



Shadforth Financial Group



Career Transition Guide

This guide has been designed to assist employees facing the prospect of retrenchment, redundancy, or forms of employment cessation with important and relevant information that can be helpful in structuring financial affairs effectively, coping with emotional upheaval, and putting in place successful strategies for a new beginning.

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Introduction

In today's economic environment, the prospect of redundancy can become an unexpected reality for any number of people, and an unsettling concern for many others.

Let's face it, we all have a lifestyle to maintain, some with dependants, and many with financial commitments such as mortgages, personal loans, and other obligations that require us to generate an income. Should your source of income suddenly cease, this could have a dramatic impact on your financial wellbeing and serious consequences depending on your personal circumstances.

Redundancy can occur for any number of reasons. You may decide to leave

your employer by accepting a voluntary redundancy, or you may be made redundant due to forces that are beyond your control – when your employer is forced to reduce headcount due to financial cost-cutting for example.

However redundancy doesn't have to be a cataclysmic event. For many people, redundancy can be an opportunity to reflect upon your achievements, re-evaluate your goals and career aspirations, and to plan a new path forward for the future.

Regardless of your current situation and future intentions, you will need to make some important decisions about your finances. This includes any redundancy or employee termination payments that you

may be entitled to, your expenses, and how you can structure your affairs tax-effectively moving forward.

The choices you make now could have a significant impact on your financial position in the future. That's why it's important to get the right advice. We've developed this guide to assist you in coming to terms with the implications of redundancy, understanding any financial payments that you may be entitled to, and to provide you with general information about the options that may be available to you.

Once you've had the opportunity to review this guide, please feel welcome to contact us to discuss your own situation and to raise any questions or concerns you may have.

Coming to terms with redundancy

Like the end of any relationship, the unexpected termination of your employment can lead to feelings of grief and despair.

It is important to understand that these emotions are natural and will eventually pass. Whether you are consciously aware of it or not, you may be grieving the loss of a network of friends, social status, a comfortable lifestyle, a comfort zone, peace of mind, an appreciation of self worth, perhaps even your dreams and ambitions.

Job loss can be a very stressful experience. However it's important to realise that it's not the end of the world. Friends and family may be able to offer emotional and financial support while you assess your

situation and options, and professional counselling may also be beneficial should you feel overwhelmed by your predicament.

IMPORTANT CONSIDERATIONS

Redundancy and early retirement involve important financial decisions that can only be made with consideration given to your personal circumstances. This involves:

- 1 Assessing your financial position and your ability to meet your financial commitments
- 2 Identifying and securing any employer payments that you may be entitled to

- 3 Understanding how redundancy may affect your superannuation
- 4 Identifying any Government assistance you may be entitled to
- 5 Understanding/assessing your personal insurance
- 6 Planning the way forward

Let's examine these considerations in further detail. While you progress through this guide, think about how these factors may relate to your own situation and the financial decisions you need to make.

Assessing your financial position

Gaining a sound understanding of your current financial position is the first and most important step in laying the foundations for a clear direction moving forward. This involves:

IDENTIFYING YOUR LIVING EXPENSES

It is important to establish the full extent of your living expenses prior to, or upon redundancy. If you have not secured another source of employment, or plan to retire, you will need to ensure you have sufficient funds to accommodate your day-to-day living expenses. This may include the cost of utilities, transportation, fuel, vehicle maintenance, groceries and so on.



QUANTIFYING YOUR DEBT

Depending on the level of termination payout you receive upon redundancy, using the funds to pay off your mortgage or any other form of debt, partially or entirely, can seem like a sensible idea, however it is important to consider the taxation implications that may be applicable. Once you have quantified the extent of your debt, your financial adviser will be able to advise you accordingly as to the most tax-effective strategy.

PLANNING FOR FUTURE EXPENSES

If you have already committed to future financial expenses such as an overseas trip or new vehicle purchase contract, it is important to have funds readily available to accommodate these commitments. In addition, it may be prudent to have an excess sum of money set aside for unexpected financial expenses that may arise in the future.

