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# Redundancy

The redundancy process can be difficult and usually involves many important financial decisions. There are many important issues regarding redundancy and super that you should consider during this time.

This fact sheet outlines some of the key issues about redundancy and your super.

## What will happen to my existing super once I leave my employer?

This depends on which super fund your super contributions are directed to.

If your super contributions are currently going to your Media Super account, your existing super account will be unaffected by your redundancy. Fees and costs, and investment options, will remain the same, however your insurance cover may change.

If your super contributions are currently being directed to a corporate super fund, it is likely that your entire super balance will be transferred into a retail or personal plan run by the same administrator as the corporate plan. If this is the case, consider the features of the new plan and ensure that you are not penalised by higher fees or reduced insurance cover.

Ensure that you stay in control of your retirement savings. Investing your super in a low-cost fund run only to benefit members can significantly affect your retirement lifestyle.

## What are Employment Termination Payments?

A lump sum payment made as a result of termination of employment is known as an employment termination payment. This payment can include:

- amounts for unused rostered days off,
- amounts in lieu of notice,
- a gratuity,
- an employee's invalidity payment (for permanent disability, other than compensation for personal injury), and
- certain payments after the death of an employee.

Employment termination payments do not include:

- a payment for unused annual leave or unused long service leave, or
- the tax-free part of a genuine redundancy payment or an early retirement scheme payment.

To qualify as an employment termination payment, the payment must be received within 12 months of your termination. However, the Australian Taxation Office may allow a payment received after this period to be considered as an employment termination payment for tax purposes. Payments received outside 12 months will be taxed as ordinary income at marginal tax rates.

## Employment termination payments and super

As of 1 July 2007, employment termination payments (other than those made under the transitional arrangements outlined below) won't be able to be contributed or rolled over into super and therefore must be taken as cash.

### Tax on employment termination payments

Your employment termination payment may be made up of different components. Any invalidity or pre-July 1983 components of an employment termination payment made on redundancy (also known as a life benefit) will be tax-free. The invalidity component of the payment compensates the taxpayer for leaving work early because of invalidity.

The tax on any remaining, taxable component will depend on your age, as shown in the following table.

Your age	Tax on taxable component
Under preservation age <sup>1</sup> on the last day of the income year in which the payment is made.	<ul style="list-style-type: none"><li>• Up to capped amount – taxed at a maximum rate of 30% plus Medicare levy</li><li>• Amount over capped amount – taxed at top marginal tax rate (45%) plus Medicare levy.</li></ul>
Preservation age <sup>1</sup> or over on the last day of the income year in which the payment is made.	<ul style="list-style-type: none"><li>• Up to capped amount – taxed at a maximum rate of 15% plus Medicare levy</li><li>• Amount over capped amount – taxed at top marginal tax rate (45%) plus Medicare levy.</li></ul>

<sup>1</sup> Preservation age is the age at which retirees can access their super benefits and is 55 for anyone born before 1-7-1960.

As you can see in the table above, employment termination payments of up to \$150,000 (the cap for 2009-10) are taxed concessionally. The cap is indexed annually. For details of the capped amount, visit [www.ato.gov.au/super](http://www.ato.gov.au/super).

The taxable components of all life benefit employment termination payments received in an income year are counted towards this cap. Also counted towards the cap are the taxable components of any employment termination payments you have received in an earlier income year for the same employment termination. Any tax-free amounts are not counted towards the cap.

Taxable components of any payments in excess of the cap are taxed at the top marginal rate plus the Medicare levy.

### Transitional arrangements

The rules regarding super and redundancy changed on 1 July 2007 meaning payments on termination of employment can no longer be rolled into super. However, transitional arrangements may apply to payments made between 1 July 2007 and 30 June 2012. These arrangements only apply if you were entitled, as at 9 May 2006, to such a payment specified under:

- a written contract;
- an Australian or foreign law, or
- a workplace agreement under the Workplace Relations Act 1996.

