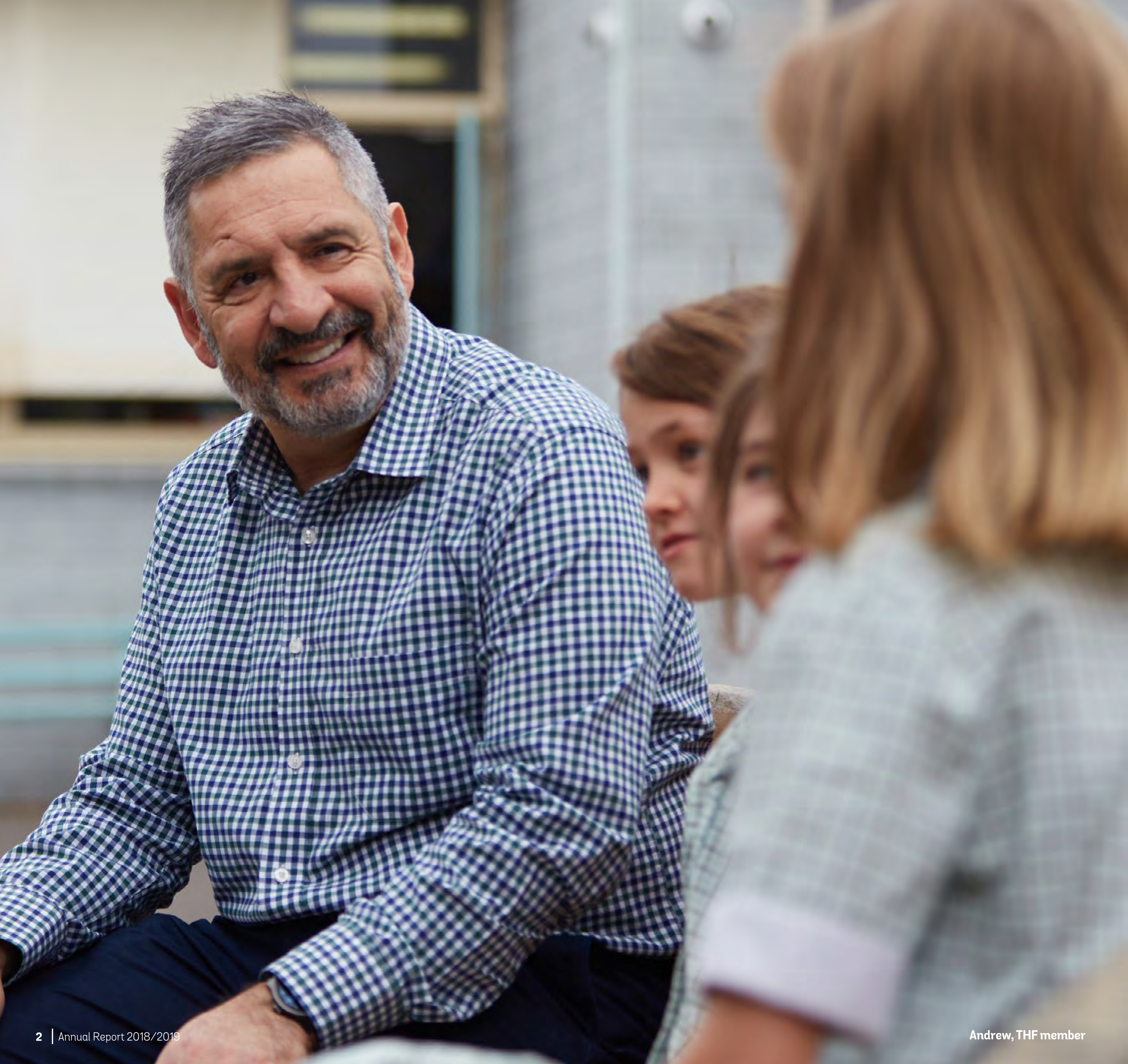
# Annual Report
## 2018/2019

Melissa, THF member

TEACHERS HEALTH

We're for teachers

Teachers Federation Health Ltd. ABN 86 097 030 414. A Registered Private Health Insurer.



Andrew, THF member

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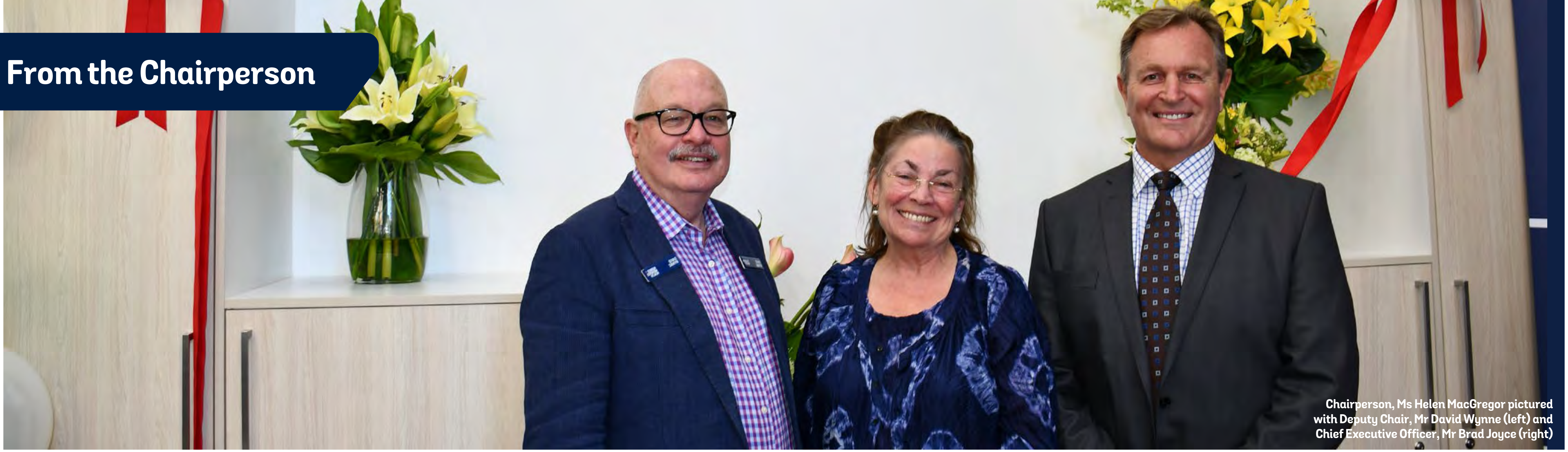
# From the Chairperson



Chairperson, Ms Helen MacGregor pictured with Deputy Chair, Mr David Wynne (left) and Chief Executive Officer, Mr Brad Joyce (right)

## Helen MacGregor
Chairperson

I'm pleased to report on another successful year for Teachers Health. Our guiding purpose – to provide teachers and their families and the broader education community with the best value private health insurance products and services – is stronger than ever and at the heart of everything we do.

### The bigger picture

Government policy has continued to have a significant impact on the private health insurance industry. In the past twelve months, we have successfully implemented the private health insurance reforms, and have aligned our product range to meet the reform criteria while retaining the quality that we're known for.

Much has been made this year of health insurance premiums. Teachers Health welcomes well considered initiatives that improve the affordability of health insurance for our members. Teachers Health continues to advocate with policymakers to find ways to improve the viability, affordability and value of private health insurance.

### Together, we're stronger

Teachers Health was started by teachers, for teachers. And, to this day, the teaching community remains at the centre of our business philosophy and strategy. We pride ourselves on having a deep understanding of our members' needs and this is supported by our relationships with our partner education unions and stakeholders in the wider education community. These relationships have been at the forefront of our membership growth over the years – helping us attract potential members, support current members, and give back to the education community through reward and recognition initiatives and professional development. Over the past year we've sponsored over 200 professional development events and conferences nationally, including:

- NSW Schools Spectacular
- Public Education Foundation – Early Career Scholarship
- Qld Showcase Education Awards
- SA Education Awards
- WA Education Awards
- ACT Reconciliation Award
- AEU National New Educators Conference
- VIC Principals Welfare Scholarship.

Our relationships are also central to our practical support of the health and wellbeing of our community. During the year we also sponsored the Australian Principal Occupational Health, Safety and Wellbeing Survey.

It doesn't stop there. Our Business Development team have visited over 1,600 schools nationwide in the past year – bringing in new members and increasingly supporting our retention of current members by providing an opportunity for face-to-face conversations with the fund.

We were delighted to be recognised as a Diamond Supporter by Stewart House – their highest sponsorship category – acknowledging the donations and support provided by Teachers Health over many years to support their work with public school children in need. It's an honour that reflects our ongoing commitment to supporting the education community and our passion for social responsibility.

In December 2018, Teachers Health announced a partnership with Australia for UNHCR aimed at transforming the lives of refugee mothers and babies in the Democratic Republic of the Congo. This partnership allows us to take positive action and extend the reach of our health and wellbeing support, making a real and positive global impact where it's urgently needed and saving the lives of refugee mothers and their babies.

We have found enormous strength, opportunity and benefit in working with partners and stakeholders from across the education community and look forward to building on this in the future. Our members are, as always, at the heart of everything we do, and we continue to work hard to retain current members – making sure that they recognise both the value of private health insurance and the qualities that set us apart from other funds.

### Great minds, thinking alike

We established the Teachers Health Foundation in 2014 to give back to our members through the funding of health and medical research aimed at delivering better outcomes for the education community.

During the year, the Foundation invested in research programs designed to benefit the teaching community. Grants were awarded to Deakin University for a program to evaluate the impact of the amended Victorian Achievement Program on the whole of school health and wellbeing, particularly on teacher behavioural risk factors.

Projects started in the previous financial year also continued: The University of Wollongong for a program focused on uncovering prevalent and emerging health issues in the education sector through data analysis, and the University of Newcastle's School of Medicine and Public Health for a program addressing health risk behaviours of the education workforce. We look forward to hearing the outcomes of these research programs.

During the year, the following projects were completed: The Jack Brockhoff Child Health and Wellbeing Program on disaster impact profiling in schools, the Hunter Medical Research Institute for their program concerning physical activity intervention for the prevention and treatment of type 2 diabetes, and the Australian Catholic University's Learning Sciences Australia Institute Australia's Teacher Wellbeing (Mindfulness) program.

In January 2017 we launched Nurses & Midwives Health (NMH) as a new health insurer exclusively for members of the nursing and midwifery communities (who are members of their relevant union) and their families. This health fund is dedicated to those providing vital care in the community, and like Teachers Health does for its teacher members, provides nurses and midwives with relevant and affordable health cover at every stage of life. After a little over two years of operation, NMH has grown to nearly 5,000 members covering approximately 10,000 lives nationally.

### More than just health insurance

A number of additional revenue streams contributed to the overall commercial success of Teachers Health during the past year – many of which also assisted the fund in providing quality health solutions to our members. Teachers Healthcare Services provides support for chronic disease management and wellness initiatives; Teachers Health Centres provide eyecare and dental services, and we continue to provide travel and general insurance policies through third party partners. The supplementary revenue streams from these additional services and our investment earnings also helps minimise the unavoidable annual increase to premiums.

### And finally, thank you.

I thank my fellow Directors for their continued support and commitment, including their work on the Board sub-committees. The Board and I also thank Teachers Health's management team and staff for their work and ongoing dedication to supporting our members and providing a high quality member experience.

With our defined purpose, beliefs and attitude, and a clear strategic direction, Teachers Health is well positioned to succeed in a climate of change into the future. We are committed to continue to deliver excellent value and service to our members, who are at the heart of everything we do.

H M MacGregor
CHAIRPERSON

Helen MacGregor

Dated this 24th day of September 2019
Sydney, NSW

> "Our members are, as always, at the heart of everything we do..."

# From the CEO

CEO, Mr Brad Joyce pictured with THF staff

## Brad Joyce
Chief Executive Officer

I'm pleased to report that Teachers Health has enjoyed another successful year. This is true financially – with continued growth in our member base and positive operating margins – and, importantly, in supporting our members and the education community in real terms; making a difference to those who sit at the heart of everything we do.

### Strength in numbers

Our member base continued to grow strongly, with new and younger members joining Teachers Health from across the country. As at 30 June 2019 Teachers Health had over 162,299 policyholders with more than 340,617 lives covered. We are proud to be Australia's largest industry-based health fund.

Our existing members also chose to stay with us in overwhelming numbers, allowing us to enjoy an industry-leading retention rate of 96.4%. This high retention demonstrates the strong trust and customer satisfaction scores we continue to achieve.

Overall our member base grew by 4.1% – particularly pleasing when considered against an industry-wide growth of 0.6%. Our growth in membership continues to be steady and sustainable. In 2019, Teachers Health's revenue grew by 7.3%, ensuring capital reserves remain at appropriate and stable levels.

We maintained our focus on providing value to our members – returning 91 cents in benefits for every dollar of contributions income received, minimising premium rate increases, and operating efficiently and effectively, demonstrated by our management expense ratio of 7.4% against an industry-average of 9.2%.