DO YOU HAVE SUFFICIENT FUNDS FOR RETIREMENT?

While redundancy may offer some people the opportunity of early retirement, for others ongoing participation in the workforce may be a financial necessity before retirement can become a feasible option. There are certain taxation advantages associated with transferring all or part of your redundancy payments into superannuation, and depending on your circumstances, you may also be eligible to receive, or increase, certain Government payments.

DO YOU HAVE ADEQUATE INSURANCE?

Many Australians underestimate the level of insurance cover they need, which can have disastrous consequences in the event of an unexpected injury or illness. Certain types of insurance cover may cease upon termination of your employment, so it is important to review your insurance needs and requirements upon redundancy in order to ensure your ongoing needs are adequately covered in the event of death or disability.

Securing employer payments

When you leave your employer you may receive a range of payments that relate to your current employment and in some situations compensation for your dismissal.

The value of these payments is usually specified in industrial awards or employment contracts. You may also have to exit your employer-sponsored superannuation fund and transition your accumulated entitlements across to another fund.

What types of payments are you likely to receive?

Typically, your redundancy payment will include some or all of the following entitlements:

- Accrued annual leave
- Accrued long service leave
- Rostered days off (if applicable)
- Sick leave
- Payment in lieu of notice
- An ex-gratia payment (if applicable)

Payments from your employer

You may be entitled to receive different types of payments from your employer depending on the circumstances of the cessation of your employment. These payments generally fall within four categories and have corresponding taxation implications:

- a) Genuine redundancy payments
- b) An employment termination payment (or ETP)

- c) Approved early retirement schemes
- d) Other forms of termination payments

Let's examine each of these types of payments in further detail and how they may apply to you.

A) GENUINE REDUNDANCY PAYMENTS

These payments are made when your job is genuinely made redundant – sometimes referred to as “bona fide” redundancy. Essentially this means that your position is being made redundant if the tasks you perform are no longer required, or are required in a different form or at a different location. The concept of ‘genuine’ redundancy refers to the job function ceasing as opposed to you losing your job for other reasons.

If you are leaving your employer as a result of genuine redundancy, some or all of your redundancy entitlement will be tax-free and payable in cash. However some conditions usually apply. These conditions are as follows:

- You are dismissed from your job prior to your anticipated retirement date
- Your position has genuinely been made redundant (as described above)
- You must be under 65 years of age, or the normal retirement age for your position (whichever falls soonest)
- There can be no agreement between you and your employer to be reemployed at a later date

Calculating the tax-free component of your redundancy payment:*

It is possible to determine the dollar value of the tax-free component of your redundancy payment with this calculation:

To do this, take the figure of \$8,435 and add \$4,218 for each full year of completed year of service with your employer. For example, if you have been employed for 6 years, you will be entitled to receive a maximum tax-free redundancy payment of \$33,743. This is based on the calculation of \$8,435 + (\$4,218 x 6).

If the dollar value of your redundancy payment falls under the amount determined using the above calculation, the entire amount will be tax-free. However, if the amount is greater than the maximum tax-free threshold, the remaining amount will be regarded as an Employment Termination Payment, or “ETP.”

B) EMPLOYEE TERMINATION PAYMENT (ETP)

You may be entitled to receive an Employment Termination Payment (or ETP) when you leave your employer. An ETP can be a payment of funds that exceed the tax-free threshold as explained in the previous section, accrued sick leave and/or an ex-gratia payment.

The options available to you will largely be determined by whether you are entitled to what are called “transitional rules.” Transitional rules apply to ETPs received between 1 July 2007 and 30 June 2012. You can find out whether the transitional rules apply to you by referring to your workplace agreement or employment contract, or by discussing your eligibility with your employer.

*Please note these thresholds are adjusted by AWOTE on an annual basis. The figures \$8,435 and \$4,218 are effective for the 2011-12 financial year.

