

Fact Sheet: Understanding redundancy



Redundancy payments, tax, and your super

Aside from the impending loss of a job, redundancy also brings with it the need to come to grips with a range of impacts on your income and your finances. We've put together this fact sheet to help make sense of your redundancy payment and how it's taxed, as well as what happens to your super.

What is a redundancy payment?

When you're made redundant, in most cases your employer will provide you with a final payment, generally referred to as a redundancy payment, or severance or termination pay.

Your employer will be able to tell you more about exactly what your payment will include, but as a general rule, the amount you receive is usually based on how long you've been in continuous service with your employer.

For example, the Fair Work Act states that employers must provide employees with severance pay in accordance with the following minimums:

Period of continuous service on termination	Redundancy pay period
At least 1 year but less than 2 years	4 weeks
At least 2 years but less than 3 years	6 weeks
At least 3 years but less than 4 years	7 weeks
At least 4 years but less than 5 years	8 weeks
At least 5 years but less than 6 years	10 weeks
At least 6 years but less than 7 years	11 weeks

Period of continuous service on termination	Redundancy pay period
At least 7 years but less than 8 years	13 weeks
At least 8 years but less than 9 years	14 weeks
At least 9 years but less than 10 years	16 weeks
At least 10 years*	12 weeks*

Source: fairwork.gov.au

* There is a reduction in redundancy pay from 16 weeks to 12 weeks for employees with at least 10 years' continuous service. This is consistent with the 2004 Redundancy Case decision made by the Australian Industrial Relations Commission.

If you have a registered agreement with your employer, the terms of this entitlement will be set out in that agreement; you can ask your employer for a copy (if you don't already have one). Otherwise, you can find it at the Fair Work Commission website fwc.gov.au/awardsand-agreements/agreements

We're here to help

Would you like some more information about what's going to happen to your super now that you've been made redundant?

Would you like to switch to a low-cost iQ Super – For Life account? Or perhaps you're thinking about fast-tracking your retirement planning. If redundancy is having an impact on your retirement savings and long-term plans, we're here to help.

- **Call us on 1800 555 667** to speak to a Member Services Consultant or to make an appointment to pop in and see us in person.
- **Explore the resources on our website**, including information about our low cost, online super account, iQ Super – For Life.

Our purpose at Russell Investments is to improve your financial security. That's why we offer a range of support and advice services to help you grow and protect your retirement savings, often at no cost. We can talk over the phone or connect you with a licensed financial adviser in your area (your first appointment is complimentary). Whatever your questions, we're here to help.

To find out more, call us or visit russellinvestments.com.au/advice

Have any questions?

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Components of a redundancy payment

Employment Termination Payments

The overall redundancy payment may have several components. For example, it might include:

- amounts for unused rostered days off
- amounts given in lieu of a notice period
- a gratuity ('golden handshake')
- invalidity payments.

These are classified as **Employment Termination Payments (ETPs)**.

Non-Employment Termination Payments

In addition, your redundancy payment may include some **non-Employment Termination Payments (non-ETPs)**:

- amounts for unused annual leave
- amounts for unused long-service leave.

What's not included?

Note that unused sick leave and personal leave (such as carers leave, for example) are usually not included in redundancy payments. Your employer will be able to clarify what applies in your case.

How is the payment taxed?

Tax on the ETP portion

Your ETP has a tax-free component and a taxed component (unless you have reached the age pension age in which case there is no tax-free component).

The **tax-free component** is based on a formula set out by the Australian Taxation Office (ATO). This tax-free portion includes a base limit, plus an additional service amount for each completed year of service. The base limit and service amount is indexed in line with average weekly ordinary time earnings (AWOTE) each income year, and can be found on ato.gov.au

Invalidity payments are also tax free, as are any pre-July 1983 service amounts.

The **taxed component** is essentially what remains of your ETP. The tax payable will depend on your age and is generally concessional taxed under an ETP 'cap':

- The ETP cap amount for the 2021/22 financial year is \$225,000. The amount is indexed annually.
- The whole-of-income cap amount for the 2021/22 financial year is \$180,000. This amount is not indexed and is reduced by any other taxable payments (such as salary) received in the same financial year.