If you qualify for the transitional arrangements, your employment termination payment may be rolled over (in full or part) into super or used (in full or part) to buy a pension before 1 July 2012.

You do not have to rollover a transitional employment termination payment to super or buy a pension. If you choose not to, any invalidity or pre-July 1983 amounts that form part of the payment are tax-free.

The tax on any remaining, taxable component will depend on your age, as shown in the table over the page:

Your age	Tax on taxable component of transitional employment termination payments
Under preservation <sup>1</sup> age on the last day of the income year in which the payment is made.	<ul style="list-style-type: none"> <li>• Up to \$1 million – taxed at a maximum rate of 30% plus Medicare levy.</li> <li>• Amount over \$1 million – taxed at the top marginal tax rate (45%) plus Medicare levy.</li> </ul>
Preservation age <sup>1</sup> or over on the last day of the income year in which the payment is made.	<ul style="list-style-type: none"> <li>• Up to lower capped amount – taxed at a maximum rate of 15% plus Medicare levy.</li> <li>• Amount over lower capped amount and up to \$1 million – taxed at a maximum rate of 30%.</li> <li>• Amount over \$1 million – taxed at the top marginal tax rate (45%) plus Medicare levy.</li> </ul>

<sup>1</sup> Preservation age is the age at which retirees can access their super benefits and is 55 for anyone born before 1-7-1960.

The lower capped amount (refer to previous page) is indexed annually. The upper cap amount of \$1 million is not indexed. For details of capped amounts, visit [www.ato.gov.au/super](http://www.ato.gov.au/super).

These thresholds apply to the taxable components of all transitional employment termination payments you receive during the transitional period, not just those you receive in any one income year. That is, when determining the tax on the taxable component, you must take into account any transitional employment termination payments received earlier in the transitional period. This includes any directed termination payments – see ‘What are directed termination payments?’ below.

However, these thresholds do not apply to employment termination payments that don’t qualify for the transitional arrangements. That is, when applying the thresholds to transitional employment termination payments you do not need to take into account any employment termination payments that don’t qualify for the transitional arrangements.

### What are directed termination payments?

A directed termination payment applies only during the transition period. It is a transitional employment termination payment that you direct the payer (generally your employer) to make to a complying super fund or to purchase a pension.

If you choose a directed termination payment, the payer must comply with the direction and give you the details of how the payment is made up. The super fund that receives the payment will pay 15% tax on the taxable component of the payment and deduct it from your account. In addition, a portion of the taxable component will be treated as concessional contributions if the total of the taxable components of all directed termination payments received from 1 July 2007 exceeds \$1 million. Total concessional contributions exceeding the relevant annual cap will attract penalty tax. Refer to your Media Super *Member Booklet (Product Disclosure Statement)* for details regarding concessional contribution caps and penalty tax.

Note that a directed termination payment will be preserved in super. This means you will not be able to access the payment until you reach your preservation age or meet another condition of release.

### More information?

For assistance with super issues relating to your redundancy, please call us on 1800 640 886.

This fact sheet issued on 1 July 2009 by Media Super Limited ABN 30 059 502 948, AFSL 230 254 contains information of a general nature only. It has been prepared without taking into account your individual objectives, financial situation and particular needs. You should read the Media Super Product Disclosure Statement (PDS) before making any decision to invest in Media Super. Media Super has endeavoured to ensure that the information contained in this fact sheet is accurate to the best of our knowledge but cannot guarantee its accuracy or accept any liability for any errors or omissions.

### HOW TO CONTACT US

**Mail:** Media Super Limited  
Locked Bag 1229, Wollongong, NSW 2500

**Phone:** 1800 640 886

**Fax:** 1800 246 707

**Email:** [administration@mediasuper.com.au](mailto:administration@mediasuper.com.au)

**Website:** [www.mediasuper.com.au](http://www.mediasuper.com.au)