Securing employer payments continued

If you are not eligible for the transitional rules, non-transitional rules will apply (which are discussed later in this guide).

If you are eligible for the transitional rules, you can choose to either receive your ETP in cash or rollover your ETP into a superannuation fund. Accepting your ETP in cash might seem like an attractive option, however rolling over the funds into superannuation may be a better strategy depending on your situation and retirement plans.

There are taxation implications associated with whichever choice you decide to make, so it's important to discuss your options with your financial adviser in order to achieve the best possible outcome.

As a general guide, if you have immediate or near term expenses that you wish to pay, then accepting your ETP payment in cash is a better option, however you may end up paying more tax than you would had you rolled the funds over into superannuation.

If you elect to roll the funds into superannuation, the rate of taxation is lower, however you need to keep in mind that you will not have access to the funds until you reach preservation age and retire permanently, or meet other conditions of release.

The following table illustrates the taxation rates applicable for receiving your ETP payment as cash in comparison to rolling the funds over into superannuation.

Taxation Rates applicable for ETPs (2011-2012 transitional rules)

Taxable component	Receiving your ETP as Cash	Rolling over your ETP into Superannuation
If you are aged under 55	The first \$1m is taxed at 31.5%* and any remaining excess is taxed at 46.5%*	Taxed at 15% with excess above \$1m counting towards the concessional contribution cap
If you are 55 years of age or more	The first \$165,000 [^] is taxed at 16.5%*. Amounts from \$165,000 [^] to \$1m are taxed at 31.5%* with any remaining excess amount taxed at a rate of 46.5%*	As above

Notes:

There is no tax-free component for ETPs. If you decide to rollover your ETP into superannuation you will need to make an election to do so within 30 days of receiving your pre-payment statement.

The concessional contribution cap is \$50,000 per annum, or if you are of age 50 years or more; \$100,000 per annum until 2012 and \$50,000 per annum thereafter. If the cap is exceeded, additional contributions are taxed at a rate of 31.5% in addition to the initial 15% tax paid when contributed to superannuation.

*This includes a Medicare levy of 1.5%. The flood levy is not included.

[^] This cap is indexed periodically in line with movements in AWOTE in increments of \$5,000 and is applicable to all transitional ETPs received during the transitional period.

The cap of \$1m is not indexed and is reduced by any transitional ETPs received.

If you do not qualify for the transitional rules, unfortunately you do not have the option of rolling over your ETP payment into superannuation and therefore must receive it as a cash payment. The following table illustrates the taxation rates applicable for receiving your ETP payment as cash.

Taxation Rates applicable for ETPs (2011-2012 non-transitional rules)

Taxable component	Tax payable
If you are aged under 55	The first \$165,000 [^] is taxed at 31.5%* and any remaining excess is taxed at 46.5%*
If you are 55 years of age or more	The first \$165,000 [^] is taxed at 16.5%* with any remaining excess amount taxed at a rate of 46.5%*

Notes:

There is no tax-free component for ETPs.

*This includes a Medicare levy of 1.5% The flood levy is not included.

[^] This cap is indexed periodically in line with movements in AWOTE in increments of \$5,000 and is an annual limit that applies to all non-transitional ETPs received in a financial year (or related to that year).

C) APPROVED EARLY RETIREMENT SCHEMES

Early retirement schemes usually apply to a group of employees that fall within a certain category (or categories), for example; a group of employees that perform a particular job function or perform their role at a particular location. Early retirement schemes are usually initiated by the employer but must be submitted to the Australian Taxation Office (ATO) for evaluation on a case by case basis.

While these schemes normally apply to a group of employees, in some instances

it may be that just a small number of employees are offered early retirement. For the purposes of redundancy planning, it doesn't really matter whether your termination of employment is the consequence of genuine redundancy, or an approved early retirement scheme, as the taxation considerations and social security implications are essentially the same.

