Being pushed out of your job before you're ready to leap into retirement can come as a shock – but it pays to resist blowing your redundancy payout on holidays and designer shoes. ***Kim Irving*** *reports.*

Making the most of redundancy

Picture this: you have worked hard and you're contemplating retirement when, wham, you're made redundant. After the initial shock – and it's almost always a shock – you will have to make major financial decisions while also trying to deal with the emotional fallout.

When your redundancy is paid out, resist the urge to do anything rash. Think carefully before you act. You might be feeling blue, but don't try to make it go away by booking an expensive holiday, buying a new car or refitting your kitchen, says HLB Mann Judd partner Jonathan Philpot.

"Spending a large sum of money on lifestyle assets or expenses without properly reviewing your overall financial position is probably one of the biggest mistakes you can make," Philpot says.

It's important to develop a clear picture of your finances – how much do you have in superannuation and investments, and how much debt do you have, including your mortgage?

Look at your credit card and bank statements for the previous three months and break down all your living expenses.

From there, you can make the necessary adjustments.

Deal with debt first, says Philpot. If you can, pay off credit card debts and car loans, but most importantly pay off your mortgage – or as much of it as possible.

"It's a safer decision to be making because you are eliminating your non-deductible debt. Even though interest rates are fairly low at the moment, it [your mortgage] is still an after-tax cost of six to seven per cent per annum," Philpot says.

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Work out your sources of income. Your age matters. If you are between 55 and 60, you will most probably have to find work again, even if it's part-time, to help meet living costs and to continue contributing to your super.

If you wait until you turn 60 before accessing your super, you will avoid paying taxes, Philpot says.

If you have built up assets, this may be the time to live on investment wealth for a couple of years. But if you do, first seek financial advice to minimise tax.

Philpot advises against speculative investments, and contrary to popular opinion, says buying an investment property when you are about to retire isn't always a good idea.

The transaction costs are high and the rental yield may only be two to three per cent, which isn't enough income for most retirees.

Just as losing your job can play havoc with your finances, it can also undermine you emotionally.

"It's a grieving process, just like it would be with any other major loss in your life, so there are all the stages a person might go through with grief," says psychotherapist Peta Landman.

"It's no small thing and the grief will be real grief."

Landman, who has had clients who have been hit by redundancy, says most people experience disbelief, anger and upset, before coming to terms with it.

Recovery time can depend on factors, including what time in your life it occurs, your financial situation and the importance to you of your job – how much of your identity is bound up in your career.

It is even harder if it is unexpected. "It is a huge loss in our lives. We spend more time at work than we probably do with our families," Landman says.

Yet it need not be all bad, she says. "It can be a great opportunity to decide on what you want to do in your life at this point."

Landman encourages clients to assess how they will replace the emotional aspects of their jobs.

"It's not just the money. It's the satisfaction, the social interaction, the physical activity of just getting to work. How will you replace that intellectual satisfaction?"

If you have to return to work, consider retraining. If you plan to transition to retirement, think about volunteering, study, taking up a hobby or getting fit.

Finally, she says, don't become isolated. Tap into your social network of family and friends.

Redundancy TIPS

Don't blow your redundancy: Taking a big trip or buying a new car can leave you with less capital than you need to get you through your retirement years.

Try to pay off your mortgage and debts before investing: Debt is a drain on your resources and it is better to get rid of it before putting money into your superannuation.

If you are younger than 60, think about getting a job: If you don't have enough super, even part-time work will help boost your balance and avoid eating into it too soon.

Take stock of what your job meant to you: If it gave you stimulation, social interaction and even physical activity, find ways to replace these things.

Plan an activity for each day: The risks of social isolation grow with redundancy, so to counter this plan something, even if it is just going for a walk, or meeting friends for coffee.