### Supporting our members

We understand that one of the key issues that members (and the broader Australian population) are facing is the affordability of private health insurance. Any decision to increase premiums is not taken lightly, with premiums set at levels sufficient to cover the increasing costs of benefit outlays. In 2019 our average premium increase was 3.94% while the increase in benefit outlays was 6.6%.

Ultimately our pricing continues to reflect the need to meet the increasing costs of covering our members' claims, whilst achieving a responsible level of operating surplus. This helps ensure the commercial sustainability and stability of the fund. We're proud to be a member-focused fund which operates at low, financially sustainable, margins.

### Leading the way in satisfaction

The secret to our success is quite simple: we really do put our members at the heart of everything we do. We're a health fund built on experience, service and loyalty –and the advocacy of our members and stakeholders plays a central role in our ongoing growth and success. As such we're continuously strengthening our capabilities and improving the services and experience we provide our members.

Based on a recent members survey conducted by Discovery Research, Teachers Health achieved the highest member trust ratings (82.93[1]) among all the brands surveyed, including well-known brands such as Qantas, Australia Post and Bunnings. This finding is supported by Roy Morgan's Private Health Insurance (PHI) trust survey results in which Teachers Health ranked third in the PHI industry with a Net Trust Score (NTS) of 3.4[2].

We're pleased to be getting so many things right for our members. But we won't stop there. We'll continue to work hard to get to know them, and understand what they need from us, what we're getting right, and what we can do better.

### Working with HEART

Our brand is the culmination of what we stand for – our values, our beliefs, our purpose, and how we act towards our members and each other. We continue to reaffirm these and our promise to members – we're for teachers. We place our members at the HEART of everything we do, and we're focused on achieving the best outcomes for them – making our decisions with HEART in mind and after considering the impact our decisions have on members.

We're also growing and reinforcing our HEART culture internally – building a positive workplace culture which will, in turn, help us to create a positive experience for every member. Teachers Health simply could not succeed without the contribution of our dedicated people and much of our success can be attributed to what I believe underpins our thriving business – a genuinely diverse organisation. Over the past decade the Board and I have been strongly committed to supporting and achieving a culture of gender equality and diversity throughout Teachers Health, supporting both women and men to excel.

Our position as a leader in workplace gender equality was reaffirmed with the awarding of the Employer of Choice for Gender Equality citation from the Workplace Gender Equality Agency. We're proud to have received this for the seventh year running. Many of Teachers Health's 359 employees have benefitted from parental leave and return-to-work policies, gender pay-gap reviews, flexible work arrangements, and the promotion of women in leadership positions. In addition, we have recently received accreditation under the White Ribbon Workplace Accreditation Program, demonstrating our commitment to prevent violence against women and others in the community.

### Here for teachers, for good

Teachers Health continues to evolve with the changing face of health insurance. But our original determination, to help those in the education community and their families as they faced the challenges and cost of illness or injury, remains at the forefront of everything we do.

We're continually focused on operating the fund in a responsible and sustainable manner, while ensuring that our premiums remain affordable to support as many members as possible. We remain well positioned to respond effectively to the increasing challenges faced by the private health insurance sector and the increasingly competitive and complex market we operate in: making the most of vital growth opportunities to ensure the stability of the fund; identifying further opportunities to diversify our sources of income; and being adaptable and agile.

As Teachers Health continues to grow and attract new members across Australia, we're proud of our history and we remain true to our founding philosophy and guiding principles. But we're even more excited about our future. That's why we proudly work for people not profit, our members are at the heart of everything we do, and we're there for the education community and their families. We look forward to continuing to build on our great story in the year ahead.

B S Joyce
Chief Executive Officer

Dated this 24th day of September 2019
Sydney, NSW

> **"We maintained our focus on providing value to our members – returning 91 cents in benefits for every dollar of contributions income received..."**

Disclaimer: Based on July 2018 – June 2019 data for Teachers Health only

[1]The Trust Survey 2019, Discovery Research

[2]Roy Morgan Single Source (Australia): PHI Net Trust Score Survey, March 2019

# MEMBERS AT THE HEART OF EVERYTHING WE DO

**68,665**
People moving better[1]

**128,149**
BRIGHTER SMILES[2]

**88,585**
Sets of eyes seeing more clearly[4]

**2,436**
Mums supported with the arrival of their new bundles[3]

**31,367**
Podiatry consults to keep people on their feet[5]

## PEOPLE

**2,033**
Hearts cared for[6]

**8,324**
Gym memberships supported[7]

**1,033**
New knees[8]

**16,210**
Massages to relax[9]

## NUMBERS

**162,299** MEMBERS

**340,617** PEOPLE COVERED

**7.4%**
Management expenses

**96.4%**
Retention rate

## DOLLARS

**91C IN EVERY $1**
91%
Average return to members

**$635M**
Total claims

**$3,913**
Average return to members (claims)

**$698M**
Premium revenue

**$304,978** BIGGEST CLAIM[10]

Disclaimer: Based on July 2018 – June 2019 data for Teachers Health only. [1] Physiotherapy including ante-post natal and physiotherapy device. [2] Periodic oral examination. [3] Pregnancy related claims less abortion. [4] Optical frames. [5] Podiatry consultation. [6] Hospital coronary care. [7] Preventative health product – health management – gym membership. [8] Total knee replacements. [9] Remedial massage. [10] Largest single episode over the period. All the figures in the infographic relate to Teachers Health. Memberships refers to policyholders.

# Directors' report

Your Directors present their report, together with the consolidated financial statements of the group consisting of Teachers Federation Health Limited (Teachers Health or the Fund) and the entities it controlled (collectively referred to as the Group) at the end, or during the year, ended 30 June 2019.

## Directors

The names and details of the Directors in office at any time during the financial year, including the period until the date of this report, are as follows:

### H M MacGregor

B.A. (USYD), Dip. Ed, M. Ed. (USYD), MAICD
Chairperson, non-executive Director
Appointed Director in June 2001

**Special responsibilities:**
Chairperson of the Board, Chairperson of the People and Remuneration Committee, member of the Strategy Committee, the Audit and Finance Committee and the Risk and Governance Committee.

### N E Dawson

B.A. (MAQ), Dip. Ed. (UNE), M. Ed. LL. M. (USYD), B. Leg S (MAQ), Grad Cert Leg P (UTS), Dip. ACG (GIA), MAICD, AGIA, FANZCN
Non-executive Director
Appointed Director in September 2010

**Special responsibilities:**
Chairperson of the Risk and Governance Committee and member of the People and Remuneration Committee.

### J M Dixon

B. Com. (Eco. and Acc.), Dip. Ed., Grad. Dip. Marketing, MAICD
Non-executive Director
Appointed Director in June 2001

**Special responsibilities:**
Member of the Strategy Committee and the People and Remuneration Committee.

### M C Fogarty

B.A. (USYD), Dip. Ed. (USYD), M. Ed. (UTS), EdD (UTS), MAICD
Non-executive Director
Appointed Director in November 2010

**Special responsibilities:** Member of the Audit and Finance Committee and the People and Remuneration Committee.

### M O Mulheron

BA Dip Ed
Non-executive Director
Appointed Director in February 2012

**Special responsibilities:** None.

### T J Mulroy

BA Dip Ed (NSW), MAICD
Non-executive Director
Appointed Director in November 2012

**Special responsibilities:** Member of the Audit and Finance Committee and the Strategy Committee.

### S Roberts

B Ec (Macq), FIAA, Adjunct Professor in Finance at USYD
Non-executive Director
Appointed Director in October 2017

**Special responsibilities:**
Chairperson of the Audit and Finance Committee.

### M Rosicky

BA Visual Arts, Dip Ed, MAICD
Non-executive Director
Appointed Director in November 2013

**Special responsibilities:**
Member of the Risk and Governance Committee.

### D Wynne

Dip. Teach. (Goulburn CAE), B. Ed. (CSU), Ext. Courses Ind. Law (UTS), MAICD
Non-executive Director
Appointed Director in June 2001

**Special responsibilities:**
Deputy Chairperson of the Board, Chairperson of the Strategy Committee and member of the People and Remuneration Committee and the Risk and Governance Committee.

## Company Secretaries

The names of the Company Secretaries in office at the end of the year are:

### B S Joyce

B Comm (University of Newcastle), FCPA, FAICD
Appointed Company Secretary in November 2010

Mr Joyce was appointed Chief Executive Officer of Teachers Health in 2006.

### D N Lethbridge

LLB, MBA, Grad Dip ACG, FGIA, FCIS, GAICD
Appointed Company Secretary in April 2012

Mr Lethbridge was appointed Chief Operating Officer of Teachers Health in February 2012.

## Fund objectives

Teachers Health's long-term objectives are:

- to maintain the resilience and commercial sustainability of the business through a combination of initiatives designed to grow revenue, manage benefits, lift business capability and deliver business efficiencies;
- to continue to ensure that Teachers Health delivers the value propositions designed to attract and retain members by providing them with competitively priced products and services that meet their needs, and through a level of service that our members recognise as superior;
- to operate an efficient business which focuses on ongoing business improvement, transformation and innovation designed to increase organisational capabilities and undertake activities that will ensure the attraction, retention, development and engagement of high quality employees.

In the short-term, Teachers Health's objectives are to continue to execute the current Strategic Plan (FY2019-22) and seek ways to improve and increase growth and retention (both in terms of revenue and members) and lift the capability of the business to support this growth.

## Fund strategy

Teachers Health's strategy to deliver these objectives is through a number of strategic initiatives:

- membership growth – to increase the size and scale of the private health insurance business;
- diversification and expansion – to consider opportunities to expand revenue sources from complementary and/or adjacent sectors and through other non-organic growth opportunities as appropriate to the overall strategic objectives of the organisation;
- health management – to support the overall health and wellbeing of our members through the provision of an integrated wellness, prevention and disease management solution; and
- capability – to enhance the efficiency, effectiveness and overall capability of the business to support its growth objectives and resilience.

## Principal activities

The principal activities of Teachers Health during the financial year were:

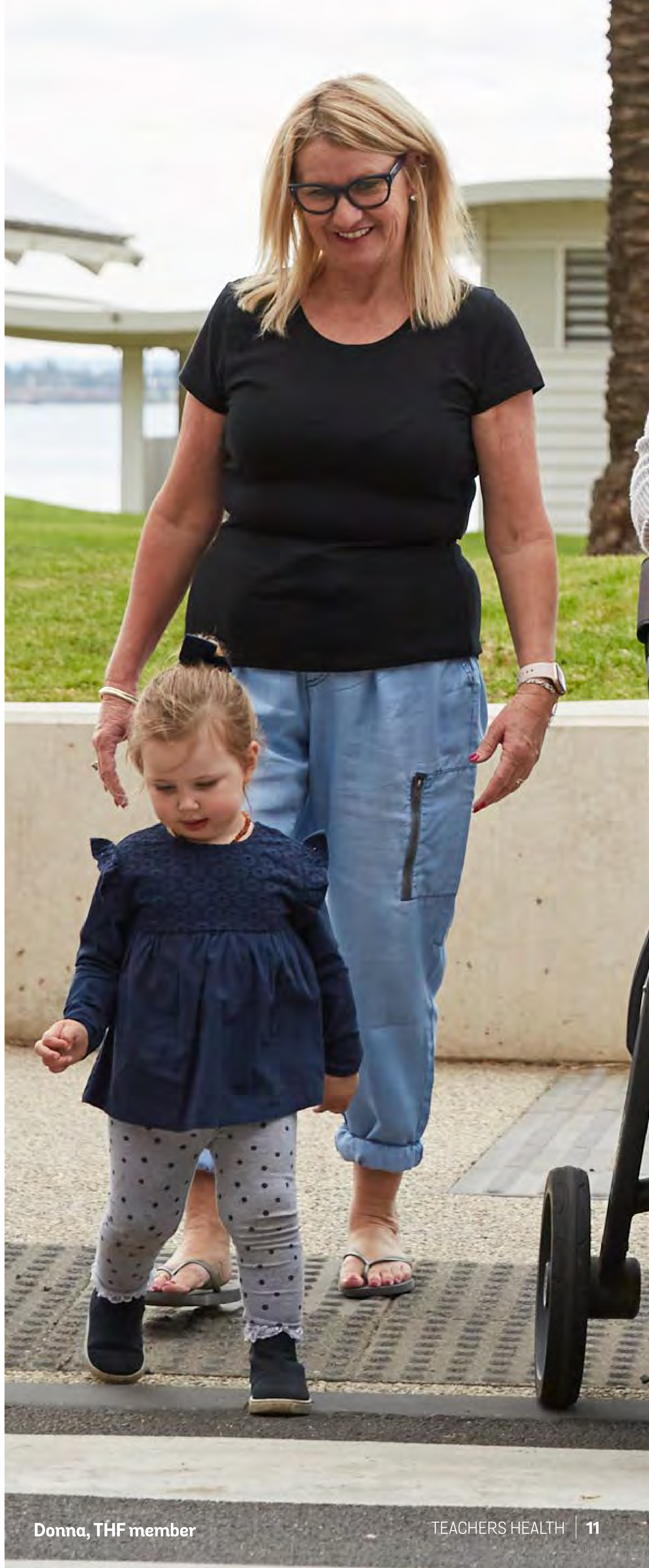
- the operation of its restricted access private health insurance business;
- the operation of Nurses & Midwives Health;
- the operation of Teachers Health Centres eyecare and dental businesses; and
- the operation of Teachers Healthcare Services care coordination for chronic disease management and hospital substitute programs.

