Australian Government
Department of Finance

How to: Calculating long service leave (LSL) liabilities using the shorthand model

May 2026

Intended audience

This guide is for Commonwealth entities with less than or equal to 1,000 full-time equivalent (FTE) employees to calculate their long service leave liability.

Introduction

The *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR) permits small entities (those with less than or equal to 1,000 FTE employees) to use the shorthand method to calculate their long service leave (LSL) liabilities.

The LSL shorthand method (the model) is a spreadsheet model that incorporates demographic assumptions applicable to small entities. Entities are required to input employee data from their payroll system. The model then calculates an estimate of the entity's LSL liability.

Entity Responsibility

The model is a calculation tool only. Each entity is still responsible for calculating and reporting its own LSL liability, which includes ensuring that all inputs and assumptions are suitable, keeping records of any checks and conducting appropriate management review.

Long service leave

AASB 119 *Employee Benefits* requires that LSL liabilities be measured as the present value of the estimated future cash outflows to be made by the employer. The LSL shorthand model calculates the liability as:

Amount of Nominal Accrued LSL x Probability Factor x Discount Factor + on-costs

where the probability factors are age and service based.

The two main financial assumptions for estimating LSL liabilities are the discount rate and assumed rate of salary increase.

2026 updates to the LSL shorthand model

The Department of Finance (Finance) engaged the Australian Government Actuary (AGA) to review the principal assumptions underpinning the model. This comprehensive review includes an analysis of demographic profiles as well as employee exit, LSL usage and

retirement rates across entities based on Australian Public Service Commission (APSC) data. These assumptions were last updated in the 2020 review.

Key updates include:

- New probability factors
  - There are now two probability factors based on small-entity size band (0–499 employees and 500–999 employees).
  - The new probability factors are expected to minimally increase the projected liability.
  - For entities where most employees have over 10 years of service, changes in probability factors may not materially affect LSL liability.
- Usage rate
  - Updated assumptions for usage between 10–17 years of service. This has a minor effect on discounting cash flows.
- On-costs
  - On-costs have been updated to reflect more people taking LSL prior to retirement, as well as the change in usage and probability factors. Depending on the entity's demographic profile, this would result in approximately a 6 per cent increase from 2025.
- Model enhancements
  - Additional options on salary growth assumptions, which allows comparison of salary growth and promotional growth assumptions to those recommended.

Summary of assumptions

Probability factor

LSL can be accessed after 10 years of qualifying service. The probability factors are determined based on the likelihood that the employee will remain employed for the 10-year period.

For the 2026 actuarial review, analysis indicates that entities with 0–499 FTE ongoing employees generally have higher exit rates than entities with 500–999 FTE ongoing employees. As a result, the 2026 model applies different sets of probability factors based on the relevant entity size band (0–499 FTE ongoing employees or 500–999 FTE ongoing employees). These factors are applied automatically within the model and do not require additional adjustments by the entity. Employees aged 55 and over are assigned a probability factor of 1.00 regardless of years of service.

The implied probability factor is the average likelihood that employees will receive their LSL weighted by each employee's accrued nominal LSL. A shorter serving workforce will generally have a lower implied probability factor than a longer serving workforce.

The 'Summary' tab shows the allocation of the accrued nominal LSL by years of service, the probability-weighted nominal LSL by years of service, and the resulting implied probability factor.

Discount factor

The discount factor often has a greater effect on the LSL liability than the probability factors do. It takes into account when future cash flows will be made – under time value of money principles, payments scheduled further into the future are discounted more heavily than those due sooner, assuming all other factors remain unchanged.

The timing of when future cash flows are made depends on factors including how many employees have more than 10 years of service, how often long service leave is taken, and when employees retire. The discount factor is used to work out what those future payments are worth in today's dollars – the present value of future cash flows.

The discount factor accounts for both interest effects and entity-specific salary growth, including increases due to general salary inflation and promotions.

Interest rate

The interest rate used to discount future cash flows to the present value is the Australian Government 10-Year bond yield, published annually in the Finance Standard Parameters.