Typically, the conditions required by the ATO for approval as an early retirement scheme are as follows:

- The intention of the scheme is to rationalise and/or re-organise the employer's business operations
- The scheme must be approved by the Commissioner of Taxation before the early retirement scheme is introduced
- The scheme must be offered to all employees who fall within the category or categories, identified by the employer.

D) OTHER FORMS OF TERMINATION PAYMENTS

You may also be eligible to receive other forms of termination payments from your employer upon redundancy. These payments commonly include unused rostered days off, accrued annual leave, accrued long service leave, and/or an ex gratia or "golden handshake" payment. These payments must be made in cash.

The following table illustrates the taxation applicable to other forms of termination payments.

Type of payment	Taxation implication in the context of genuine redundancy	When tax is payable
Accrued annual leave	100% of your entitlement is taxed at a maximum rate of 31.5%*	This is deducted by your employer
Accrued long service leave – for service up until 16 August 1978	5% of your entitlement is taxed at your marginal tax rate	Payable when you file your tax return
Accrued long service leave – for service after 15 August 1978	100% of your entitlement is taxed at a maximum rate of 31.5%*	This is deducted by your employer
Final pay	100% of your entitlement is taxed at your marginal rate	This is deducted by your employer

Notes:

*This includes a Medicare levy of 1.5%. The flood levy is not included.

Redundancy & your superannuation

There are a number of considerations you will need to think about in terms of your superannuation upon redundancy.

For instance, you may need to transfer your superannuation into a new fund, or you may wish to withdraw some of your superannuation as a lump sum payment.

There are various criteria you need to meet in order to pursue different strategies as well as corresponding taxation implications. The first step is to identify whether you are eligible to access the funds you have accumulated in superannuation.

This is determined by your date of birth and is sometimes referred to as your "preservation age." Other conditions of release may also apply.

Your date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
1 July 1964 or thereafter	60

You can find out what your preservation status is by contacting the administrator of your superannuation fund. There may be a number of alternative options available to you so it is important to discuss these options and the various taxation implications associated with each with your financial adviser.

Typically, the options available to you will fall within one of the three following categories:

1. PRESERVED

Preserved status applies if you are yet to reach preservation age (as specified in the preceding table) and/or you intend to find new employment. If you are deemed to have "preserved status," you will usually have to keep your accumulated superannuation funds in your current fund (if this is possible) or roll the entire amount into another fund.

You will not be able to withdraw any of your accumulated superannuation held in your employer's fund as cash at the time of your redundancy.

2. RESTRICTED NON-PRESERVED

Restricted non-preserved status applies when you have reached preservation age, but intend to remain in the workforce in a new source of employment. In this situation you will either need to retain your accumulated superannuation in your existing fund (if this is possible) or roll the funds over into a new fund. You will not be able to withdraw any of the funds unless you meet another condition of release.

3. UNRESTRICTED NON-PRESERVED

Unrestricted non-preserved status applies when you have reached preservation age, but intend to retire or remain in the workforce in a full or part-time capacity.

There are a number of options available to you under unrestricted non-preserved status and some of these options will depend upon whether you intend to retire or remain in the workforce in a full or part time capacity.

For instance, you may be eligible to receive your accumulated superannuation as a lump sum payment, or you may be able to create an income stream from your superannuation fund through the Government's Transition to Retirement scheme.

The transition to retirement measure allows people who have reached their preservation age, to have access to their superannuation benefits without having to retire or leave their job.

This measure allows people to access their superannuation savings by drawing down certain noncommutable superannuation income streams called transition to retirement income streams.

HOW MUCH TAX WILL YOU PAY IF YOU DECIDE TO REDEEM SOME OR ALL OF YOUR SUPERANNUATION?

If you decide to accept some or all of your accumulated superannuation as a lump sum payment, you will be taxed according to your age and the amount withdrawn. This amount can be identified by referring to the following table.

Taxable Component	Amount of Tax Payable
If you are less than 55 years of age	21.5%*
If you are 55 years of age or more	First \$165,000 [^] is tax-free and the remaining excess is taxed at 16.5%*
If you are 60 years of age or more	Nil

Notes:

There is no tax-free component.