The Fund also provided travel and general insurance under authorised representative agreements.

These principal activities have contributed to Teachers Health achieving its objectives. The Fund operates a successful restricted access health insurance business which continues to deliver value and excellent service to its members. The dental, eyecare and health support services contribute in terms of the value proposition that the Fund offers its members, and also to the overall commercial success of Teachers Health through the additional revenue generated from these activities.

## Measuring performance

Teachers Health utilises a modified balanced scorecard as a touchstone for a range of quantitative and qualitative metrics to set and monitor its performance against its overarching strategic objectives and to guide each annual business plan to maintain alignment with the strategic direction of the Fund. Key success factors and a range of operational key performance indicators are identified as part of the business planning process and reported against during the course of the financial year. The performance objectives of the CEO and executives of the organisation are aligned to these same metrics and indicators and individual performance is measured against these annually.



Donna, THF member

## Meetings of Directors

During the financial year, 30 meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

| | Committee meetings | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Board Meetings | | Risk & Governance Committee | | Audit & Finance Committee | | Strategy Committee | | People & Remuneration Committee | |
| **Name** | **E** | **A** | **E** | **A** | **E** | **A** | **E** | **A** | **E** | **A** |
| N E Dawson | 9 | 9 | 5 | 5 | | | | | 8 | 7 |
| J M Dixon | 9 | 7 | | | | | 4 | 4 | 8 | 7 |
| M C Fogarty | 9 | 8 | | | 4 | 4 | | | 8 | 7 |
| H M MacGregor | 9 | 9 | 5 | 5 | 4 | 4 | 4 | 4 | 8 | 8 |
| M Mulheron | 9 | 4 | | | | | | | | |
| T Mulroy | 9 | 8 | | | 4 | 4 | 4 | 3 | | |
| S Roberts | 9 | 8 | | | 4 | 4 | | | | |
| M Rosicky | 9 | 9 | 5 | 4 | | | | | | |
| D Wynne | 9 | 9 | 5 | 4 | | | 4 | 4 | 8 | 8 |

**Table key:**
**E** Number of meetings eligible to attend
**A** Number of meetings attended

## Members' guarantee

The Fund is limited by guarantee and hence has no contributed equity. If the Fund is wound up, the Constitution states that all property (other than property forming part of a health benefits fund conducted by the Fund) that remains after payment of all of the debts and liabilities of the Fund shall be paid to an entity or organisation selected by the Directors, or in default by the court, which prohibits the distribution of its assets and income to its members. If the Fund is wound up and cannot meet its debts, the Constitution states that each Company Member of the Fund is required to contribute a maximum of ten dollars ($10) towards meeting any outstanding obligations of the Fund. The total amount that Company Members of the Fund were liable to contribute at 30 June 2019 if the Fund was wound up was one hundred and eighty dollars ($180).

## Indemnification of Directors

During or since the financial year, the Company has paid premiums in respect of contracts insuring any past, present or future Directors, Secretaries and other officers of the Company against certain liabilities. In accordance with common commercial practices, the insurance policies prohibit disclosure of the nature of the liabilities insured against and the amount of the premiums.

## Indemnification of auditor

To the extent permitted by law, the Company has agreed to indemnify its auditor, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year ended 30 June 2019.

## Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 13 and forms part of this Directors' report.

Signed in accordance with a resolution of the Board of Directors.

H M MacGregor
CHAIRPERSON

Dated this 24th day of September 2019
Sydney, NSW

# Auditor's independence declaration

Building a better working world

Ernst & Young
200 George Street
Sydney NSW 2000 Australia

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

**Auditor's Independence Declaration to the Directors of Teachers Federation Health Ltd**

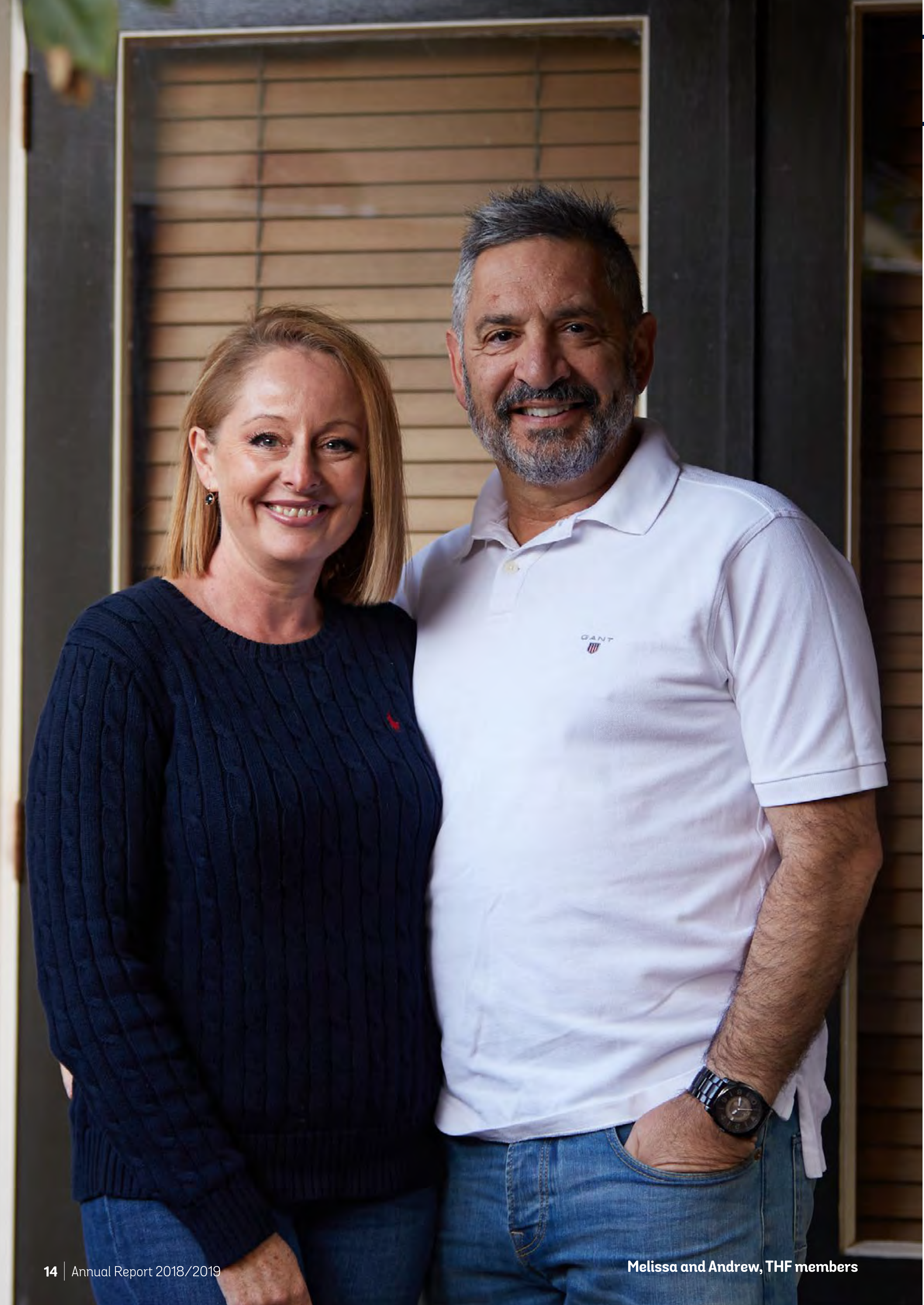
As lead auditor for the audit of Teachers Federation Health Limited for the financial year ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

Ernst & Young

David Jewell
Partner
Sydney
24 September 2019



Melissa and Andrew, THF members



# Corporate governance statement

## Governance at Teachers Health

Teachers Health is a company limited by guarantee subject to the Corporations Act 2001 (Cth). The Board of Directors of the Company (Board) places high importance on the governance practices of Teachers Health, which it believes is vital to the performance, reputation and sustainability of the Fund.

Teachers Health has adopted a comprehensive framework of corporate governance guidelines and policies that are reviewed every two years.

As at 30 June 2019, the Board's corporate governance practices are broadly based on the corporate governance principles issued by the ASX Corporate Governance Council's Principles and Recommendations third edition (ASX Guidelines) as far as they are relevant and applicable to an unlisted, not-for-profit company limited by guarantee, and reflect the ongoing focus of the Board in discharging its responsibilities at an appropriate level to meet the full expectations of Company Members, members, regulatory authorities and the general community.

The Fund is regulated by Australian Prudential Regulatory Authority (APRA). APRA issues prudential standards pertaining to governance in the Private Health Insurance sector and the Fund provides regular reports to APRA.

Teachers Health reviewed and updated its corporate governance policies and practices as necessary to comply with APRA's Corporate Prudential Standard (CPS) 510 which came into force on 1 July 2019. The Teachers Health corporate governance framework provides a solid foundation to enable ongoing compliance with APRA's prudential standards.

As a separate corporate entity, Nurses & Midwives Health (NMH) has its own governance framework, which, as appropriate, replicates that of Teachers Health. As a registered private health insurer, NMH is also regulated by APRA.

## Board of Directors

### Roles and responsibilities

The roles and responsibilities of the Board are set out in, and the Board operates in accordance with, the broad principles set out in its Board Charter. The Board Charter also details the membership and operation of the Board.

The Board provides overall strategic guidance for Teachers Health and effective oversight of management. The Board ensures that the Fund complies with its Constitution and all legal and regulatory requirements. The Board has reserved to itself the following specific responsibilities:

- strategy including in conjunction with the CEO and senior executives charting the direction, strategies and performance objectives for Teachers Health and monitoring the implementation of those strategic and business plans and performance objectives;
- oversight of management including the regular monitoring and assessment of the CEO and other senior executives' performance in achieving Board approved strategies and budgets against key performance indicators set by the Board;
- approving remuneration policies and practices of the organisation, reviewing the performance of the CEO and approving CEO remuneration;
- oversight of ethics, conduct and culture of the organisation including actively promoting ethical and responsible decision-making, establishing and maintaining a code of conduct to guide Directors, senior executives and all employees in the practices necessary to maintain confidence in Teachers Health's integrity;
- oversight of financial and capital management including establishing and overseeing Teachers Health's accounting and financial management systems, regular monitoring of Teachers Health's financial results, financial condition and forecasts, reviewing and approving the annual financial report and approving decisions affecting the investments and capital of Teachers Health; and
- compliance and risk management including establishing, overseeing and regularly reviewing systems of internal compliance, risk management and control, and systems of legal compliance (including but not limited to Privacy, Competition Law and WH&S) that govern the operations of Teachers Health, to ensure they are operating effectively.

The Board has delegated a number of its responsibilities to its committees. The responsibilities of these committees are set out in following sections of this Corporate Governance Statement.

The Board has delegated to the CEO the authority to manage and control the day-to-day affairs of Teachers Health other than those specifically reserved to itself in the Board Charter and the Delegation of Authorities Policy. The CEO is not a Director of the Company.

Under the Fund's Delegation of Authorities Policy, the CEO, executive management and other employees of Teachers Health are authorised, within limits, to make certain decisions necessary to perform the work assigned to their positions. These authorities are exercised within an extensive system of internal controls.

### Board composition

The Board comprises nine Directors, each of whom is a non-executive Director. The Company's Constitution provides that the Board is made up of the following classes of Directors:

- two ex-officio Directors, being the Branch President and the General Secretary of the Australian Education Union New South Wales Teachers Federation (NSWTF) Branch;
- two independent specialist Directors;
- an independent specialist Chair;
- two Insured Persons elected Directors; and
- two independent specialist Directors (education).

Details of each Director's qualifications, special responsibilities and attendance at meetings are set out in the Directors' report.

The Chairperson is an independent and non-executive Director appointed by the Board. The Chairperson's responsibilities include:

- leading the Board in reviewing and discussing Board matters;
- ensuring the efficient organisation and conduct of the Board's function;
- promoting constructive relations between Board members and between the Board and management; and
- reviewing corporate governance matters with the CEO and reporting on those matters to the Board.

# Corporate governance statement

## Appointment and election of Directors

Teachers Health seeks to have a Board comprised of Directors that collectively have a range of skills, knowledge and experience to:

- understand and manage the risks to the organisation;
- understand and ensure compliance with the organisation's legal prudential obligations;
- effectively oversee the management of the organisation; and
- effectively contribute to the Board's deliberations and processes.

The private health insurance industry is heavily regulated and complex and, as such, Directors need to have qualifications or experience that enables them to work within this environment. APRA mandates governance and prudential standards that require ongoing compliance and all Directors must develop and maintain a sound understanding of these obligations.

All Directors must meet the Fit & Proper Policy requirements of the organisation.

