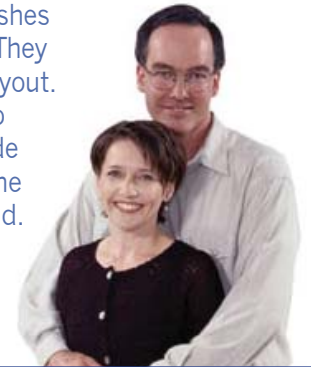




# what should Gerry and Freda do with Gerry's final payout?

After 14 years with the same company, 45 year old Gerry has been retrenched, and finishes work in four weeks. This has come as a complete surprise to Gerry and his wife Freda. They are worried about their financial situation and what they should do with Gerry's final payout. Leaving his employer means Gerry has to make a number of decisions including how to manage his money to make sure he and Freda meet their outgoings. They need to decide what to do with his super (which has to be rolled out of his employer super fund when he leaves his job) and if he wants to continue his insurance offered through his current fund.

Gerry feels pretty confident that he'll find a new job quickly and intends to take a 6 week break before focusing on job hunting. He and Freda both want to make sure that they make the best choices and they seek advice on their options.



Gerry's been advised that his final payout will be \$77,700 and is broken up as follows:

Unused annual leave	\$7,200
Unused long service leave	\$8,500
Redundancy payment	\$62,000

Gerry has \$170,000 in his employer's superannuation fund and all of this is preserved which means he can't cash it in until retirement.

In addition to day to day living expenses, Gerry and Freda have an \$80,000 mortgage and make fortnightly payments.

## what's the effect of tax on Gerry's payout?

Gerry's employer statement shows the after-tax amount he will receive is around \$71,000. Jamie's adviser checks his statement and confirms that these calculations are correct.

His payout has been taxed as follows:

Net unused annual leave	\$4,932
Net unused long service leave	\$5,823
<i>Redundancy payment</i>	
~ Tax-free portion of redundancy	\$56,174
~ Net taxable redundancy amount	\$3,990

## maintaining their cash flow

Gerry and Freda are not eligible to apply for Centrelink benefits for approximately 54 weeks due to waiting periods.

This means they'll need to fund their lifestyle from Gerry's payout until he starts a new job.

Gerry, Freda and their adviser talk about their need to make the best choices for Gerry's final payout and manage their money effectively until Gerry finds a new job.

Their adviser recommends they pay themselves a regular income by establishing a 'temporary pay office' and recommends investing \$20,000 in a high-yielding cash management trust to receive a fortnightly income of \$2,150 deposited directly into their normal bank account. Their temporary pay office allows Gerry and Freda to manage their money and meet their obligations while keeping to a regular discipline of spending.

## taking a well deserved break

Their adviser recognises Gerry and Freda's need for a break and recommends they set aside \$15,000 for travel and other expenses to enjoy themselves.

## reducing the mortgage

The remaining \$36,000 of Gerry's payment will be used to pay off part of their mortgage to save on interest cost. This can be drawn on in the future if required.

## what happens to Gerry's super?

Gerry has to leave his employer super fund within 90 days of leaving the company. Gerry's superannuation is 'preserved' so it must be rolled over into another super fund.

If Gerry doesn't provide instruction to the fund, his super will be will automatically be rolled over into a cash-based super fund.

Gerry can't access his super for another 15 years, so his adviser recommends he roll over his super to a growth-oriented super fund with the aim of growing his capital over the long term.

Their adviser also recommends Gerry makes a super contribution on behalf of Freda this financial year of \$3,000 and that Freda make a super contribution for \$1,000. This strategy will allow them to access tax rebates and government co-contributions of about \$2,000.

### what about insurance?

Gerry has life and disability insurance of \$300,000 through his employer super fund. This policy ceases when Gerry leaves work but he can take advantage of a 'continuance' option (ie an option to continue his policy without the need for medical tests) if Gerry pays the premium. Their adviser strongly recommends that Gerry maintain his policy to ensure continued coverage and peace of mind.

After finding a new job, a more thorough review of their insurance needs can take place, taking into account the insurance arrangements with his new employer.

### assessing job offers

At the end of their break Gerry receives two job offers. One offers a total package including super of \$85,000 with very limited remuneration packaging. The other provides a total package of \$81,000 with extensive packaging options, including the ability to package a car and a laptop computer (they are interested in this for their children in university). Gerry discusses his options with their adviser and discovers that the lower paying job, which is his first choice, will actually result in him being better off after tax by nearly \$2,000 pa.

### assessing job offers (continued)

	option 1 \$85,000 <i>inflexible package</i>	option 2 \$81,000 <i>flexible package</i>
salary	\$77,982	\$53,750
laptop computer		\$3,636
car package		\$16,926
super	\$7,018	\$6,688
<b>total package</b>	<b>\$85,000</b>	<b>\$81,000</b>
less tax paid (exl FBT)	\$20,515	\$12,534
<b>net value of package</b>	<b>\$64,485</b>	<b>\$68,466</b>
income after tax	\$58,519	\$42,219
less costs not packaged	\$18,529	nil
net take home pay	\$39,990	\$42,219
net super after tax	\$5,965	\$5,685
<b>net cash salary &amp; super</b>	<b>\$45,995</b>	<b>\$47,904</b>

Talk to us today on **1800 626 881** to find out more.

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