Salary growth

The selection of the salary growth assumption is a decision for each entity and should be reasonable and supportable.

In the model, as a guide, expectations of general salary inflation over the next 10 years are estimated between 3.5 per cent and 3.75 per cent per annum on average. Promotional salary advancement is around 0.20 per cent.

On-costs

If employees take LSL while still working, the entity will incur employee benefit on-costs, including superannuation contributions and accrued employee entitlements for LSL and annual leave. These additional costs must be added to calculate the present value of the LSL liability in accordance with section 24 of the FRR.

LSL paid in service represents the portion of future payments that are expected to be paid as salary while in service, rather than as a lump sum paid on exit. The model assumes that 60 per cent of employees over 55 will take their LSL prior to retiring. If an entity varies from the 60 per cent standard assumption, they are required to document their justification. Refer to summary of on-costs table in 'Summary' tab.

Current and non-current split

For the purpose of the model, LSL liabilities expected to be settled within the next 12 months are classified as current, with the remaining balance classified as non-current. The shorthand model calculates the split automatically based on the entity's current employee data and the model's assumptions (including probabilities of exit and LSL usage). This produces an entity-specific estimate of the proportion of LSL expected to be settled within 12 months.

Further guidance on maturity classification for employee entitlements is available in RMG-122 Disclosure of current and non-current assets and liabilities in financial statements.

Allowances

This model does not separately account for the impact of allowances or other employee-specific payments in the calculation of LSL liabilities. It is assumed that these amounts are already incorporated in the nominal accrued LSL balances obtained from the entity's payroll system. Entities should ensure that the payroll data used as input appropriately reflects all relevant salary components that form part of the LSL entitlement.

Ongoing and non-ongoing employees

The model does not differentiate between ongoing and non-ongoing employees in its calculation of LSL liabilities. The probability factors applied in the model are based on observed exit behaviour of ongoing employees. As non-ongoing employees are generally less likely to qualify for or access LSL, applying these probability factors to all employees may result in a slight overstatement of the liability, although this is not expected to be material. Entities may apply judgement in deciding whether to include or exclude certain non-ongoing employees, provided the approach is reasonable, applied consistently, and appropriately documented.

Step-by-Step Instructions

Step 1: Obtain report from Human Resource Management Information System

Obtain a report from your payroll team which contains the following employee information:

- unique employee identifier (such as AGS number)
- birthdate
- date employee joined the APS (not the date they joined the entity)
- nominal dollar balance of accrued LSL entitlement (e.g. as at 30 June)
- superannuation scheme into which employer contributions are currently paid
- nominal number of LSL days accrued

Step 2: Input entity's specific data

Read the 'Instructions' tab in the model. Once you are comfortable with the instructions, move to the 'Inputs' tab to enter your entity-specific data into the following areas.

Main inputs (columns B–D)

Entity dependent input

- Entity name and Effective date (i.e. 30 June 2026)

LSL valuation inputs

- 10-year bond yield as at 30 June 2026 (published annually in the Finance Standard Parameters)
- Future salary growth rate (constant or variable)
  - Entities should consider whether salary growth over the next 10 years would be at a single average rate (select **constant**) or a series of annual rates (select **variable**) reflecting existing agreements.
- Annual leave days per annum (default 20 days)
- Percentage of LSL taken in service prior to retirement (default 60 per cent)
  - If an entity has a different assumption for LSL taken in service, it can enter that rate and provide a justification.

Superannuation

- Where employees are in a scheme other than PSS, CSS or PSSap, enter the employer contribution rate.

Salary growth assumptions

- The salary growth assumption has two components: promotional growth and general salary growth. The model applies the promotional growth component in addition to general salary growth to derive the overall salary growth rate used in the calculation.
- If "Constant" is selected in cell C10, enter the constant future growth rate as a per cent.

