Voluntary redundancy – should you take the money and run?

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A large sum of money and the prospect of a hard-earned break is music to many people's ears. But it's not necessarily going to be all beer and skittles. Here's five questions to ask yourself to help you through the decision making process.

Journalism, admin, IT, assembly line, middle management, public sector – no matter what line of work you do these days, you are increasingly likely to come across the offer of a voluntary redundancy.

Should you take the money and run? That depends entirely on your personal circumstances. For some people, it could be the best thing that ever happened to them. For others, it could be a financial disaster.

5 questions to help you decide whether to take the money:

How much will I get in my hand?

Start by setting up a spreadsheet with four columns:

- Type of payment

- Before tax amount

- Tax taken out

- After tax amount.

Use the table below to help you estimate the different payments you may receive and the tax treatment of each.

How long will it take me to find another job? Estimate the time it will take to get a new job, then add four weeks to give yourself a buffer. Take this number of weeks and multiply it by your current after-tax weekly salary (found on your payslip). If this figure is more than the amount you worked out in your spreadsheet above, think long and hard before accepting it. Despite laws forbidding it, age discrimination still exists, so it may take you longer to secure the job you want if you are over 50. Think of the number of people in your current workplace who are over 50 to see how this may affect you.

Do I want a change of career? If you have already decided your current career path has come to an end, a voluntary redundancy may provide a golden opportunity to keep an income while training and breaking into a new career.

Am I ready to start looking for another job? The thought of not having to set the alarm and face the traffic is very appealing when you are working. Once you have slept in for a week or two, you start to think about the things you miss about working – the people, the satisfaction and the fact you don't have to hunt for another job. Make sure you are ready to dust off the resume, brush up on your interview skills, let the world know you are looking for your next opportunity and get the skills and qualifications you need to land your dream job.

Am I financially ready to retire? If you are thinking about retiring, add your total assets including the amount you have worked out in your spreadsheet, your super and any investments. A rough guide may be to divide that number by 20 and that will give you the amount you can expect to receive as retirement income (assuming a 5% income return)*.

Be mindful that if you were born after 1952, you will not qualify for a Centrelink age pension until at least six months after you turn 65. Those born after 1957 won't qualify until you reach 67.

It's a good idea to speak to a financial adviser at this point to maximise your Centrelink age pension, minimise your tax and get the right investment mix for you.

Types of redundancy payments and tax treatment

Type of payment	What is it?	How is it taxed (2013/14) – excluding Medicare levy
Genuine redundancy payment	Your redundancy payment if you are under 65 – usually includes a base amount and an amount for each year of service.	The first $9,246 plus an additional $4,624 for each completed year of service is tax free, the remainder is taxed as an eligible termination payment (ETP – see below).
Eligible termination payment	Payment above tax free amount if you are under 65 and your entire payment if you are over 65.	If you are under 55, the amount under $180,000 is taxed at a maximum of 30% and any amount over that is taxed at 45%.If you are 55 or older, the amount up to $180,000 is taxed at a maximum of 15% and the balance is taxed at 45%
Accrued annual leave or sick leave	Leave pay you have earned but haven't taken.	Taxed at a maximum of 30%
Accrued long-service leave	Long-service leave earned but not taken. Usually paid if you have more than five years service.	If you started your current job after 1978, taxed at a maximum of 30%.

Source: Australian Taxation Office (ATO)

Three sensible options for your redundancy payment

Before you splash out on a new car, overseas holiday or extensions for the house, give the three options below a thought:

1. Set up a bank account that will pays you the same way as you are paid now. If you are paid monthly, set up a monthly payment into your day to day bank account equal to your after-tax monthly salary.
2. Use any money you don't need for the next six months to pay off as much of your home loan as possible so you can afford to live on a lower salary if necessary.
3. If you have decided to retire and are over 60, set aside enough income for the next two months and put the rest into your superfund. Talk to your financial planner to make sure you are using your lump sum in the best way.

*This does not take into account any tax liability.

Information is current as at March 25 2014. It is general information only and should not be considered a comprehensive statement on any matter and should not be relied upon as such. It has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation and needs. The tax position described is a general statement and is for guidance only. It has not been prepared by a registered tax agent. It does not constitute tax advice and is based on current tax laws and our interpretation. Your individual situation may differ and you should seek independent professional tax advice.