Lump sum payments received if you are 60 years of age or more do not need to be included in your tax return.

*This includes a Medicare levy of 1.5%. The flood levy is not included.

[^]This cap is indexed periodically in accordance with adjustments in AWOTE in increments of \$5,000 and applies to the total of all taxable components and post-June 1983 components prior to 1 July 2007 that are taken as cash at age 55 and over.

GET THE RIGHT ADVICE ABOUT YOUR SUPERANNUATION

Superannuation is a complex area which requires specialist advice. You will face a number of important decisions to make about your superannuation upon redundancy so it's important to get the right advice to ensure that the decisions you make are in your best interests and are consistent with your future retirement plans.

Government assistance

The advent of redundancy presents the opportunity to reassess your career goals and objectives. In the current economic climate you may decide to pursue a new career direction in terms of your skills and employment. If you do not already have another job lined up, you may be eligible to receive financial support from the Government via the Newstart Allowance.

You may be eligible for the Newstart Allowance if you are:

- aged 21 or over, and
- under the Age Pension age, and
- looking for paid work, and
- prepared to enter into an activity agreement, and
- not involved in industrial action.

To lodge a Newstart Allowance claim you must be an Australian resident and in Australia on the day when you lodge the application. To qualify as an Australian resident you must be living in Australia as an Australian citizen, or the holder of a permanent resident visa, or a New Zealand citizen who was in Australia on 26 February 2001, or for 12 months in the 2 years immediately before that date, or was assessed as “protected” before 26 February 2004.

You will also need to satisfy an income and assets test. In terms of the income test, income from a range of sources will be taken into account. This can include, but is not necessarily limited to your personal income (such as a salary or wages) as well as any income you receive from investments (such as investment property rental income or dividends from shares).

The asset test will vary depending on whether you are a home owner or non home owner. You may also be eligible to apply for a hardship grant if you have a certain dollar value of assets but very little income.

The extent of Government assistance offered under the Newstart Allowance will also vary depending on whether you are single, or part of a couple, your age, and whether you have any children. You may also be eligible to receive rental assistance.

HOW LONG WILL YOU HAVE TO WAIT TO RECEIVE THE NEWSTART ALLOWANCE?

The ordinary waiting period before the Newstart Allowance will commence is seven days. However other waiting periods may apply, for example in the following circumstances:

Income Maintenance Period

With this period, your payment is generally delayed from the date you received any leave entitlements and/or a time related redundancy payment up until the conclusion of the period covered by these entitlements.

Liquid Assets Waiting Period

This waiting period applies if you have money available to you (liquid assets) of more than \$11,000 (if you have a partner or dependent children) or \$5,500 (if you are single) on the day you or your partner became unemployed or unable to work because of sickness or accident.

This waiting period can apply for up to 13 weeks.

WILL REDUNDANCY PAYMENTS AFFECT YOUR ELIGIBILITY FOR THE NEWSTART ALLOWANCE?

Any payments you invest outside superannuation will usually be assessed under the income and assets tests. However, it is important to note that any money held in a superannuation fund will not be counted until you reach Age Pension age.

Accordingly, you may be able to maximise your Newstart Allowance entitlement if you elect to:

- Roll over your ETP to a superannuation fund. In order to do this, you will need to be eligible for the transitional rules
- Make additional after-tax contributions into superannuation from the redundancy payments you receive from your employer
- Retain unrestricted non-preserved accumulated superannuation funds within a superannuation fund.

Your personal insurance

It is fairly common for employees to have some form of personal insurance such as income protection, or death and permanent disability as part of their superannuation arrangements with their employer. When you leave your employer as a result of redundancy these arrangements may cease.

Therefore it is important to review your insurance requirements as soon as possible to ensure that you and any dependents are suitably covered, particularly in the context of your new circumstances moving forwards.

Your financial adviser can assist you in ascertaining the level of insurance cover you need according to your personal situation. Naturally this will be affected by your future intentions and whether you intend to retire or remain in the workforce.

