBL is discounted by 7.5% (2.5% × 3 years). More significantly, if you are 25, your RBL will be discounted by 75% to \$162,237\*.

The subject of RBLs is complex and advice should be sought from your financial adviser in determining whether benefits received by you are within your RBLs. Tax may be payable at the highest tax rate on amounts exceeding these limits.

\* Based on the 2005/06 lump sum RBL amount of \$648,946

### 3. Social Security implications

If you are made redundant, you and your partner may be eligible for any of the complete range of income support payments.

Each of these payments has its own rules and conditions. You should consult with your financial adviser or Centrelink officer to check which payments, if any, you may be eligible to receive. In most cases you will be eligible for some form of payment, but the 'means test' may restrict the amount payable and waiting periods may delay the commencement of any payment.

This publication does not fully discuss all the payment types available and their requirements – you should consult your financial adviser or Centrelink officer for the range of benefits available. However, some of the more common benefits are described below:

- **Newstart Allowance** - *You must be available for work, actively seek work and accept work if offered. You will need to meet an activity test.*
- **Parenting Allowance** - *Have dependant children.*
- **Widow's Allowance** - *You must be a woman over 50 and have lost your partner since turning 40. Also you must have no recent workforce experience.*
- **Age Pension** - *Men must be over 65 and women over 62.5 unless claiming through DVA. The pension age for women is increasing progressively until it reaches 65 in 2014.*
- **Disability Support Pension** - *Must be indefinitely unable, through mental or physical ill health, to hold down a full time job.*

As discussed above, if you are eligible to receive a social security payment, you may be subject to a waiting period before payment commences. These waiting periods are discussed on the next page.

#### Income Maintenance Period (IMP)

Your employment separation certificate will list any payments you have received for accrued long service pay, accrued holiday pay and accrued sick leave.

Centrelink will assess the leave payments as income earned over the leave period. The IMP applies to all non-pension payments.

#### Liquid Assets Waiting Period (LAWP)

Liquid assets include cash, shares and other financial investments that are readily converted to cash. Liquid assets do not include superannuation entitlements or, for example, land. The LAWP is calculated differently depending on whether you are single or a member of a couple or have a child. This is explained in the following table:

If you...	Then the LAWP is calculated by...
are a member of a couple, OR have a dependent child	Liquid assets minus \$5,000, divided by \$1,000
are NOT a member of a couple AND do NOT have a dependent child	Liquid assets minus \$2,500, divided by \$500

The result of the calculation is the duration of the LAWP in weeks, as explained in the following table:

If the result is...	Then the LAWP is...
13 or more whole weeks	13 weeks
Less than 13 whole weeks	The whole number of weeks, with fractions rounded down to the nearest whole week
Less than one week	Not served at all

The LAWP applies to Newstart and Sickness Allowance.

#### Ordinary Waiting Period (OWP)

The OWP is a period of one week and applies to Newstart and Sickness Allowance.

LAWP and IMP are served concurrently. The OWP commences when the LAWP and IMP no longer apply.

## Means tests

### Assets test

Virtually all assets with the exception of your home and superannuation (in some circumstances) count towards the assets test.

The allowance assets test has a 'sudden death' cut off:

Home owner		Non-Home Owner	
Single	\$157,000	Single	\$270,500
Married	\$223,000	Married	\$336,500

*As at 1 July 2005 (CPI adjusted)*

The pension will reduce by \$3 per fortnight for each \$1,000 above these figures.

### Income test

Income from almost all sources is assessable under the assets test. Generally, the assessed income is before tax although some deductions are allowed. For financial investments, an interest rate is assumed to be earned, whether it is or not. This is called deeming.

If you are eligible for an allowance, income exceeding \$62 per fortnight will reduce your payment at the rate of 50 cents per \$1 between \$62 and \$142 of income per fortnight and at 70 cents per \$1 thereafter. Your partner's income above \$599.57 per fortnight will reduce at the rate of 70 cents per \$1.

If you are eligible for a pension, your payment will reduce by 40 cents per \$1 for each \$1 of income over \$124 per fortnight (single) or by 20 cents per \$1 for each \$1 of combined income over \$220 per fortnight (partnered).

### Income and assets testing of superannuation benefits

Funds held in superannuation will not be assessable for Social Security purposes for those under age pension age. As redundancy ETPs are 'unrestricted non-preserved', there is an opportunity to roll the money into superannuation where it will be quarantined from the Centrelink means test. As the ETP is unrestricted non-preserved, it can be accessed at any time if required.

## 4. Insurance continuation

In terminating employment, life insurance cover attached to your company superannuation can easily be overlooked. Leaving the employer and the employer superannuation fund effectively means cancelling any life, disability and/or salary continuation insurance that is paid through that fund. In many instances, insurance policies established outside an employer sponsored superannuation fund will not have the advantage of group underwriting and corporate rates. Medical examinations may be required and result in premium loadings or even refusal of cover.

Your insurance needs will normally continue after redundancy and should be reviewed at this time to ensure that you and your family are protected. Some employer sponsored superannuation funds may offer an insurance continuation option, so it is worthwhile making inquiries of your employer super fund or payroll office. If your employer will not continue your current insurance arrangements you should discuss continuing cover with your financial planner.



*Freedom*

## Summary

*Redundancy is often traumatic and there are numerous complex decisions to be made, which affect not only your lifestyle but also the future of your family.*

You may well have more cash available than at any other time in your life, but it may have to last a long time. Every individual's circumstances are different, and it is highly advisable to seek professional advice from your financial adviser. A range of advice in the areas of investments, superannuation, retirement planning, insurance and estate planning is available from your financial adviser.

Redundancy can be a great opportunity or a disaster and much depends on making the right decisions now. Making the right decisions requires having access to all necessary information and receiving experienced, informed and objective advice. Your financial adviser is available to assist you in making the right choices.

Flexibility



Simplicity



Choice

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