

Valuing Long Service Leave (LSL)

LSL is an undervalued employee benefit and can often be a large liability on a company's financial statements. However, it is possible to educate employees; more accurately value the liability and strategically manage LSL to get the best value from the cost of providing it.

Importance of appropriately valuing LSL

LSL is a statutory employee benefit provided to loyal, long-serving permanent (and often casual) employees in Australia. As it is compulsory many companies do not communicate the value or have it appreciated by their staff. LSL provides an incentive for employees to remain with the company, as well as giving them a more extended period of rest and relaxation, however it is one of the least-used instruments in an employer's toolbox.

In addition, companies must determine a value to disclose in their financial statements of LSL obligations. The employee benefit accounting standard AASB 119 requires the calculation of the liability to be based on an actuarial valuation method with assumptions regarding discount rates, salary inflation, rates of leaving service (due to resignation, retirement, death or disability) as well as rates of employees taking their LSL whilst in service. It also requires inclusion of on-costs like superannuation for leave taken in service, payroll tax and workers compensation costs. If a simplified method is used companies could be substantially over or underestimating this liability.

Our approach

We believe that LSL is a benefit that is valued by employees and that valuable insight into workforce tenure can be gleaned from performing accurate actuarial calculations of LSL liabilities.

We are experienced in communicating with employees about the value of their employee benefits. This not only educates them in an aspect of their package that they may know little about, but allows companies to acknowledge this additional benefit for long-serving staff.

We have a team of experienced actuaries who can perform the actuarial valuation to determine a more accurate value of a company's LSL liability to place in their financial accounts. In addition, we can assist companies in analysing actual experience to determine if that matches the assumptions used. This will help them to understand employee behaviour around taking LSL in service and rates of leaving service at different tenure and determine whether HR policies could be changed in future based on that knowledge.

We're here to empower results:

For direct consultation on these issues, please contact:

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A valuable employee benefit

With employees effectively receiving close to a week's additional holiday for every year they work for a company (which is payable after 10 years' service - though this differs by state), LSL should be a powerful retention tool. After all, workers who are well into their tenure won't want to reset the clock to zero when they'll be rewarded for staying with the organisation. Unfortunately, it is a benefit that many employees are unaware of, or undervalue as companies do very little to promote it. The value of LSL to employees can be improved by including relevant information in new employee packs, and by including information in communications such as regular staff updates, employee benefit sessions and annual performance reviews.

Aon Hewitt's consultants have experience in conducting employee sessions to explain employee benefits and what it means to them.

Accurate valuation

Companies are required to set aside money in their financial statements to pay staff their LSL entitlements. There are many factors that can affect the cost of LSL including:

- **Salary increases** – LSL cost increases when an employee's salary increases, for past service as well as future service
- **Rate of leaving service** – if there is high turnover in the early years of employment many employees will never be eligible for LSL
- **Rate that employees take their LSL**– superannuation guarantee contributions are required to be paid on these payments, whereas they are not required if the LSL entitlement is paid out on termination of service.

Taking these factors into account and putting a more accurate value on LSL as a financial liability should be a business priority. Our actuaries are able to perform projections to determine when the LSL entitlements are likely to be taken and bring these liabilities back to a present day value.

We can also assist companies in setting the assumptions based on past experience and considering current policies regarding leave and the current workforce. Our experience has shown that analysing past experience can provide finance and human resource teams a greater understanding of the effects of:

- Changes to salary
- Policies around leave
- Additional costs associated with restructures (as the eligibility criteria for LSL to be paid out for a redundancy is different to an employee choosing to leave).

About Aon Hewitt

Part of Aon plc, Aon Hewitt is the global leader in human resource consulting and outsourcing solutions. Our services focus on helping organisations mitigate risk in their workforce and realise the untapped potential of their employees. We also help individuals maximise their wealth to enable people to live the life they want.

In Australia, our team of experts partner with your organisation to develop and deliver people strategies that achieve positive business outcomes in the areas of: superannuation and retirement; financial advice; workers' compensation; work, health and safety; workforce risk solutions; employee benefits; talent, leadership and employee engagement; remuneration and incentives; total rewards; actuarial services; and mergers and acquisitions.

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