For instance, if you intend to remain in the workforce, you may be eligible to secure insurance cover from a superannuation fund using 'before tax' salary sacrifice contributions.

You can also have the insurance premiums deducted from your existing accumulated superannuation funds without necessarily having to make additional contributions to cover the cost of your new insurance cover.

This approach essentially provides you with an affordable way to fund insurance cover if you wouldn't otherwise have sufficient cash to pay insurance premiums while looking for a new source of employment.

Planning the way forward

Redundancy is not the end of the world. While it may cause a great deal of emotional distress and financial upheaval, there are some clear steps you can take to ensure your personal wellbeing and your family's interests are protected and maintained.

Regardless of whether you intend to retire or look for a new job, the first and most important step is to seek advice from a qualified financial adviser.

Only a qualified financial adviser can accurately assess your situation and provide you with the right advice in relation to your redundancy entitlements, the taxation implications associated with the various options available to you (depending on your age and other circumstances), and provide you with a clear direction forward.

Naturally this advice is based on a sound understanding of the conditions of your redundancy, your personal situation and lifestyle objectives in the future.

This can include advice in relation to:

- Quantifying the payments you are entitled to according to the circumstances of your redundancy
- How to minimise the tax that you may have to pay from your redundancy entitlements via tax-effective strategies
- Assist you with your superannuation and how this may be best structured in the context of redundancy and retirement needs
- How to manage any debt and other financial outgoings

- Ensuring you have adequate insurance cover to protect you and any dependents in the event of your death or disability
- Improving your cashflow and potentially creating an income stream through superannuation (depending upon your age and eligibility)
- Reducing your ongoing taxation obligations
- Structuring or re-structuring an appropriate investment portfolio
- Protecting and maintaining your investments
- Ensuring you have an appropriate estate plan in place

TAKE CONTROL OF YOUR SITUATION

If you are facing the prospect of redundancy, the most important decision you can make right now is to take control of your situation. With the right guidance and direction you can ensure that you receive all the financial benefits you are entitled to and put in place a plan that accommodates your immediate needs and requirements as well as your longer term lifestyle objectives.

At Shadforth we believe that sound financial advice is the cornerstone of a comfortable lifestyle ahead. We invite you to take the first step towards a secure financial future. Call us today to arrange an initial obligation-free complimentary appointment to discuss your situation.

Case study

Rebecca 45 years of age

Rebecca (aged 45) has been made redundant after 15 full years with her employer.

She is entitled to a bona fide tax-free redundancy payment of \$71,705 that will be paid in cash (see page 5). She plans to use this money to meet her living expenses and other immediate needs while she looks for a new job.

She is also entitled to an ETP of \$90,000 (consisting entirely of the taxable component) and wants to invest this money for her retirement. Because she is eligible for the transitional rules, she is considering two options:

- 1 Taking the ETP as cash and investing outside super, and
- 2 Rolling over the ETP into super.

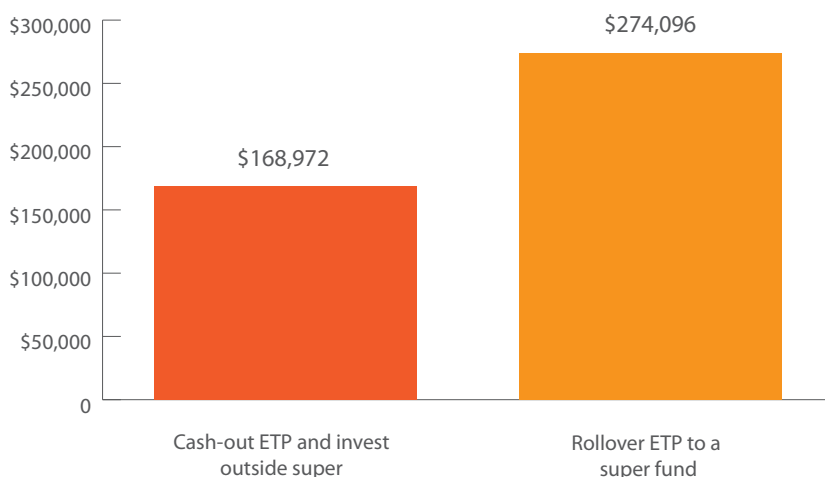
After tax is taken into account, rolling over the ETP will enable Rebecca to invest an additional \$14,850.