To this end, the Board has established a set of general criteria and skills that would ensure that all Directors of the Fund would be able to carry out their responsibilities effectively.

Specific criteria may be developed for each appointment, having regard to:

- the immediate collective capacity of the Board in terms of the mix of skills, experiences, functional orientation and personal qualities;
- the organisations current and future strategies;
- the Board's renewal policy, succession plans and business development intentions; and
- diversity, but only as a secondary dimension to skills, experience and personal qualities.

The Board has developed a role description for Directors that details the role and responsibilities of Directors as well as the professional qualifications and skills required.

Directors are appointed and/or elected to the Board in accordance with the Constitution, which places limits on the period in which an elected Director may hold office without re-election by the Fund Members. An elected member Director must not hold office without re-election for more than two years. Specialist Directors are appointed for a term of up to three years. Retiring Directors are eligible for re-election. Directors appointed to the Board (other than the elected member Directors) must have their appointment confirmed by the Company Members at the next Annual General Meeting.

## Director induction and education

Directors participate in a formal induction program upon appointment and in addition, the Board has also established a program of continuing education. The People and Remuneration Committee oversees and regularly reviews the induction procedures, continuing development and education program for Directors. This includes hosting sessions with experts in the particular fields relevant to Teachers Health operations and promoting attendance at relevant conferences and seminars. The training and education programs ensure Directors keep up-to-date with developments in a dynamic and challenging industry. Directors are also encouraged to attend and actively participate in education sessions and courses offered by external organisations such as the Australian Institute of Company Directors and Governance Institute of Australia.

## Board meetings

The Board meets regularly during the year according to a schedule determined at the end of each calendar year. The scheduled meetings are supplemented by special purpose meetings where required. An extensive agenda is prepared for each meeting. The agenda enables Directors to be adequately informed about the operations of Teachers Health, to monitor management's implementation of key strategic initiatives, financial performance and capital management, performance of the Risk Management Strategy and Framework and to consider the environment in which the health benefits fund operates. In addition to the Board meetings, a structured Directors' development and strategy review is the major focus of the Board workshop held at least annually.

## Independence and management of conflicts of interest

Board composition is an issue regularly considered by the Board and its committees. The Board places high importance on independence of any interests of stakeholders, management and competing or conflicting business interests as a prerequisite to discharging its review and oversight role effectively. Teachers Health has a close relationship with the Australian Education Union New South Wales Teachers Federation (NSWTF) Branch who provides two ex-officio Directors. With the introduction of APRA's CPS 510, particular consideration has been given to strengthen the Board's independence.

A Director is considered independent if the Director is a non-executive Director who is not a member of management, not an ex-officio Director and is free of any business or other association that could materially interfere with the exercise of their unfettered and independent judgment.

A Director who:

- is employed, or has previously been employed in an executive capacity by Teachers Health, or another group member, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- within the last three years, has been a principal of a material professional adviser or material consultant to Teachers Health or another group member or an employee materially associated with the service provided;
- is a material supplier or customer of Teachers Health or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer; or
- has a material contractual relationship with Teachers Health or another group member other than as a Director of Teachers Health,

will not be independent.

A Director who has, or has had in the last 12 months, an association with the Australian Education Union New South Wales Teachers Federation (NSWTF) Branch such as the Branch President, the Branch Deputy President, the General Secretary, a member of the Branch Executive, an Assistant Secretary or an Administrative Officer will not be considered independent.

All Directors – whether independent or not – must at all times bring an independent judgement to bear on all Board decisions.

Teachers Health has a Board Renewal Policy and succession planning arrangements which promote fresh ideas and independent thinking, whilst retaining adequate expertise and business knowledge. Terms of tenure are staggered to support continuity and the appropriate transfer of knowledge of skills of Directors. In implementing the Board Renewal Policy consideration is also given as to whether each Director has served on the Board for a period which could, or could reasonably be perceived to, materially interfere with their independence or ability to act in the best interest of the company.

Teachers Health has a Conflicts of Interest Policy and Framework to assist it in managing conflicts. Teachers Health also actively promotes ethical and responsible decision making. Directors are required to disclose conflicts and material personal interests, whether actual or potential, to the Board. A register of directors' interests is maintained and regularly reviewed. The People and Remuneration Committee annually assesses the independence of each Director in light of the interests disclosed by them.

Where necessary the Board will evaluate whether a Director should participate in the consideration of a matter by using the mechanism set out in the Constitution and the Corporations Act 2001 (Cth). Directors regularly review their positions to assist in the avoidance of situations where the interests of the Directors might affect, or appear to affect, decision making by the Board.

## Fit and proper

Teachers Health has developed and implemented a Fit and Proper Policy to assist in assessing the fitness and propriety of Teachers Health Directors in line with APRA's CPS 520 Fit and Proper. Directors must have the appropriate skills, experience and knowledge to perform that role ("competencies") and must act with the requisite character, diligence, honesty, integrity and judgment ("character"). A person will be considered "fit and proper" if he or she is assessed to meet substantially the assessment criteria set out in this policy and, if appropriate, in the position description for their role.

A person's fitness and propriety will be assessed against the assessment criteria listed in the policy. The assessment consists of an attestation by the individual and the Fund undertakes any necessary and relevant investigations to verify the information provided in the attestations including where considered appropriate or desirable referee checks, police checks and searches of appropriate registers. The policy includes a process for dealing with and reporting breaches of the policy.

## Access to Group information and independent professional advice

Managers responsible for critical areas of the business are regularly requested to brief the Board and its committees so as to assist Directors in maintaining a strong understanding of Teachers Health's activities.

These briefings contribute to the assessment made by the Board about the performance of management in running the business. External professionals and consultants also brief the Board and its committees where appropriate.

The Board has in place a procedure whereby, Directors are entitled to seek independent professional advice, at the expense of Teachers Health, to assist them to carry out their duties as Directors. The procedure provides that any such advice is generally made available to all Directors.

## Remuneration of Directors and executive management

In accordance with clause 15.8 of the Teachers Federation Health Constitution, Directors may be paid, in the aggregate up to the remuneration determined by resolution at a meeting of the Company Members. In November 2016, the Company Members determined that Directors as a whole may be paid an aggregate amount of up to $120,000 and divided among the Directors in accordance with the Director Remuneration Policy.

For the twelve months ended 30 June 2019, total remuneration paid and divided among the Directors relating to the 2018-2019 year was $108,011.

Teachers Health has a Directors' Remuneration Policy that guides and regulates the manner in which payments are made to Board members. Director remuneration is based on average standard hours for preparation for and attendance at Board and committee meetings with payments reflecting fair acknowledgment of participation time and effort by Directors.

The payment rate is based on the hourly rate for a head teacher in schools. In addition, as required by legislation, superannuation is paid in respect of remuneration at the rate provided by the Superannuation Guarantee Charge and Directors receive in-house health insurance on a pro-rata monthly basis at the rate of $1,333 pa (cumulative).

Directors are reimbursed for expenses to cover costs incurred when attending meetings, conferences, courses etc. and for professional registration fees; for example, membership of Australian Institute of Company Directors.

Directors and Officers Insurance is provided by the Group. Reimbursement is also made to Directors for loss of salary or leave entitlement resulting from their attendance at Board and committee meetings upon presentation to the CEO of appropriate documentation to validate the claim.

Directors receive access to Directors training through Board seminars, endorsed conferences and seminars and industry based training for Company Directors.

The Board, based on recommendations from the People and Remuneration Committee, determines the remuneration of the CEO as part of the incumbent's terms and conditions of appointment. Teachers Health's policy in respect of the CEO and executive management incorporates remuneration that is competitively set so the organisation can attract, motivate and retain high calibre executives to lead the Group. The People and Remuneration Committee review the remuneration of the CEO and executive management annually through a process that considers individual performance and relevant comparative market remuneration data from an independent third party.

The CEO and executive management have individual, team and overall business key performance indicators set each year. The People and Remuneration Committee annually reviews the performance of the CEO in a structured process that includes performance against targets set. The outcome of this review is reported to the Board as a whole. The CEO annually reviews the performance of executive management in a structured process that includes performance against targets set. The outcome of this review is discussed with the People and Remuneration Committee and reported to the Board.

There is no short-term incentive, performance bonus or long-term incentive payments (such as share options) made to any Director, the CEO or executive manager of the Group.

## Board performance

The Board has a policy of undertaking an annual assessment of its collective performance and the performance of individual Directors and of its committees to ensure its ongoing effectiveness. The People and Remuneration Committee has oversight of this process.

This assessment may be by way of self-

# Corporate governance statement

assessment and at least, every two years, the Board will engage an external consultant to facilitate this review. The Chairperson formally discusses the results of the performance review with individual Directors and the Board as a whole. The discussion also considers the effectiveness of the Board and its contribution to the Group.

Actionable recommendations are implemented as soon as practicable after the final Board performance evaluation is received.

Each of the Board's committees also reviews its performance against the objectives of its respective Charter annually.

## Directors' and officers' insurance

Teachers Health maintains an insurance policy for the benefit of the Directors, the company secretary, officers and employees (as defined by the policy) insuring all insured persons against a liability (and not including any liabilities for which insurance is prohibited under s199B of the Corporations Act 2001 (Cth)).

In accordance with commercial practice, the insurance policy prohibits the disclosure of the terms of the policy including the nature of the liability insured against and the amount of the premiums

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## Board committees

The Board has established four committees to assist in the execution of its duties and to allow detailed consideration of complex issues. The standing committees are:

- Audit and Finance Committee,
- People and Remuneration Committee,
- Risk and Governance Committee, and
- Strategy Committee.

Each committee has its own written charter setting out its responsibilities, composition, structure and the manner in which the committee is to operate.

The charter of each committee is reviewed every two years. Board committees have delegated authority within their charter of responsibilities and make recommendations to the Board. Activities of each committee are reported to the Board at the next full Board meeting. Where there are matters of relevance to more than one committee, a joint meeting of those committees may be held to discuss the matter, or the matter may be dealt with by one committee before being referred to the other committee.

Details about the membership of committees and the attendance of members at committee meetings are set out in the Directors' report.

In addition to the four standing Committees, the Board may from time-to-time hold joint committee meetings and create ad-hoc Board committees as required.

## Audit and Finance Committee

The Audit and Finance Committee has been established to assist the Board to fulfil its statutory and regulatory responsibilities relating to the financial reports, the financial condition of Teachers Health and the health benefits fund conducted by Teachers Health and matters concerning the appointed actuary, the external auditors and internal auditors.

The purpose of the Committee is to provide an objective, non-executive review of the effectiveness of Teachers Health's financial reporting and risk assurance framework.

The Committee comprises of a minimum of three (3) and up to a maximum of five (5) non-executive members of the Board, a majority of whom are independent and each of whom have appropriate financial experience and understanding of the private health insurance industry.

The Board determines the Chairperson of the Committee who is an independent non-executive member of the Board and not the Chairperson of the Board.

The Committee's responsibilities also include:

- all APRA statutory reporting requirements;
- an objective non-executive review of the effectiveness of the financial reporting framework to ensure the balance, transparency and integrity of published financial information;
- the financial condition of Teachers Health and the health benefits fund conducted by Teachers Health;
- the appointment, role and performance of the Appointed Actuary;
- the effectiveness of Teachers Health's internal control systems and internal audit function;
- the independent audit process including the appointment, independence, performance and remuneration of the External Auditor;
- the investment activities of Teachers Health including investment policy, investment strategy, investment performance and appointment of investment advisors;
- the maintenance of an effective Whistleblower Policy and procedures, including how matters raised under the Whistleblower Policy are dealt with to ensure appropriateness of action; and
- undertake any special projects delegated by the Board or deemed necessary by the Committee.

Since the establishment of Nurses & Midwives Health (NMH), the Audit and Finance Committee has responsibility for the oversight of the Management and Services Agreement between the Company and NMH.

The Committee Charter provides that the Committee meet not less than three (3) times per year. The Committee met four (4) times during the reporting year. The external auditor met with the Committee four (4) times during the year, including without management being present.

