

MYLEAVE

2018 YEAR IN REVIEW

In the financial year ending 30 June 2018 MyLeave strengthened its financial position and delivered a fully funded Balance Sheet with an Accounting Ratio of 148% (assets/liabilities). It is important that MyLeave continues to maintain a very strong financial position due to the steady downturn in the Western Australian construction industry. Furthermore, as investment returns have been positive for the past consecutive nine years, this may indicate a correction in the short / medium term.

In 2018 the number, and value, of payments to workers reduced from the record levels in 2017. In 2018 a total of 5,445 payments (\$43.7M) were made to workers.

MyLeave was pleased to be able to reduce the contribution levy from 1 January 2018 to 1.20% (-0.15%) and Board Members will soon decide the applicable levy for the year commencing 1 January 2019. MyLeave's Actuary, Pricewaterhouse Coopers, will assist Board Members in their determination of the levy for 2019. MyLeave is in a very sound financial position however Board Members need to take a conservative approach to determining the 2019 contribution levy to ensure MyLeave maintains its Mission "To provide a financially sustainable portable Long Service Leave Scheme for eligible Western Australia construction industry employees".

CONTRIBUTION LEVY					
	2014	2015	2016	2017	2018
Levy percentage	1.90%	1.50%	1.35%	1.35%	1.20%

MyLeave statistics for 2018 clearly show the continued industry downturn and also the important place in the industry that MyLeave has in delivering a significant volume and value of worker payments.

WORKERS				
	2015	2016	2017	2018
Total registered	130,151 -1%	127,941 -2%	121,533 -5%	112,245 -8%
Total contributed for (average per quarter)	76,271 +2%	76,592 nom.	68,134 -11%	63,794 -6%
Total days of service (average per quarter)	3,299,286	3,296,013	2,891,334	2,641,243
Number of benefits paid	3,910	5,100	5,808	5,445
Value of benefits paid	\$30.9M	\$39.6M	\$47.4M	\$43.7M

The above data highlights a steady decline in both the number of registered workers and the number of active workers (Total contributed for). The number of active workers has shown a very significant and rapid reduction to 63,794 (-16%) from 2015. In line with the industry downturn, the number of benefits paid is showing a high percentage of terminations, as compared to workers taking long service leave. For 2018 the percentage of termination payments was 59% as compared to 63% in 2017.

As many workers are suffering the impact of the construction industry downturn, MyLeave is very pleased that it is able to provide a financial buffer for those workers who have an unintended or unanticipated break in employment activity. The scheme also continues to provide a significant benefit to workers who take a well-earned long service leave break.

In contrast to the reduction in the total number of registered workers, the average number of registered employers remains at ~5,000 and has not shown any material movement over recent years.

In 2018 the investment return percentage achieved by MyLeave was 6.9%, which is less than the 2017 return of 9.0%, however in excess of the 20 year long term average return of 5.7% per annum. MyLeave Board Members are pleased with this 6.9% return and acknowledge that the annual investment performance will fluctuate on a year in / year out basis. As such, the investment portfolio is structured to accommodate, as best as possible, these performance fluctuations.

The 2018 return of 6.9% represents the ninth consecutive year of positive returns and it is important that MyLeave continues to maintain a sound Balance Sheet to address the eventuality of a significant downturn or even a moderate correction in the global investment market. With an investment portfolio of \$569.2M and cash deposits of \$21.9M at 30 June 2018, a negative investment performance translates into a significant dollar value loss impact on MyLeave's Profit & Loss account, and therefore the Balance Sheet Equity Surplus.

In 2018 the level of net investment income was \$33.2M, which was down from the level of \$48.1M in 2017, and the contribution income from employers was \$41.3M. As previously detailed, the contribution income reduced from the 2017 level of \$47.8M with the reduction being in line with the underlying construction industry activity and reduction in the contribution levy rate from 1 January 2018.

The table below shows the investment portfolio (including cash deposits held by MyLeave) and also the significant revenue / income impact of sound investment returns for MyLeave.

	INVESTMENT PORTFOLIO & INCOME				
	2014	2015	2016	2017	2018
Total portfolio	\$424M	\$490M	\$515M	\$557M	\$591M
Net investment income	\$48.4M	\$34.6M	\$13.1M	\$48.1M	\$33.2M

Continued investment portfolio growth

Whilst significant growth has been recorded in the investment portfolio, this has been necessary to align the portfolio to the Actuary's calculation of the total actuarial liability for worker payments. The investment portfolio is also required to have a financial buffer to cover global investment market downturns. The actuarial calculations are updated annually and reflect the assessment of the worker liability taking into account updated annual data including days of service and the ordinary income of workers as submitted in the quarterly returns by employers.

The table below shows the historical movement in the actuarial liability and in turn this actuarial liability must be reflected in the corresponding asset being the investment portfolio.

	ACTUARIAL LIABILITY				
	2014	2015	2016	2017	2018
Total liability	\$330M	\$375M	\$432M	\$428M	\$411M

Actuarial liability reduces

As a result of the factors previously commented on, MyLeave's Balance Sheet records a sound financial position as shown below.

STATEMENT OF FINANCIAL POSITION				
	2015	2016	2017	2018
Assets	\$515.5M	\$541.9M	\$584.7M	\$611.3M
Liabilities	\$376.0M	\$434.8M	\$428.9M	\$412.4M
Equity surplus	\$139.5M	\$107.1M	\$155.8M	\$198.9M
Accounting Ratio (Assets/Liabilities)	137%	125%	136%	148%

The Equity Surplus increase in 2018 was +\$43.1M and this is considered a very sound result. MyLeave endeavours to minimize the movements however there are key impacts, such as Western Australian construction industry activity (with positive / negative impact on the actuarial liability valuation) and global investment market performance, which are well outside of MyLeave control.

The 2018 Balance Sheet Equity Surplus of \$198.9M is in excess of MyLeave's approved Accounting Ratio range of 110% - 130% and it is important that MyLeave retains a prudent coverage ratio to ensure the Balance Sheet Equity can withstand both future global investment market downturns and also any material changes to the actuarial liability for worker payments.

The Honourable Bill Johnston MLA has recently appointed the following Board Members for a two year term from 25 September 2018:

Chair

Ms Susan Barrera

Representing Employees

Mr Mick Buchan

Ms Meredith Hammat

Mr Steven McCartney

Representing Employers

Ms Joanne Alilovic

Mr Michael McLean

Ms Kate Schick

The following retiring Board Members are thanked for their contribution to the success of MyLeave:

Ms Linda Gibbs (Chair)

Ms Amanda Bishop

Mr Warren Edwardes

Mr Glenn McLaren

Ms Maria Saraceni

As detailed, the 2018 year was very active for MyLeave and Board Members are pleased with MyLeave's performance and the continued benefit provided by the Scheme to employers and construction industry workers.