Let's now assume Rebecca maintains these investments for 20 years until she retires at age 65. In this example the super investment will be worth an extra \$105,124.

This is because, in addition to making a larger initial investment, earnings in the super fund are taxed at a maximum rate of 15%; not her marginal rate which we have assumed will be 46.5% during this period.

	Cash-out ETP & invest outside super	Rollover ETP to a super fund
ETP amount	\$90,000	\$90,000
Less tax payable on cash lump sum at 31.5%	(\$28,350)	N/A
Less tax payable when rolling over at 15%	N/A	(\$13,500)
Net amount to invest	\$61,650	\$76,500

BENEFITS OF ROLLING OVER TO SUPER OVER 20 YEARS



Other assumptions: 20 year comparison. Total pre-tax return from both super and non-super investment is 7%pa (split 3% income and 4% growth). All income is re-invested. The overall franking level on investment income is 25%. All figures are after income tax (at 46.5% for non-super and 15% for super) and capital gains tax (including discount). These rates are assumed to remain constant over the investment period. No lump sum tax was payable when Rebecca cashed out her super, as she was aged 60 or over.

Case study

Mark 40 years of age

Mark (aged 40) has been made redundant after ten full years with his employer and is not eligible for the transitional rules.

He will receive a total bona fide redundancy payment of \$150,000. This amount includes both tax-free redundancy payment and an ETP after tax is deducted.

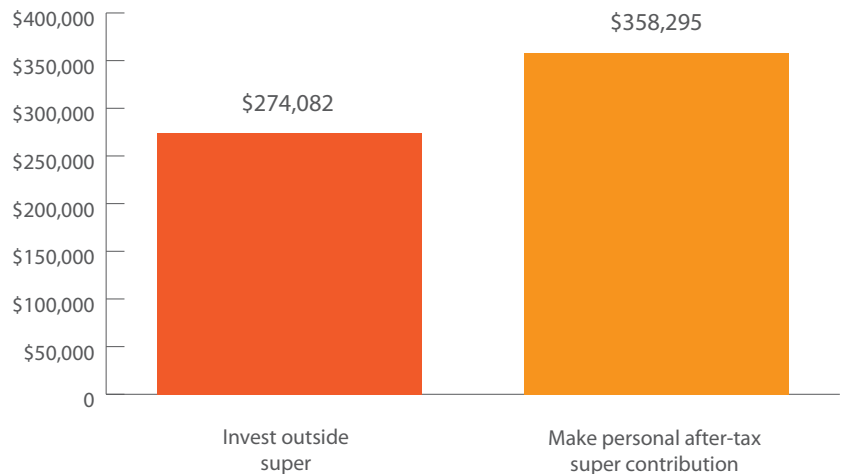
Mark will keep \$50,000 to meet his living expenses and other needs while he looks for new employment. With the remaining \$100,000 he is considering two options:

- 1 Investing outside super, and
- 2 Making a personal after-tax contribution into his super.

If Mark maintains these investments for 20 years until he retires at age 60, the super investment will be worth an extra \$84,213.

This is because earnings in the super fund are taxed at a maximum rate of 15%, not his marginal rate which we have assumed will be 46.5% during this period.

BENEFITS OF MAKING A PERSONAL AFTER-TAX SUPER CONTRIBUTION OVER 20 YEARS



Other assumptions: 20 year comparison. Total pre-tax return from both super and non-super investment is 7%pa (split 3% income and 4% growth). All income is re-invested. The overall franking level on investment income is 25%. All figures are after income tax (at 46.5% for non-super and 15% for super) and capital gains tax (including discount). These rates are assumed to remain constant over the investment period. No lump sum tax was payable when Mark cashed out his super, as he was aged 60 or over.