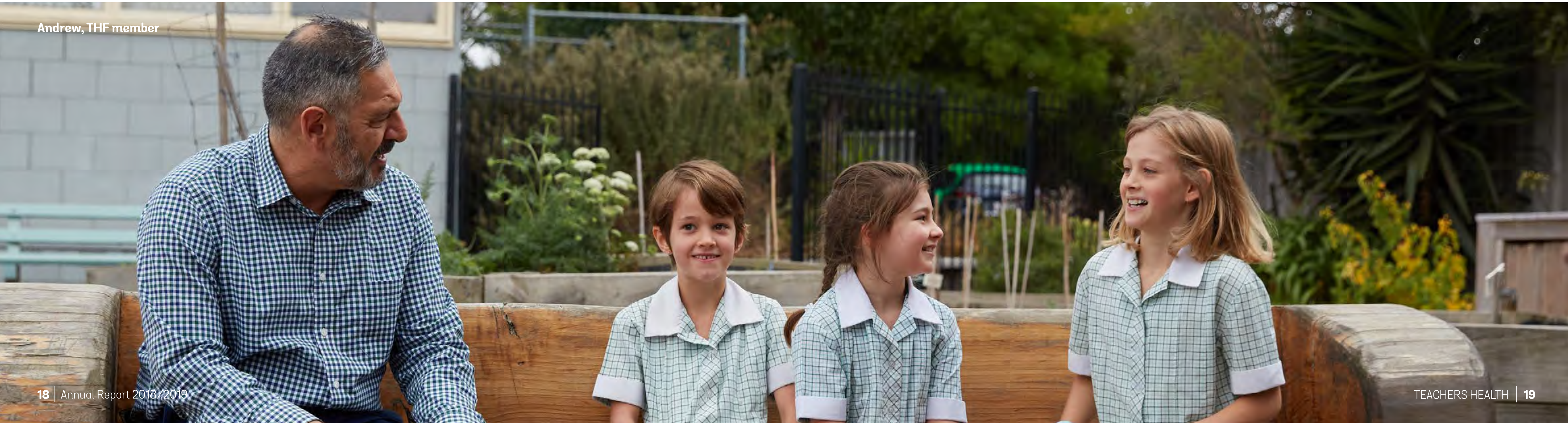
## People and Remuneration Committee

The People and Remuneration Committee has been established to assist the Board in fulfilling its statutory and regulatory responsibilities and to oversee, review and make recommendations to the Board relating to Board composition, renewal and performance, human resource matters and compliance with employment laws and regulations.

The Committee is comprised of a minimum of three (3) and up to a maximum of five (5) non-executive members of the Board, the majority of whom are independent.

The principal responsibilities of the Committee are to:

- make recommendations to the Board on the necessary and desirable competencies of the Board, Board succession plans, the process of evaluation of the performance of the Board, its committees and Directors;
- make recommendations to the Board on the appointment of new Board member candidates, having regard to their skills, experience and expertise;
- develop and review induction procedures, continuing development and education programs for Board Directors;
- establish and conduct the annual performance evaluation of the CEO and report to the Board the outcomes of this review;
- review with the CEO the outcomes of the annual performance evaluation of direct reports to the CEO and other persons whose activities may, in the Committee's opinion, affect the financial soundness of Teachers Health or the group and any other person specified by APRA;
- review the conditions of employment and annual remuneration of the CEO and report the outcomes of this review to the Board;



Andrew, THF member

# Corporate governance statement

- review and approve the recommendations of the CEO relating to the conditions of employment and annual remuneration of the direct reports of the CEO, other persons whose activities may, in the Committee's opinion, affect the financial soundness of Teachers Health or the group and any other person specified by APRA;
- periodically review with the CEO, the Teachers Health organisational capability and succession plan for employees, managers and executives; and
- review people-related issues and policies generally.

The Committee Charter provides that the Committee meet not less than three (3) times per year. The Committee met eight (8) times during the reporting year.

## Risk and Governance Committee

The Risk and Governance Committee has been established to assist the Board to fulfil its statutory and fiduciary responsibilities by providing objective, non-executive oversight and review of the effectiveness of the implementation and operation of Teachers Health's Risk and Compliance Management Framework.

The Committee comprises of a minimum of three (3) and up to a maximum of five (5) non-executive members of the Board, a majority of whom are independent, with appropriate risk management and governance experience and understanding of the private health insurance industry. The Board determines the Chairperson of the Committee who is an independent non-executive member of the Board and not the Chairperson of the Board.

Within its scope of authority, the Committee reviews and makes recommendations to the Board on:

- Teachers Health's system of risk management and internal control including:
  - > the effectiveness of Teachers Health Risk Management Strategy and Framework, having regard to the organisation's risk management culture;
  - > the identification and assessment of the material risks facing Teachers Health considered against the organisation's risk appetite;
  - > the organisation's Business Continuity and Disaster Recovery Framework; and
  - > the appropriate level of reporting on the performance and application of the risk management and internal control system throughout Teachers Health.
- Teachers Health corporate governance policies and practices including:
  - > Teachers Health's systems and procedures for compliance with laws, regulations, internal policies and industry standards;
  - > corporate governance, regulatory and compliance issues including the Private Health Insurance Act 2007, Private Health Insurance (Prudential Supervision) Act 2015, APRA Standards, Rules and Reporting Standards, Ministerial Private Health Insurance Rules, the Corporations Act and ASIC requirements;
  - > disclosure of corporate governance policies and information to ensure effective communication of Teachers Health corporate governance practices; and
  - > best practice developments in corporate governance.

The Committee Charter provides that the Committee meet not less than three (3) times per year. The Committee met five (5) times during the reporting year.

## Strategy Committee

The Strategy Committee has been established to assist the Board in fulfilling its responsibilities relating to the development and implementation of corporate strategy for Teachers Health.

The Committee is comprised of a minimum of three (3) and up to a maximum of five (5) non-executive members of the Board.

The principal responsibilities of the Committee are to:

- review strategy and recommend refinements, as necessary, to the Board to enhance the Group's competitive position and long-term performance;
- consider viable and likely opportunities and threats that are expected to be presented to the Group as further rationalisation and change occurs in the private health insurance industry;
- inform the Board of any other strategic developments and make appropriate recommendations as required;
- work with management on the development and articulation of any strategic plan or initiative for recommendation to the Board; and
- assist management with recommendations regarding specific strategies such as new products or new markets.

The Committee Charter provides that the Committee meet not less than once (1 time) per year. The Committee met four (4) times during the reporting year.

## Accountability and audit

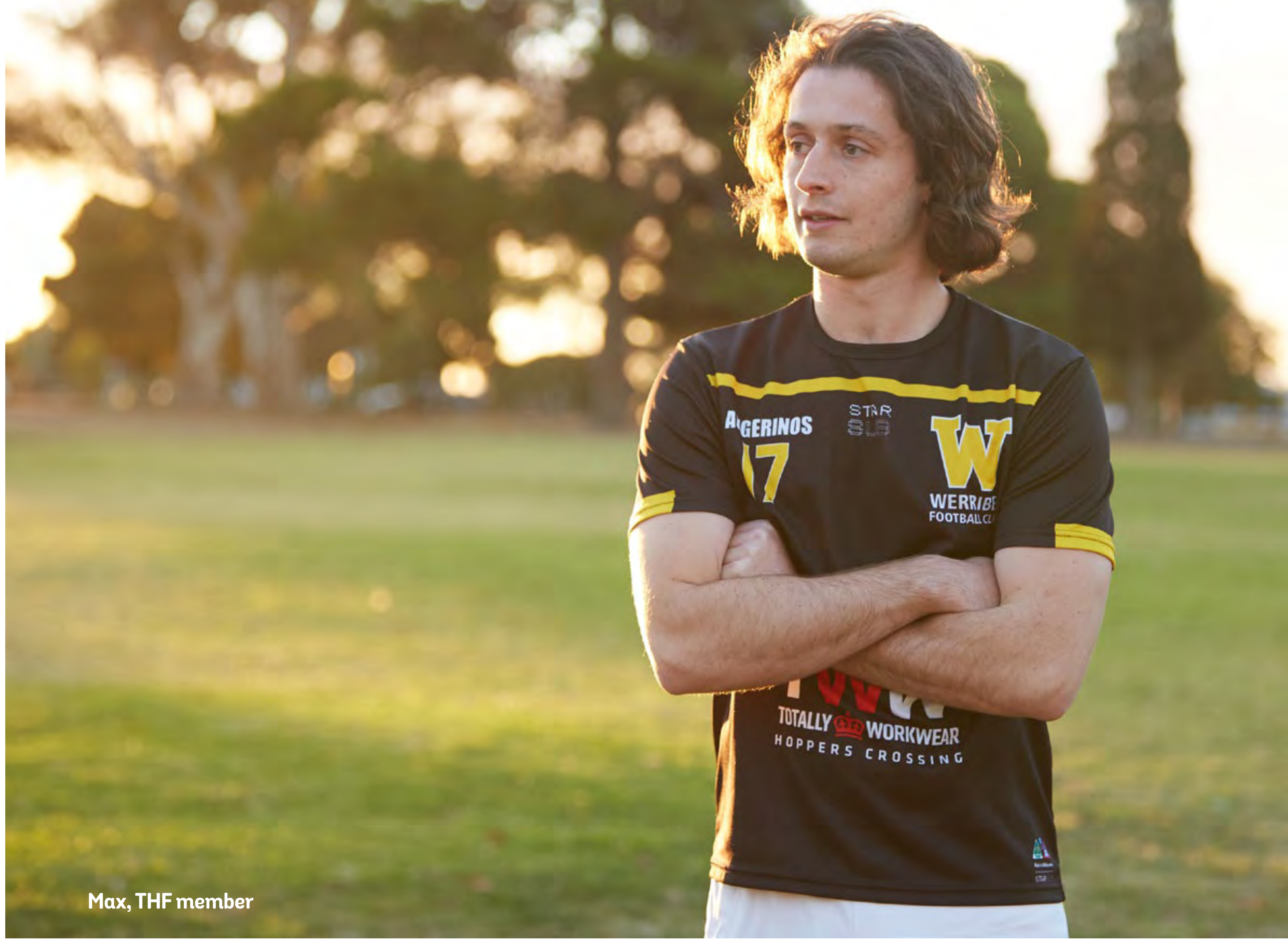
### External audit

The Group has appointed Ernst & Young ("External Auditor") to audit its records and financial statements of the Group for the 2019 financial year and also to perform various regulatory and compliance audits.

The Audit and Finance Committee meets with the External Auditor during the year to:

- discuss the external audit, identify any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements;
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and monitor the implementation of any recommendations made; and
- finalise annual reporting, review the preliminary financial report prior to signoff and any significant adjustments as a result of the auditor's findings.

The financial and operational performance of Teachers Health is monitored by the Board through regular management reporting of performance against budgets and other relevant key performance indicators. These budgets have been established by management and approved by the Board. The External Auditor reviews and tests the system of internal controls, to the extent necessary, for an independent opinion on the financial statements at the end of the year.



Max, THF member

The External Auditor is invited to attend the Annual General Meeting and is available to answer questions from members of the Group on the conduct of the company audit, the preparation and content of the audit report, the accounting policies adopted by Teachers Health and the independence of the auditor in relation to the conduct of the audit.

### Internal controls

The Board is responsible for the overall internal control framework and for reviewing its effectiveness. The key features of the control environment include the Charters of the Board and each of its committees and a clear organisational structure with documented delegation of authority from the Board to executive management.

### Internal audit

Internal audit operates under its own Charter. PWC was appointed as the internal auditor from 1 January 2016. The internal audit function provides an independent and objective review of the management of Teachers Health's material risks and the implementation of effective controls designed to manage these material risks, and provide reasonable assurance against material misstatement or loss by enabling the timely identification of matters that require the attention of management or the Board. These controls have been established by management and are reviewed periodically by internal audit, with the findings of reviews reported to the Audit and Finance Committee and the Board.

### Risk management

Teachers Health recognises effective risk management is good management practice, supports achieving organisational objectives and is an integral part of sound corporate governance. A detailed Risk Management Strategy and Framework based on ISO 31000:2018 has been developed and implemented by management and endorsed by the Board. This risk management framework is critical to the safety, reputation and sustainability of the operations of the business and to the ongoing viability of the health benefits fund operated by Teachers Health.

The various risk management practices are undertaken to provide reasonable assurance to the Board of the effectiveness of the risk management framework within the overriding principle that business risk is a basic line management responsibility – all managers, not just the CEO, share that responsibility.

Both the Board and the Risk and Governance Committee receive frequent updates about the management of risk. At each Board meeting, the CEO updates the Board on developments in relation to the material business risks facing Teachers Health. The Board reviews and sets Teachers Health's risk appetite on a regular basis.

# Ethical standards

## Code of Conduct

Teachers Health has adopted a Code of Conduct that applies to all Directors, officers, employees, contractors and consultants to Teachers Health. This code sets out the ethical standards and rules of Teachers Health and provides a framework to guide compliance with legal and other obligations to stakeholders including:

- the avoidance of conflicts of interest or disclosure of conflicts of interest if one occurs;
- acting appropriately in relation to corporate opportunities and other benefits;
- compliance with the Privacy Act 1988 (Cth);
- the integrity and security of confidential information;
- dealing honestly and fairly with all parties; and
- compliance with relevant laws and regulations.


Lisa & family, THF members

## Industry Code of Conduct

Teachers Health is a signatory to the Private Health Industry Code of Conduct. The purpose of the Code is to promote informed relationships between Private Health Insurers, consumers and intermediaries, with the objective of enhancing standards across the private health insurance industry.

Teachers Health has regularly submitted annual self-audits and has been assessed by the PHI Code of Conduct – Compliance Committee as being a compliant fund. Teachers Health is required to submit a certification yearly that states it is compliant with the code via a self-audit. Every three years, Teachers Health completes and submits a full self-audit. A full self-audit was completed during the 2018/2019 financial year.

## Diversity and inclusion

Teachers Health seeks to maintain an appropriate mix of skills, expertise, experience and diversity on the Board to ensure an understanding of and competence to deal with current and emerging issues relating to Teachers Health business and enhance its performance. The Board has determined to set a voluntary target for women on the Board at or above 40%.