- If “Variable” is selected in cell C10, enter the salary growth rate as a per cent for each year over a 10-year period, or at least the years 0, 1 and 2 (cells C46, C47 and C48) plus a promotional growth assumption (cell D36) and a long-term salary growth assumption (cell D37).
- Justification for proposed salary growth assumption – Entities should record justification in the input box and retain appropriate supporting documentation.

Data entry and checks (column F–R)

- The model contains test data in columns F–K of the “Inputs” tab to demonstrate how the model works. Before inputting your entity’s employee data, please clear the existing employee data.
  - Input the data obtained from Step 1.
  - An input box is available in cells M12:R19 to record how the data was extracted from your payroll system.
  - The ‘High Level summary’ section in cell M27:N32 presents an overview of the entered data and serves as a reasonableness check of the data entry.
- After confirming Main inputs and Data entry fields are correct, tick the checkbox under the “High Level summary” section. See example screenshot below:

High Level summary	
Employee count	200
Age range	28 - 78
LSL days range	9 - 314
Min LSL balance	$0
Max LSL balance	$117,998

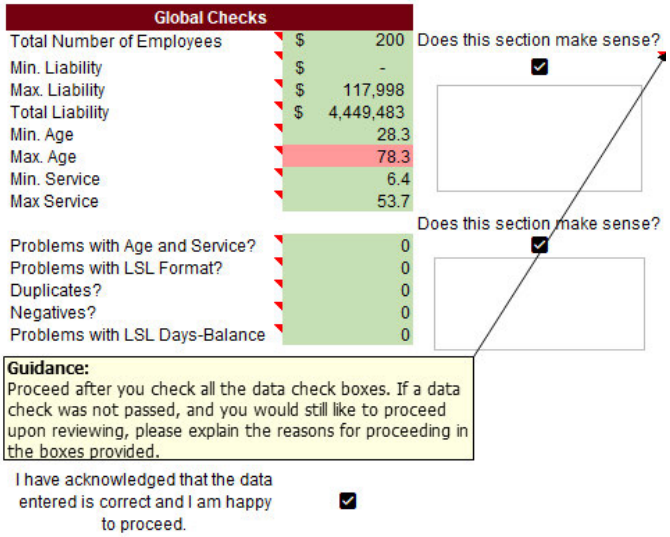
☑ I have acknowledged that the data entered is correct and I am happy to proceed to the validation worksheet

Note: Entities are responsible for ensuring the accuracy and completeness of their own payroll data, as part of their requirement to maintain appropriate records and accounts, as well as systems of internal control, under the *Public Governance, Performance and Accountability Act 2013.* Entities should document how they verify the accuracy of the data in their payroll systems.

Step 3: Validate data

In the “Validation” tab:

- Check all the data displayed under “Global Checks”. See example screenshot below:



  - Entities should also reconcile the Total Liability balance (cell N6) to the total nominal LSL balance figure from their payroll system.
- Review any “FALSE” results under “Individual Checks” (columns P–T) to ensure the data entered is correct and valid.
  - All “FALSE” readings must be reviewed, with an outcome documented for quality assurance and audit purposes. A “FALSE” reading may still be valid, for example an employee may have a negative LSL balance.
  - Explanations for any unusual results (e.g. negative balances, FALSE readings etc) can be provided in the text boxes provided next to the “Global Checks”.
- After completing your checks, tick both checkboxes and the acknowledgement box below the ‘Global Checks’. The model will then generate a summary of the estimated LSL liability in the ‘Summary’ tab.

Note: The model will not calculate results until all required checkboxes are ticked in both the ‘Inputs’ tab and the ‘Validation’ tab.

Step 4: Calculate LSL liability

The ‘Summary’ tab shows the calculated LSL liability, including graphs and statistics. An example screenshot is shown below.

