

# Managing your finances after accepting a redundancy

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If you accept a redundancy offer you may receive a number of payments including a redundancy payout and payments for unused leave, in addition to your final salary. Whilst a lump sum may appear attractive, there are many things to consider, to manage your finances throughout a period of unemployment.

## Things to consider

### Redundancy payment

If you are under Age Pension age (67) and have accepted a genuine redundancy offer, part of your payments may be tax-free. For 2026/27 financial year the tax-free amount is $13,598 plus $6,801 for every complete year of employment with that employer.

For example, if you've worked for your employer for 5 full years, your tax-free redundancy amount would be: $13,598+(5×$6,801) = $47,603

The balance is paid as an Employment Termination Payment (ETP). A portion of the ETP may also be tax-free if you started employment before July 1983. The taxable amount is then taxed at the following rates (2026/27):

| Age | Maximum rate of tax* |
|---|---|
| Under preservation age | 30% on first $270,000<br>45% on balance |
| Preservation age or older | 5% on first $270,000<br>45% on balance |

* Plus Medicare if applicable

### Unused leave payments

In cases of genuine redundancy, payments of unused annual and long service leave are concessionally taxed. They are subject to a maximum tax rate as shown below. These payments are included in your assessable income and can impact your entitlements to certain benefits, concessions or entitlements based on your assessable or taxable income.

| Leave type | Age Service period | Taxation* |
|---|---|---|
| Annual leave | Any | 100% included in assessable income and taxed at a maximum rate of 30% |
| Long service leave | To 15 August 1978 | 5% included in assessable income and taxed at your marginal tax rate |
| | From 16 August 1978 | 100% included in assessable income and taxed at a maximum rate of 30% |

* Medicare and other levies may apply

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**Superannuation**

Unless you have reached your preservation age, your superannuation generally remains preserved and cannot be accessed.

If you do not need access to funds prior to retirement, you may wish to contribute some of your redundancy payments (after tax has been deducted) as additional contributions into your superannuation.

If you were in the employer's superannuation fund you may need to find a new fund to roll your superannuation into. It is important to confirm your current types and levels of insurance cover within your super fund and ensure this is available in your new fund or can be transferred.

It is also a good time to review your superannuation investment strategy and check that your investments match your time horizon and risk profile.

**Mortgage and other debts**

If your mortgage has a re-draw facility you also have the option of depositing funds into this account. This has the potential to save interest and tax, as well as reduce your assessable assets for Centrelink purposes. This option will also provide you with access to your funds, when you need it.

If your mortgage does not have a re-draw facility, you may wish to consider an offset account, which also reduces the interest on your home loan; however, this will be treated as an assessable asset by Centrelink.

You can also speak to your lender to discuss your mortgage repayments if you need access to cashflow.

**Qualifying for Centrelink benefits**

If you are under pension age you may qualify for the JobSeeker Payment, to provide income while you are looking for a new job.

Eligibility is subject to both income and assets testing.

It's important to note the following are not assessed as assets by Centrelink:

- Your home, including any improvements you make to it.
- Your superannuation (while you are under Age Pension age).
- Funds placed in a mortgage account with a re-draw facility (offset accounts are assessable).

It is important to consider your current and future financial situation when making plans for your redundancy funds.

The payments received may create a 'waiting period' during which you will not qualify for any income support from Centrelink.

This can be a substantial period of time, so you need to ensure you have access to money to meet your living expenses during this time.

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## Case study

### Qualifying for Centrelink benefits while unemployed

**Jane,** 45, has accepted a redundancy offer. Her husband Bill is a homemaker who looks after the couple's two young children. Jane receives the following payments:

| | |
|---|---|
| **Unused annual leave (after tax)** | $25,000 |
| **Employer termination payment (ETP, after tax)** | $64,734 |
| **Preserved superannuation balance** | $120,000 |
| **TOTAL** | **$209,734** |

Jane and Bill have an outstanding mortgage of $160,000. Jane's redundancy was unexpected and as her industry is

in a downturn, she may be unemployed for a significant period. Jane plans to apply for JobSeeker Payment and has calculated a 30 week waiting period due to the payments received. Both Jane and Bill would like to reduce their mortgage however need access to funds for living expenses while they wait for JobSeeker payments to begin.

Options they could consider include:

- Deposit both the $64,734 ETP and $25,000 leave payments into the offset account connected to their mortgage to reduce interest without locking the money away.

  Ensure the $120,000 of preserved superannuation is invested in an appropriate asset allocation for their long-term needs and objectives.

- Once Jane finds a new job they can review their situation for a longer-term strategy.

### Your life insurance

You may need to review or re-apply for health, life, trauma, TPD and/or income protection insurances if these were covered by your previous employer or superannuation fund.

Some insurers will offer a continuation option when leaving an employer so that you do not have to undergo medical assessments to continue cover.

If you have income protection insurance, you terms may change from "own occupation" to "any occupation" as prolonged unemployment may make it hard to determine what your regular occupation is.

Finally, if you have an "indemnity" style income protection policy, in the event of claim the amount payable is based on your annual earnings in the 12 months prior to your injury or illness. Therefore, a prolonged period of unemployment could adversely affect any benefit amount payable.

Likewise, if you are unemployed at the time of suffering an illness or injury, you may not be able to claim on your policy, or it may reduce the amount payable in the event of claim.

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## Considerations on re-entering the workforce

### Superannuation

All of your superannuation should be invested to generate returns that match your investment timeframe. You need to consider which asset allocation and investments will help you to do that.

### Wealth and retirement planning

You should seek financial advice to determine the best way to get your savings back on track and how much you should be contributing to superannuation and other investments to achieve your wealth and retirement objectives.

### Mortgage and other debts

Once you are re-employed you may be able to afford to use surplus funds to repay all or some of your mortgage and other debts. This could save you a significant amount in interest repayments, and free up salary to fund other investment strategies.

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