The Company is an Employer of Choice for Gender Equality, recognised as such by Workplace Gender Equality Agency (WGEA) and its predecessor since 2011. Teachers Health has publicly reaffirmed its commitment to gender equality and inclusion within the organisation on its website.

Continuous improvement, including that of diversity, inclusion and gender equality, remain an ongoing objective for Teachers Health. The number of women across the organisation as at 31 March 2019 is shown in the below table.

In accordance with the requirements of the Workplace Gender Equality Act 2012, on 31 May 2019, Teachers Health lodged its annual public report with the WGEA. Access a copy of the report at teachershealth.com.au or at wgea.gov.au.

| Category | Number | Percentage of category |
|---|---|---|
| Women on the Board | 4 | 44% |
| Women in senior executive positions | 3 | 33% |
| Women in management positions | 27 | 47% |
| Women employees in whole organisation | 238 | 68% |

## Whistleblower policy

Teachers Health is committed to the prevention and early identification of breaches of law, regulations, codes or standards relevant to the Fund.

For this purpose, Teachers Health has developed and implemented a Whistleblower Policy.

The Whistleblower Policy encourages and provides a framework for all Teachers Health employees (and others) to report any corrupt or improper conduct or genuine matters of behaviours that they have reasonable grounds to believe contravene Teachers Health's policies or the law including:

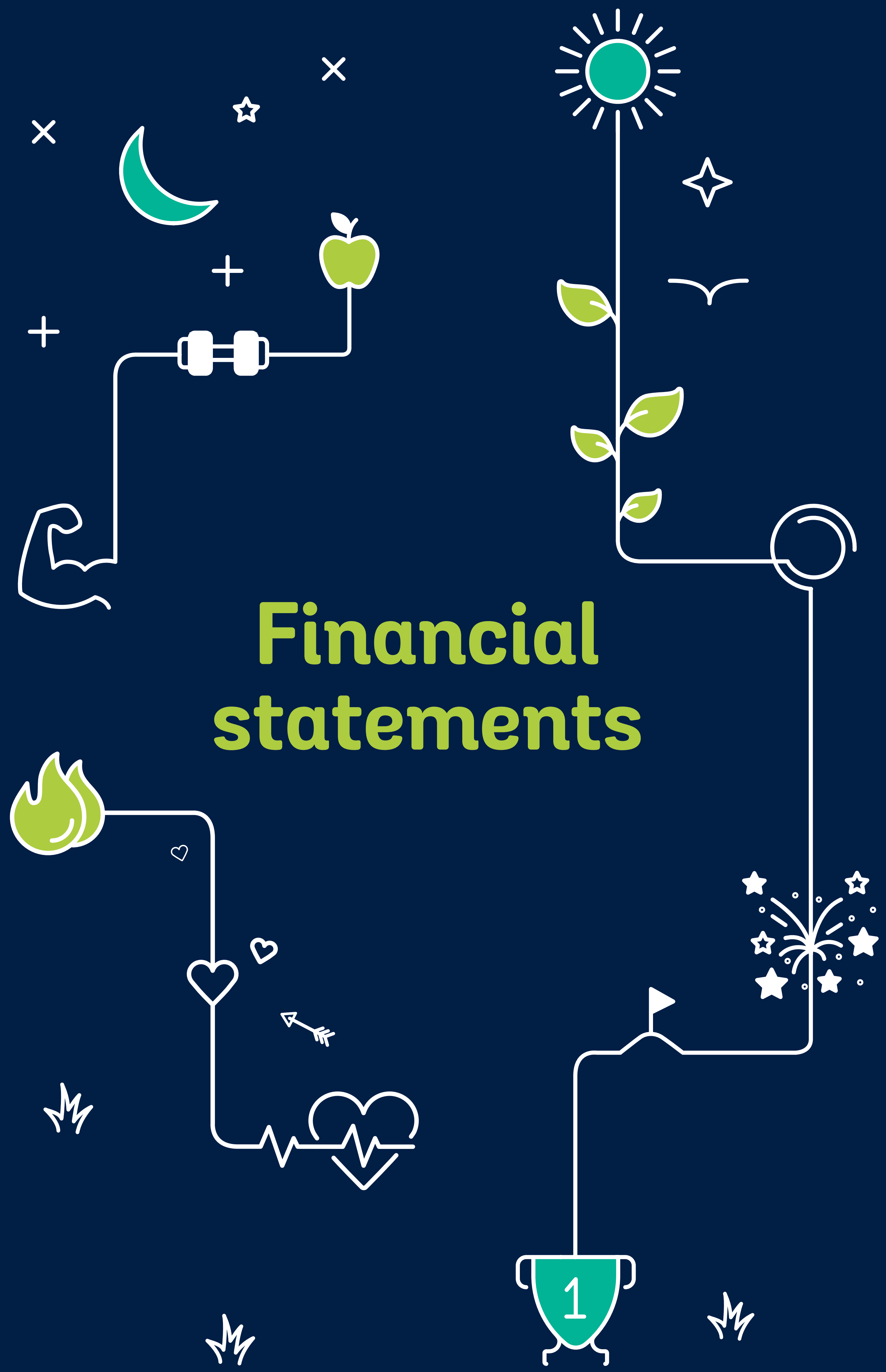
- misconduct, or an improper state of affairs or circumstances;
- contravention of any law administered by ASIC and / or APRA;
- conduct that represents a danger to the public or the financial system; and
- an offence against any other law of the Commonwealth that is punishable by imprisonment for a period of 12 months or more.

Teachers Health allows for a number of avenues for reporting of disclosures.

In addition to the prescribed categories of eligible recipients, Teachers Health has introduced an anonymous whistleblowing tool available through its website. The tool empowers eligible whistleblowers to report anonymously and is accessible from outside the organisation. Reports made through the online tool are triaged before being escalated through the whistleblowing process or re-directed internally.

Teachers Health's whistleblower process facilitates the disclosure of misconduct and supports eligible whistleblowers.





# Financial statements

# Consolidated statement of profit or loss and other comprehensive income

**For the year ended 30 June 2019**

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | $ | $ |
| Premium revenue | 3 | 713,375,143 | 656,798,565 |
| Claims expense | | (620,659,449) | (578,602,683) |
| Risk equalisation trust fund expense | | (17,121,450) | (10,333,933) |
| State levies | | (13,553,295) | (12,682,931) |
| **Net claims incurred** | | **(651,334,194)** | **(601,619,547)** |
| Unexpired risk liability (increase)/decrease | | (2,975,650) | (336,358) |
| Claims handling expenses | 4 | (28,292,807) | (23,360,134) |
| Other underwriting expenses | 4 | (25,397,234) | (23,770,784) |
| **Underwriting expenses** | | **(56,665,691)** | **(47,467,276)** |
| **Underwriting result** | | **5,375,258** | **7,711,742** |
| Investment revenue | 3 | 14,134,532 | 12,582,981 |
| Other revenues | 3 | 12,496,600 | 11,793,688 |
| Cost of goods sold | 4 | (1,961,057) | (2,171,519) |
| Other expenses | 4 | (11,085,595) | (10,014,924) |
| Finance costs | 4 | (514,560) | (511,911) |
| Profit before income tax | | 18,445,178 | 19,390,057 |
| Income tax expense | 1c | - | - |
| **Profit for the year after income tax** | | **18,445,178** | **19,390,057** |
| Other comprehensive income | | - | - |
| Other comprehensive income net of tax | | - | - |
| **Total comprehensive income for the year** | | **18,445,178** | **19,390,057** |

This statement should be read in conjunction with the notes to the financial statements.

# Consolidated statement of financial position

**For the year ended 30 June 2019**

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | $ | $ |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | 78,237,349 | 90,273,012 |
| Trade and other receivables | 8 | 28,724,657 | 27,592,618 |
| Inventories | 9 | 502,862 | 514,262 |
| Financial assets | 10 | 255,000,000 | 205,000,000 |
| Other current assets | 11 | 2,477,281 | 2,192,000 |
| **Total current assets** | | **364,942,149** | **325,571,892** |
| **Non-current assets** | | | |
| Financial assets | 10 | 160,783,210 | 158,724,620 |
| Property, plant and equipment | 12 | 18,064,931 | 15,638,190 |
| Intangible assets | 13 | 1,778,524 | 1,241,586 |
| **Total non-current assets** | | **180,626,665** | **175,604,396** |
| **Total assets** | | **545,568,814** | **501,176,288** |
| **Current liabilities** | | | |
| Trade and other payables | 14 | 19,481,535 | 24,501,143 |
| Outstanding claims | 15 | 83,613,014 | 63,532,340 |
| Unexpired risk liability | 16 | 3,612,008 | 636,358 |
| Unearned premium liabilities | | 72,607,197 | 65,069,041 |
| Other current liabilities | 17 | 51,317 | 84,701 |
| Provisions | 18 | 5,596,859 | 5,165,125 |
| **Total current liabilities** | | **184,961,930** | **158,988,708** |
| **Non-current liabilities** | | | |
| Provisions | 18 | 2,259,171 | 2,285,045 |
| **Total non-current liabilities** | | **2,259,171** | **2,285,045** |
| **Total liabilities** | | **187,221,101** | **161,273,753** |
| **Net assets** | | **358,347,713** | **339,902,535** |
| **Equity** | | | |
| Reserves | 19 | 6,948,801 | 6,948,801 |
| Retained earnings | | 351,398,912 | 332,953,734 |
| **Total equity** | | **358,347,713** | **339,902,535** |

This statement should be read in conjunction with the notes to the financial statements.

# Consolidated statement of changes in equity

## For the year ended 30 June 2019

| | Asset Revaluation Reserve | Retained Earnings | Total |
|---|---|---|---|
| | $ | $ | $ |
| **Balance at 30 June 2017** | **6,948,801** | **313,563,677** | **320,512,478** |
| Profit for the year | – | 19,390,057 | 19,390,057 |
| Other comprehensive income | – | – | – |
| Total comprehensive income for the year | – | 19,390,057 | 19,390,057 |
| **Balance at 30 June 2018** | **6,948,801** | **332,953,734** | **339,902,535** |
| Profit for the year | – | 18,445,178 | 18,445,178 |
| Other comprehensive income | – | – | – |
| Total comprehensive income for the year | – | 18,445,178 | 18,445,178 |
| **Balance at 30 June 2019** | **6,948,801** | **351,398,912** | **358,347,713** |

This statement should be read in conjunction with the notes to the financial statements.

# Consolidated statement of cash flows

## For the year ended 30 June 2019

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | $ | $ |
| **Cash flows from operating activities** | | | |
| Receipts from members' premiums | | 720,681,553 | 658,912,412 |
| Benefits paid to members | | (626,713,520) | (589,826,577) |
| Receipts from customers | | 13,306,985 | 13,058,196 |
| Payments to suppliers and employees | | (74,671,714) | (55,593,638) |
| Interest received | | 11,720,028 | 10,349,045 |
| **Net cash provided by/(used in) operating activities** | **22a** | **44,323,332** | **36,899,438** |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of investments | | (105,104) | 11,603,834 |
| Purchase of intangibles | | (1,252,576) | (872,955) |
| Purchase of property, plant and equipment | | (5,001,315) | (3,080,782) |
| Purchase of investments | | (50,000,000) | (20,000,000) |
| **Net cash provided by/(used in) investing activities** | | **(56,358,995)** | **(12,349,903)** |
| **Net cash provided by/(used in) financing activities** | | **–** | **–** |
| Net change in cash and cash equivalents held | | (12,035,663) | 24,549,535 |
| Cash and cash equivalents at beginning of financial year | | 90,273,012 | 65,723,477 |
| **Cash and cash equivalents at end of financial year** | **7** | **78,237,349** | **90,273,012** |

This statement should be read in conjunction with the notes to the financial statements.

# Notes to the financial statements

For the year ended 30 June 2019

## 1. Statement of significant accounting policies

The consolidated general purpose financial statements of the Group have been prepared in accordance with Accounting Standards (including Australian Accounting Interpretations), other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. Teachers Federation Health Limited is a not-for-profit entity for the purpose of preparing financial statements.

Teachers Federation Health Limited (the Company) trading as Teachers Health is a company limited by guarantee, incorporated and domiciled in Australia.

## Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). A statement of compliance with International Financial Reporting Standards cannot be made due to the company applying not-for-profit sector specific requirements contained in the AIFRS.

The financial statements were authorised for issue by the Directors on 24th September 2019.

## Basis of preparation

The financial statements have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets and financial instruments for which the fair value basis of accounting has been applied.

The financial statements are presented in Australian dollars with all values rounded to the nearest dollar unless otherwise stated, in accordance with ASIC Rounding in Financial/Directors' Reports Instrument 2016/191.

## Significant accounting policies

### a. Principles of consolidation:

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2019 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in these financial statements as the 'Group'. Further details of the Company's subsidiaries and other entities are set out on Note 26.

The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 30 June 2019.