Summary of calculations					
	Complete Years of Service	LSL Probability Factor (A)		Accrued Nominal LSL (B)	Probability Weighted Nominal LSL (C = A x B)
For those aged <55	0	0.46	$	-	$ -
	1	0.55	$	-	$ -
	2	0.63	$	-	$ -
	3	0.70	$	-	$ -
	4	0.77	$	-	$ -
	5	0.82	$	-	$ -
	6	0.87	$	2,266	$ 1,971
	7	0.91	$	19,440	$ 17,730
	8	0.95	$	34,002	$ 32,234
	9	0.98	$	90,156	$ 88,082
	10+	1.00	$	1,926,181	$ 1,926,181
Aged 55 and above (All service years)		1.00	$	2,377,438	$ 2,377,438
Total			**$**	**4,449,483**	**$ 4,443,636**

Total Nominal Accrued LSL	SUM(B)	$	4,449,483
Implied Probability Factor	SUM(C) / SUM(B)		0.999
Total Nominal Accrued LSL (incl. probability factor)	SUM(C)	$	4,443,636
Discount Factor	D		94.4%
Present Value (before On-costs)	E = SUM(C) x D	$	4,193,977
On-costs Loading	F		18.0%
LSL Liability including On-costs	G = E x (1+ F)	$	4,948,893
Settled < 12 months (incl on-costs)	15.9%	$	786,668
Settled > 12 months		$	4,162,224

No input is required in this tab, as all the information flows from the other workbook sheets.

- Total nominal accrued LSL
  - Categorised by completed years of service and age group.
- Total nominal accrued LSL (including probability factor)
  - Probability factors vary depending on the entity size category (demonstrated in cell G8 to G19). For employees aged over 55, the probability factor is set to 100 per cent.
  - Probability factors are applied to the accrued nominal LSL to produce probability weighted nominal LSL.
- Present value before on-costs
  - Probability weighted nominal LSL multiplied by the discount factor .
    - » The discount factor is a derived value calculated as the present value of projected cash flows divided by the face value of these cash flows.
- LSL liability including on-costs
  - On-costs are added onto the present value of LSL liabilities.
  - This represents the total LSL liability reported for financial reporting purposes.
- Current and non-current liability
  - The total LSL liability including on-costs is shown as expected to be settled in less than and greater than 12 months.
  - This represents the current and non-current distinction for the LSL liability.

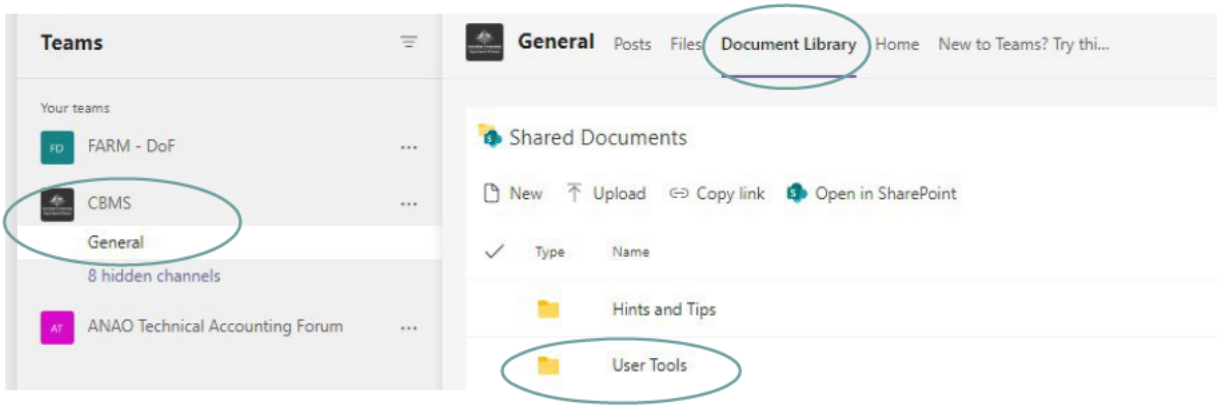
Frequently asked questions

Question 1: Where can I find the LSL model?

Answer: The LSL Shorthand Model is available through both the CBMS system and the GovTEAMS CBMS Community.

CBMS system: *CBMS > Home > Guidance and Resources > How to Guides*

GovTEAMS CBMS Community: *General > Document Library > User Tools > LSL Shorthand Model folder.* **Direct link:** LSL Shorthand Model



Question 2: What analysis are the exit and usage rates used in the model based on?