Case study

Simon 45 years of age

Simon (age 45) is being made redundant.

His former employer has been contributing into a super fund which contains a restricted non-preserved amount of \$70,000. This amount (which consists entirely of the taxable component) will become unrestricted non-preserved on termination of employment.

Simon wants to use the money to meet living expenses in retirement and is considering the following options:

- 1 Taking the benefit as cash and investing outside super.
- 2 Keeping the money in his super fund.

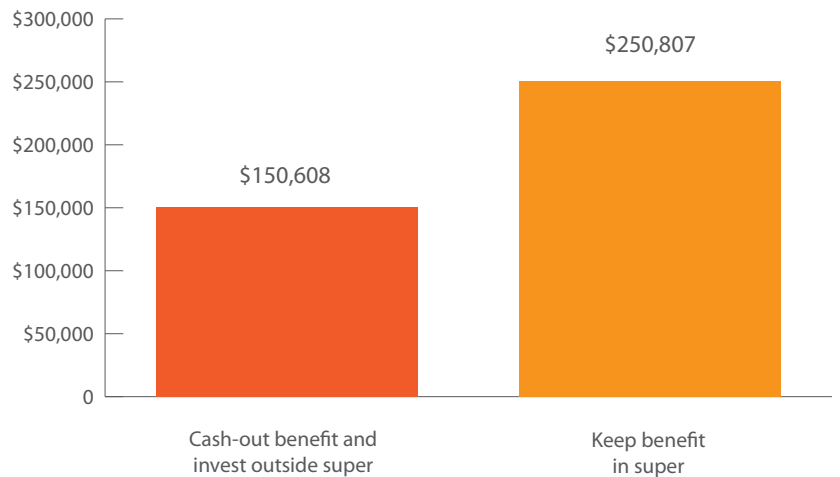
After tax is taken into account, keeping the money in super will enable Simon to retain an additional \$15,050 for his retirement.

Let's now assume Simon maintains these investments for 20 years until he retires at age 65. In this example, the super investment will be worth an extra \$100,199.

This is because, in addition to having a larger initial investment, earnings in the super fund are taxed at the maximum rate of 15%, not his marginal rate which we have assumed will be 46.5% during this period.

	Cash-out benefit and invest outside super	Keep benefit in super
Super benefit	\$70,000	\$70,000
Less lump sum tax at 21.5%	(\$15,050)	N/A
Net amount to invest	\$54,950	\$70,000

BENEFITS OF KEEPING MONEY IN SUPER OVER 20 YEARS



Other assumptions: 20 year comparison. Total pre-tax return from both super and non-super investment is 7%pa (split 3% income and 4% growth). All income is re-invested. The overall franking level on investment income is 25%. All figures are after income tax (at 46.5% for non-super and 15% for super) and capital gains tax (including discount). These rates are assumed to remain constant over the investment period. No lump sum tax was payable when Simon cashed out his super, as he was aged 60 or over.

About Shadforth

HELPING SUCCESSFUL PEOPLE MAKE SMART DECISIONS ABOUT MONEY

Shadforth is one of Australia's leading privately-owned financial advisory firms.

Our aim is to help clients generate and maintain wealth over time. We have many clients from all walks of life who are supported by 300 employees in 13 Practices across Australia.

We are united in our commitment to act with the highest standards of ethics and integrity for the benefit of our clients, providing quality financial advice and best of breed solutions and services. This includes low cost and highly diversified core investment options.

Being privately-owned, we are free of ownership or control by the large banks and insurance companies that dominate Australian wealth management. We provide transparent, fee-based advice.

Today, our experienced, highly qualified and dedicated Private Client Advisers offer clients uniquely personalised financial advice, and develop financial solutions and services that are tailored to each client's unique set of circumstances and objectives.

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