Nurses & Midwives Health Pty Ltd is a wholly owned subsidiary of the parent Teachers Federation Health Limited. It operates a separate registered health benefits fund under its own Private Health Insurance (PHI) license. As such the subsidiary must separately comply with all relevant PHI legislation as well as APRA rules, Prudential Standards and Practice Guides.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Non-controlling interests, presented as part of equity, represent the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

### b. Parent entity information

Information relating to Teachers Federation Health Limited:

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| **Statement of financial position** | | |
| Current assets | 345,987,876 | 306,070,364 |
| Total assets | 539,488,639 | 501,672,079 |
| Current liabilities | 176,299,438 | 155,975,351 |
| Total liabilities | 178,476,748 | 158,228,858 |
| Reserves | 6,948,801 | 6,948,801 |
| Retained earnings | 354,063,090 | 336,494,421 |
| Total equity | 361,011,891 | 343,443,221 |
| **Statement of profit or loss or other comprehensive income** | | |
| Profit for the year* | 17,568,669 | 21,689,512 |
| Other comprehensive income | - | - |
| **Total comprehensive income** | **17,568,669** | **21,689,512** |

*The profit for the year decreased by $7.514m due to the impairment of investment in subsidiary company Nurses & Midwives Health Pty Ltd.

### c. Income tax

The Group is a private insurer within the meaning of the Private Health Insurance Act 2007 and is exempt from income tax assessment under section 50-30 of the Income Tax Assessment Act 1997.

### d. Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

**Property**

Property in use is shown at its fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction). Valuations are performed every three years or when we believe there has been a material movement in the value of the assets.

Increases in the carrying amount arising on revaluation of properties in use are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same class of asset are charged against the related revaluation reserve directly in equity; all other decreases are charged to profit or loss.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

**Plant and equipment**

Plant and equipment are measured at cost less depreciation and impairment losses.

The cost of fixed assets constructed within the Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

**Depreciation**

The depreciable amount of all fixed assets including building and capitalised leased assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leased assets are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the assets. The depreciation rates used for each class of depreciable assets are:

| Class of fixed asset | Depreciation rate |
|---|---|
| Office furniture and equipment | 20-33% |
| Motor vehicles | 15-20% |
| Computer equipment | 33% |
| Buildings | 2% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the profit or loss.

### e. Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership, are transferred to entities in the Group are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

### f. Financial instruments

**Initial recognition and measurement**

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instrument classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Effective interest rate method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

**Classification and subsequent measurement**

Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss in accordance with AASB 1023 General Insurance Contracts, or realised and unrealised gains or losses arising from changes in fair value are included in profit or loss in the period in which they arise.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method. The ECL simplified approach under AASB 9 has been applied.

# Notes to the financial statements

## For the year ended 30 June 2019 (cont.)

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Assets backing private health insurance liabilities

All financial assets backing insurance liabilities are classified as fair value through the profit or loss in accordance with the accounting policy. The Group has determined that cash and cash equivalents and Financial Assets are held to back private health insurance liabilities and their accounting treatment is as set out above.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

### g. Impairment of non-financial assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Any excess of the asset's carrying value over its recoverable amount is expensed to the profit or loss.

Impairment testing is performed annually for intangible assets with indefinite lives and intangible assets not yet available for use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

### h. Intangibles

**Computer software**

Computer software has a finite useful life and is carried at cost, less accumulated amortisation and impairment losses. Amortisation is calculated on a straight line basis to allocate the cost of the software over their useful lives being three years.

**Licences**

Licences have a finite useful life and are carried at cost, less accumulated amortisation and impairment losses. Amortisation is calculated on a straight line basis to allocate the cost of the licence over their useful lives.

**Amortisation**

The amortisation rates used for each class of intangible assets are:

| Class of intangible | Amortisation rate |
|---|---|
| Computer software | 33.33% |
| Licences | 25% |

### i. Employee benefits

**Short-term employee benefits**

Short-term employee benefits are benefits, other than termination benefits, that are expected to be settled wholly within twelve (12) months after the end of the period in which the employees render the related service. Examples of such benefits include wages and salaries, non-monetary benefits and accumulating sick leave. Short-term employee benefits are measured at the undiscounted amounts expected to be paid when the liabilities are settled.

**Other long-term employee benefits**

The Group's liabilities for annual leave and long service leave are included in other long-term benefits as they are not expected to be settled wholly within twelve (12) months after the end of the period in which the employees render the related service. They are measured at the present value of the expected future payments to be made to employees.

The expected future payments incorporate anticipated future wage and salary levels, experience of employee departures and periods of service, and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that have maturity dates that approximate the timing of the estimated future cash outflows. Any re-measurements arising from experience adjustments and changes in assumptions are recognised in profit or loss in the periods in which the changes occur.

The Group presents employee benefit obligations as current liabilities in the statement of financial position if the Group does not have an unconditional right to defer settlement for at least twelve (12) months after the reporting period, irrespective of when the actual settlement is expected to take place.

**Post-employment benefits plans**

The Group provides post-employment benefits through defined contribution plans.

Defined contribution plans

The Group pays fixed contributions into independent entities in relation to several state plans and insurance for individual employees. The Group has no legal or constructive obligations to pay contributions in addition to its fixed contributions, which are recognised as an expense in the period that relevant employee services are received.

**Donna, THF member**

# Notes to the financial statements

**For the year ended 30 June 2019 (cont.)**

**j. Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of amounts required to settle the obligation at the end of the reporting period.

**k. Cash and cash equivalents**

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position. Cash and cash equivalents is held at fair value through profit or loss.

**l. Revenue**

Premium revenue is recorded on an accruals basis, reflecting contributions received adjusted for the opening and closing contributions in advance and in arrears. Contributions received in advance are recorded as a liability and contributions in arrears (to the extent recoverable) are recorded as an asset. Premiums on unclosed business are brought to account using estimates based on payment cycles nominated by the policyholder.

Revenue from the sale of goods is recognised upon the delivery of goods to customers. Investment revenue consists of distribution income, interest income and changes in the fair value of investments in unit trusts. Distribution income is recognised when Teachers Health's right to receive the income is established. Changes in the fair value of investments in unit trusts are calculated as the difference between the fair value at sale, or balance date, and the fair value at the previous valuation point and are recognised in the Statement of Comprehensive Income. Investments in unit trusts are recorded at the redemption value per unit as reported by the investment managers of such trusts. The unit trust investment backs insurance liabilities.

Lease income from operating leases where the Group is the lessor is recognised in the income statement on a straight line basis over the lease term. All revenue is stated net of the amount of goods and services tax (GST).

**m. Claims**

Claims are recorded as an expense in the period in which the service has been provided to the member. The cost of claims therefore represents the claims paid during the period adjusted for the opening and closing provision for unpresented and outstanding claims. The provision for unpresented and outstanding claims provides for claims reported but not assessed and claims incurred but not reported.

In addition to the provision for unpresented and outstanding claims, an unearned premium liability is also provided for to meet the costs, including claims handling costs that will arise under current insurance contracts.

**n. Risk equalisation**

Amounts payable to the Risk Equalisation Trust Fund (RETF) are recorded in the statement of financial performance in the period for which the payments relate. Any amounts owing at the balance date in relation to the period are brought to account as liabilities.

**o. Inventories – eyecare**

Inventories are measured at the lower of cost and net realisable value. Cost is determined on the basis of full purchase price. Overheads are applied on the basis of normal operating capacity.

**p. Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**q. Outstanding claims liability**

Provision is made at the year-end for the liability for outstanding claims which is measured as the central estimate of the expected payments against claims incurred but not settled at the reporting date under insurance contracts issued by the Group. The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported, together with allowances for RETF consequences and claims handling expenses. This 'central estimate' of outstanding claims is an estimate which is intended to contain no intentional over or under estimation. For this reason, the inherent uncertainty in the central estimate must also be considered and a risk margin is added. Actual results could differ from the estimate.

**r. Unexpired risk liability**

At each reporting date, the adequacy of the unearned premium liability is assessed by considering current estimates of all expected future cash flows relating to future claims against current private health insurance contracts.

If the present value of the expected future cashflows relating to future claims plus an additional risk margin to reflect the inherent uncertainty in the central estimate exceeds the unearned premium liability, then the premium is deemed to be deficient. The Group applies a risk margin to achieve the same probability of sufficiency for future claims as achieved by the estimate of the outstanding claims liability.

**s. Financial liabilities**

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

**t. Accounting for joint ventures**

Interests in joint ventures are accounted for using the equity method of accounting where material to the Group.

**u. Comparative figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

**v. Critical accounting estimates and judgments**

The Directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. Actual results may differ from these estimates.

The key areas in which critical estimates are applied are as described below:

**Fair value of directly-held properties**

Directly-held property is measured at fair value at last valuation date less subsequent depreciation. The Group engages independent registered valuers to value each of its directly-held properties once every three years.

**Outstanding claims provision**

Provision is made at the year-end for the liability for outstanding claims which is measured as the central estimate of the expected payments against claims incurred but not settled at the reporting date under insurance contract issued by the Group. The expected future payments include those in relation to claims reported but not yet paid and claims incurred but not yet reported. This 'central estimate' of outstanding claims is an estimate which is intended to contain no intentional over or under estimation. For this reason, the inherent uncertainty in the central estimate must also be considered and a risk margin is added. The estimated cost of claims includes allowances for the RETF consequences and claims handling expense. Given the inherent uncertainty in establishing claims provisions, it is likely that actual results will differ from the original estimate.

In calculating the estimated cost of unpaid claims the Group uses estimation techniques based upon statistical analysis of historical data. Allowance is made, however for changes or uncertainties which may distort the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims, including changes to the Group's processes which might accelerate or slow down the development and/or recording of paid or incurred claims, compared with statistics from previous periods.

The calculation was determined taking into account benefits paid as at 30 June 2019.

The risk margin has been based on an analysis of the past experience of the Group. The analysis examined the volatility of the past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility. The central estimates are calculated gross of any risk equalisation recoveries. A separate estimate is made of the amounts that will be recoverable from the RETF based upon the gross provision.

Details of specific key estimates and judgments used in deriving the outstanding claims liability at year end are detailed in Notes 2 and 15.

**Unexpired risk liability**

The provision for unexpired risk liability is determined as the excess of benefits, risk equalisation, state levies, claims related expenses plus a risk margin over the premiums for the relevant period. Projected benefits, risk equalisation, state levies and claims related expenses were determined from projections adjusted for recent experience and based on no membership growth.

Details of specific key estimates and judgments used in deriving the unexpired risk liability at year end are detailed in Note 16.

**w. Adoption of new and revised accounting standards**

All new and amended Australian Accounting Standards and interpretations mandatory as at 1 July 2018 to the Group have been adopted with no material impact to the financial statements of the Group, including:

**AASB 9 Financial Instruments**

The Group has adopted AASB 9 Financial Instruments from 1 July 2018, replacing AASB 139 Financial Instruments: Recognition and Measurement, and bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The Group did not early adopt AASB 9 in previous periods. To determine their classification and measurement category, AASB 9 requires all financial assets to be assessed based on a combination of the Group's business model for managing the assets and the instruments' contractual cash flow characteristics.

The AASB 139 measurement categories for financial assets held at fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity (HTM) and loans and receivables (L&R) at amortised cost have been replaced by:

- Financial assets at fair value through profit or loss, including equity instruments and derivatives
- Equity instruments at fair value through other comprehensive income, with no recycling of gains or losses to profit or loss on derecognition (not used by the Group)
- Financial assets at amortised cost.

There were no reclassification made on the Group's classification of its financial assets.

The adoption of AASB 9 has changed the Group's accounting for impairment losses for financial assets held at FVOCI or amortised cost by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. AASB 9 requires the Group to record an allowance for ECLs for all financial assets not held at FVPL. The Group considers an instrument to be in default when contractual payments are 60 days past due. However, in certain cases, the Group may also consider an instrument to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full.

The adoption of the ECL requirements of AASB 9 has no material impact to the financial statements.