Answer: The Australian Government Actuary performed analysis over Australian Public Service Commission data and observed differences in exit and usage rates between small and large entities. Based on the current actuarial review, the exit and usage rates specific for small entities have been updated and better reflected in the probability and discount factors to ensure the model remains appropriate for small entities. This includes applying probability factors by small-entity size band (0–499 employees and 500–999 employees)

Question 3: Does the APS start date consider periods that service is not counted for LSL such as maternity leave, leave without pay, break in service etc?

Answer: The APS start date field is required as a broad check on the amount of leave accrued, it does not need to be adjusted to remove breaks in service. Provided the nominal liability has been correctly generated.

Question 4: Does the model apply any special adjustment to calculate a part-time employee's LSL entitlement?

Answer: The model applies the same calculation method to all employees without making any special adjustment for part-time employees. From an actuarial perspective, this approach is reasonable and would not materially overstate the liability. If an entity has concerns about this approach, please seek your own actuarial advice.

Question 5: Where an employee has part-time and full-time LSL accrued balances, would their balances need to be combined, or should they be shown as two separate balances with the same AGS number?

Answer: Ideally, a single LSL balance for each employee should be provided. However, if the entity's payroll system cannot produce a combined balance and generates two separate records per individual, then rather than have the entity do extra data extractions, the two entries can be included in the model for an individual. This will generate FALSE readings in the Validation tab for those employees. All FALSE readings must be reviewed and an outcome documented for quality assurance and audit purposes, however the FALSE reading will not affect the LSL liability calculation.

Question 6: Should non-ongoing employees be included in the calculation?

Answer: This model is designed for ongoing employees. Generally, non-ongoing employees would not reach 10 years of service and would not have a future liability for the entity. If the entity believes that they should be included in the calculation of the LSL liability, a documented explanation and calculations will be required.

Question 7: Does the model apply for annual leave calculation?

Answer: The model only calculates LSL liability.

Annual leave liability is considered separately, guidance on current and non-current split is provided in RMG 122 *Disclosure of current and non-current assets and liabilities in financial statements*.

Question 8: The settled less than (<) 12 months and greater than (>) 12 months is different to the entity's historical data. Can an entity change the current/non-current split ratio based on their own analysis and judgment?

Answer: The model calculates the current/non-current split automatically based on the entity's current employee data and the model's assumptions (including probabilities of exit and LSL usage). As a result, the model's split may differ from the entity's historical LSL payments, particularly if a significant LSL payment was recently paid or is likely to be paid in the next 12 months.

The model does not allow users to override the current/non-current split within the tool. However, if an entity has robust historical analysis (for example, a 5-year analysis of

employee leave patterns), the entity may apply its own split. A documented explanation and calculations will be required to support the deviation from the model.

Question 9: The superannuation on-costs for 'other' is not 15.4 per cent for your entity. Can this be amended?

Answer: If the contribution rate for 'other' varies from the standard 15.4 per cent, update the input box for the 'other' contribution rate (i.e. the mandatory superannuation guarantee rate, e.g. 12.0 per cent in 2025–26). However, if there are numerous contribution rates from various super funds, then a weighted average will be required. The 'Inputs' tab allows entities to enter the average contribution rate applicable to 'other' super funds. It will default to 15.4 per cent. The calculations to support the applied contribution rate should be documented and saved to support the entity's quality assurance and audit process.

Question 10: The input box for the 'Justification for proposed salary growth assumption', do we need to complete this input box?

Answer: Yes. After entities have completed their review to ensure the data entered is correct, they should provide a justification in the input box for all salary growth rate assumptions and have appropriate supporting documentation to support the rates used.

Question 11: What should entities do if they cannot access the model or experience IT issues?

Answer: If an entity is unable to access the model or experiences technical issues, it should first contact their own IT support team.

Contacts

Where entities have queries regarding this guidance, please contact AccountingPolicy@finance.gov.au.