The following table shows how the taxed component of your ETP can be taxed, as well as the withholding rates for ETPs for the 2021/22 financial year:

YOUR INCOME	YOUR AGE	COMPONENT FOR PAYG WITHHOLDING	RATE OF WITHHOLDING	CAP TO APPLY
Life benefit ETP – taxable component, where payment is because of: <ul style="list-style-type: none"> • early retirement scheme • genuine redundancy • invalidity • compensation for personal injury, unfair dismissal, harassment or discrimination. 	Under preservation age	Up to the ETP cap amount	32%	ETP cap
	Preservation age or over	Up to the ETP cap amount	17%	ETP cap
	All ages	Amount above the ETP cap amount	47%	ETP cap
Life benefit ETP – taxable component, where payment is: <ul style="list-style-type: none"> • a 'golden handshake' • non-genuine redundancy payment • severance pay • a gratuity • in lieu of notice • for unused sick leave • for unused rostered days off. 	Under preservation age	Up to the relevant cap amount	32%	Whole-of-income cap
	Preservation age or over	Up to the relevant cap amount	17%	Whole-of-income cap
	All ages	Amount above the relevant cap amount	47%	Whole-of-income cap

Source: ato.gov.au

Case study: How Peter gets taxed on his redundancy payment

Peter, a 60-year-old Process Worker, receives a genuine redundancy payment of 12 weeks' pay based on 10 years of continuous service.

With a current salary of \$48,000, Peter's entitlement is \$11,077.

Since he's under the age pension age of 66 years and 6 months (increasing to 67 years from 1 July 2023), his payment will fall into the tax-free component and he won't pay any tax on this amount.

However, if he had been over the age pension age, his payment would have been taxed at 17% and his tax payable would have been \$1,883.

Tax on the non-ETP portion

Non-ETP amounts for the 2021/22 financial year are taxed as follows:

Payment type	Tax payable
Unused annual leave	32%
Unused long service leave	32%

What happens to my super?

When your employment with your current employer ceases, so too will your employer's contributions to your employer-sponsored super account with iQ Super.

Furthermore, your super will no longer attract the same low fees and other benefits associated specifically with your current employer super. Our Member Services Consultants will be able to tell you more about how your super will be affected when you leave your current employer's super plan. Call us on 1800 555 667 to find out more.

However, your super will still stay with iQ Super, since it will be moved to iQ Super – For Life to which the following fees apply:

- administration fees of 0.286% of your account balance per year, plus a fixed administration fee of \$78 per year
- investment fee of 0.45% of your account balance per year (based on the GoalTracker Option, which is the default investment option if you haven't made an investment choice)
- plus other fees and charges where applicable; please refer to the iQ Super – For Life Product Disclosure Statement for full details.

What is iQ Super – For Life?

iQ Super – For Life is our lower cost, online super offer. Because it's an online offer, we can keep our costs down—and that translates to lower fees for you. And all the while, you'll have access to Russell Investments' worldclass investment expertise and extensive services for members.

Plus, if you start working with a new employer, you can ask to have your employer contributions made directly to your iQ Super – For Life account.

If you're happy to do all your transacting online, give us a call today on **1800 555 667**, or head to our website at russellinvestments.com.au/iqsuperforlifepds to find out more about iQ Super – For Life, and we'll show you how to make the switch to convenient and cost-effective online super.

Our Member Services Consultants will be able to tell you more about how your super will be affected when you leave your current employer's super plan. Call us on **1800 555 667** to find out more.

Is retirement an option?

For some, redundancy presents the prospect of retirement, or a gradual transition to retirement. If you're thinking about leaving the workforce, either partially or permanently, you may wish to talk to someone about your options and structuring your income over the coming years. To find out what's available to you as an iQ Super member, call us on **1800 555 667**.

If you have any questions about your super, you can call us for personal phone-based advice on investment strategy, contribution strategies and retirement planning, provided at no cost to you.

If you want more comprehensive advice, we can put you in touch with a qualified financial adviser, who can give you full personal financial advice. The first appointment is complimentary.