**x. New accounting standards for application in future periods**

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Company does not anticipate early adoption of these standards. A discussion of those future requirements and their impact on the Company follows:

# Notes to the financial statements

## For the year ended 30 June 2019 (cont.)

| Standard | Impact |
|---|---|
| **AASB 15 Revenue from Contracts with Customers**<br><br>AASB 15 Revenue from Contracts with Customers comes into effect from 1 July 2019 for not-for-profit entities, replacing all existing revenue requirements in Australian Accounting Standards and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards.<br><br>The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:<br><br>Step 1: Identify the contract(s) with a customer<br>Step 2: Identify the performance obligations in the contract<br>Step 3: Determine the transaction price<br>Step 4: Allocate the transaction price to the performance obligations in the contract<br>Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. | An impact assessment was performed as follows:<br><br>Approximately 96% of the Group's revenue is recognised under AASB 1023 General Insurance Contracts. This standard will be replaced by AASB 17 Insurance Contracts with effective date for the Group from 1 July 2021, discussed in further detail below.<br><br>The Group earns revenue that falls under the scope of AASB 15 from the provision of services to dental, eyecare and other healthcare services which are recognised as the services are provided. The Group has performed review of the revenue recognition under AASB 15 of these revenue streams, and the revenue recognition pattern is expected to remain consistent with the current policy. This revenue makes up 2% of the Group's consolidated revenue and therefore has not had a material impact on the financial statements of the Group. |
| **AASB 16 Leases**<br><br>AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events.<br><br>The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases. The Group will apply AASB 16 for the annual period beginning 1 July 2019.<br><br>The right-of-use asset is depreciated in accordance with the depreciation requirements of AASB 116 Property, Plant and Equipment. For lessees that depreciate right of use assets on a straight-line basis, the aggregate of interest expense on the lease liability and depreciation of the right of use asset generally results in higher total periodic expense in the earlier periods of a lease. | An impact assessment was performed as follows:<br><br>The majority of the Group's lease portfolio is comprised of office leases and retail spaces for dental centres and branches. The Group will apply AASB 16 using the modified retrospective approach, where right-of-use assets are determined as if AASB 16 was always applied using discount rate at the date of application. The cumulative effect of adopting the standard will be recognised as an adjustment to opening retained earnings at 1 July 2019 with no restatement of comparative information. The Group will apply the exemption that allows low value leases to be excluded from the measurement model.<br><br>Based on the Group's initial assessment, apart from the increase in recognised assets and liabilities on the Statement of Financial Position, the financial impact from the changes on transition are not expected to be material. The impact of the disclosure requirements of the standard are currently being assessed. |
| **AASB 17 Insurance Contracts**<br><br>AASB 17 is the Australian interpretation of the final Insurance Contract standard. The standard is effective for the Group for the annual period beginning 01 July 2021. | On 19 July 2017, Australian Accounting Standard Board issued AASB 17 Insurance Contracts, incorporating the recently issued IFRS 17 Insurance Contracts. This will replace AASB 4 Insurance Contracts, AASB 1023 General Insurance Contracts and AASB 1038 Life Insurance Contracts. The Standard will change the accounting for insurance contracts by the Group.<br><br>On the 26 June 2019, the International Accounting Standards Board ("IASB") issued an Exposure Draft, in which the IASB has proposed to push out the effective date on which AASB 17 is based, to 1 January 2022. If the deferral is adopted by the AASB, this will mean the Standard becomes effective for the Group 1 July 2022.<br><br>The Standard introduces three new measurement approaches for accounting for insurance contracts. These include the General model, which is the default model to be applied to contracts, the Premium Allocation Approach, which may be applied to short term contracts and the Variable Fee Approach, to be applied to direct participating products. Assessment of the likely impact on the financials is currently being undertaken. |

### 2. Actuarial assumptions and methods

### Actuarial methods

The outstanding claims estimates for Teachers Health and Nurses & Midwives Health are derived based on three valuation classes, namely Hospital, Medical and General Treatment services. Diversification benefits within a valuation class are implicitly allowed for through the model adopted. The determination of the risk margin has also implicitly allowed for diversification between valuation classes based on an analysis of past deviations from the adopted model, supported by industry benchmarking.

The outstanding claims provision has been estimated using a chain ladder method, based on historical experience and future expectations as to claims. The calculation was determined taking into account actual claims as at the balance date (2018: actual claims as at the balance date).

### Actuarial assumptions

The following assumptions have been made in determining the outstanding claims liability.

| Variables – Teachers Health | 2019 Hospital | 2019 Medical | 2019 General Treatment | 2018 Hospital | 2018 Medical | 2018 General Treatment |
|---|---|---|---|---|---|---|
| | % | % | % | % | % | % |
| Assumed portion paid to date | 84 | 93 | 96 | 87 | 92 | 96 |
| Expense rate | 0.96 | 0.96 | 0.96 | 0.97 | 0.97 | 0.97 |
| Discount rate | – | – | – | – | – | – |
| Risk equalisation rate | 2.27 | 2.27 | – | 2.79 | 2.79 | – |
| Risk margin | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 | 9.00 |

| Variables – Nurses & Midwives Health | 2019 Hospital | 2019 Medical | 2019 General Treatment | 2018 Hospital | 2018 Medical | 2018 General Treatment |
|---|---|---|---|---|---|---|
| | % | % | % | % | % | % |
| Assumed portion paid to date | 81 | 89 | 97 | 84 | 84 | 96 |
| Expense rate | 4.50 | 4.50 | 4.50 | 0.94 | 0.94 | 0.94 |
| Discount rate | – | – | – | – | – | – |
| Risk equalisation rate | 7.54 | 7.54 | – | 4.69 | 4.69 | – |
| Risk margin | 12.5 | 12.5 | 12.5 | 12.5 | 12.5 | 12.5 |

**The risk margin for Teachers Health in 2019 is 9.0% reflecting the use of no hindsight in the calculation of the provision (2018: 9.0% margin using no hindsight). Nurses & Midwives Health has a higher risk margin, given the size of the business, and is 12.5% utilising no hindsight (2018: 12.5% using no hindsight).**

# Notes to the financial statements

For the year ended 30 June 2019 (cont.)

### Process used to determine assumptions

A description of the processes used to determine these assumptions is provided below:

#### i. Assumed proportion paid to date

The assumed proportion paid to date summarises the application of the chain ladder method described above to determine the total expected claims incurred in each service month.

Manual adjustments are made for reasonableness (where necessary) to the two most recent service months. These adjustments are made after calculating the average incurred benefit per Single Equivalent Unit (SEU) per working day for each service month and graphing the results for the past four years. The seasonality exhibited by each valuation class is reasonably consistent from year to year, with each year's service type showing an increase in incurred benefits from the previous year. Based on these graphs, knowledge of industry claiming trends, and details of recent experience, manual adjustments were made to the chain ladder results to derive the total monthly incurred benefits and hence the outstanding claims provision.

#### ii. Discount rate

As claims for Teachers Health and Nurses & Midwives Health are generally settled within one year, no discounting of claims is applied as the difference between the undiscounted value of claims payments and the present value of claims payments is not material. An increase in the proportion assumed paid to date, would lead to more claims being paid earlier and therefore a decrease in the liability.

#### iii. Expense rate

Claims handling expenses were calculated by reference to past experience of total claims handling costs as a percentage of total past payments. An increase or decrease in the assumed expense rate would have a corresponding effect on the claims expense.

#### iv. Risk equalisation allowance

Risk equalisation is an industry-wide mechanism designed to support community rating. The Group is typically a net contributor to the Risk Equalisation Trust Fund. This allowance represents the expected contribution to be made into the fund in respect of the outstanding claims. Increasing the margin adopted will increase the overall provision in respect of outstanding claims.

#### v. Risk margin

The risk margin has been based on an analysis of the past experience of the Group. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility and has been set at a level estimated to equate to a probability of adequacy of 75% (2018: 75%). An increase or decrease in this margin would have a corresponding effect on the claims expense.

### Sensitivity analysis – insurance contracts

#### Summary

The Group conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the performance and equity of the Group.

### Impact on key variables:

| Variables | Movement in variable | Adjustments on Profit | Adjusted amount included in Statement of profit or loss and other comprehensive income | Adjustments on equity | Adjusted amount included in Statement of financial position |
|---|---|---|---|---|---|
| 2019 | | $'000 | $'000 | $'000 | $'000 |
| Assumed portion paid to date | +10% | 54,837 | (34,756) | 54,837 | 28,776 |
| | -10% | (49,852) | 69,932 | (49,852) | 133,465 |
| Expense rate | +10% | (74) | 20,153 | (74) | 83,687 |
| | -10% | 78 | 20,002 | 78 | 83,535 |
| Discount rate | - | - | - | - | - |
| | - | - | - | - | - |
| Risk equalisation rate | +10% | (137) | 20,218 | (137) | 83,750 |
| | -10% | 125 | 19,956 | 125 | 83,488 |
| Risk margin | +10% | (697) | 20,778 | (697) | 84,310 |
| | -10% | 634 | 19,447 | 634 | 82,979 |

### Impact on key variables (cont.):

| Variables | Movement in variable | Adjustments on Profit | Adjusted amount included in Statement of profit or loss and other comprehensive income | Adjustments on equity | Adjusted amount included in Statement of financial position |
|---|---|---|---|---|---|
| 2018 | | $'000 | $'000 | $'000 | $'000 |
| Assumed portion paid to date | +10% | (363,270) | 369,471 | (363,270) | 414,032 |
| | -10% | 254,143 | (247,942) | 254,143 | (203,381) |
| Expense rate | +10% | (550) | 6,751 | (550) | 51,312 |
| | -10% | 545 | 5,655 | 545 | 50,216 |
| Discount rate | - | - | - | - | - |
| | - | - | - | - | - |
| Risk equalisation rate | +10% | (3,498) | 9,699 | (3,498) | 54,260 |
| | -10% | 1,012 | 5,189 | 1,012 | 49,750 |
| Risk margin | +10% | (7,192) | 13,392 | (7,192) | 57,953 |
| | -10% | 6,538 | (337) | 6,538 | 44,224 |

## 3. Revenue

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| **Premium revenue** | **713,375,143** | **656,798,565** |
| Distribution income | 2,769,007 | 2,778,894 |
| Interest income | 11,196,729 | 8,506,153 |
| Changes in the fair value of investment in unit trusts | 168,796 | 1,297,934 |
| **Investment revenue** | **14,134,532** | **12,582,981** |
| **Other revenue** | | |
| Eyecare centres | 6,398,695 | 6,366,426 |
| Dental centres | 3,332,047 | 2,972,223 |
| Travel insurance | 836,599 | 730,394 |
| Healthcare services | 871,689 | 655,213 |
| Other revenue | 1,057,570 | 1,069,432 |
| **Total other income** | **12,496,600** | **11,793,688** |

# Notes to the financial statements

For the year ended 30 June 2019 (cont.)

## 4. Expenses

**Expenses by function**

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Claims handling expenses | (28,292,807) | (23,360,134) |
| Other underwriting expenses | (25,397,234) | (23,770,784) |
| Cost of goods sold – eyecare centres | (1,961,057) | (2,171,519) |
| Finance costs | (514,560) | (511,911) |
| Other operating expenses | | |
| – Eyecare centres | (5,382,651) | (4,858,749) |
| – Dental centres | (3,620,477) | (3,315,892) |
| – Travel insurance | (541,331) | (428,983) |
| – Healthcare services | (879,735) | (736,027) |
| – Other | (661,401) | (675,273) |
| **Total expenses (excluding direct claims expenses)** | **(67,251,253)** | **(59,829,272)** |

**Expenses by nature**

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Employee benefits | (34,857,063) | (29,236,651) |
| Depreciation and amortisation | (3,192,257) | (2,778,187) |
| Finance costs | (514,560) | (511,911) |
| Changes in inventories – eyecare centres | (1,961,057) | (2,171,519) |
| Commission | (3,085,440) | (3,647,365) |
| Electronic claims processing fee | (1,373,142) | (1,269,910) |
| Software and licences | (3,859,740) | (3,655,254) |
| Marketing and publicity | (5,398,667) | (4,958,315) |
| Consulting | (3,129,304) | (2,265,851) |
| Printing and stationery | (283,540) | (277,228) |
| Postages | (109,724) | (163,680) |
| Rental and outgoings | (3,966,611) | (3,349,878) |
| Insurance | (613,663) | (268,131) |
| Motor vehicle and travel | (654,212) | (679,985) |
| Telephones | (393,290) | (354,810) |
| Investment management fee | (653,509) | (655,552) |
| Other | (3,205,474) | (3,585,045) |
| **Total expenses (excluding direct claims expenses)** | **(67,251,253)** | **(59,829,272)** |

## 5. Key management personnel compensation

The key management personnel compensation included within employee expenses is:

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| **Short-term employee benefits** | | |
| Salary and fees | 3,747,067 | 3,611,259 |
| Other benefits | 289,415 | 175,837 |
| | 4,036,482 | 3,787,096 |
| **Post-employment benefits** | | |
| Superannuation | 274,211 | 229,520 |
| **Total key management personnel compensation** | **4,310,693** | **4,016,616** |

Key management personnel are those who have the responsibility for planning, directing and controlling the activities of the Group and consist of the Directors, CEO and direct reports.

## 6. Auditors' remuneration

Ernst & Young was appointed External Auditor for financial year ending 30 June 2019. Ernst & Young succeeded Grant Thornton. During the year, the following fees were paid or payable for services provided by the auditor of the parent entity & related parties.

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| **Audit services:** | | |
| Audit of the financial reports | 171,000 | 182,500 |
| Audit of APRA HRF 601.0 and 602 returns | 35,000 | 40,500 |
| Audit of Medicare premium reduction scheme | 14,000 | 13,500 |
| | **220,000** | **236,500** |
| **Non-audit services:** | | |
| Tax compliance and advisory services | – | 3,500 |
| | – | **3,500** |
| **Total auditor's remuneration** | **220,000** | **240,000** |

## 7. Cash and cash equivalents

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Cash on hand | 5,850 | 6,050 |
| Cash at bank | 78,231,499 | 90,266,962 |
| **Total cash and cash equivalents** | **78,237,349** | **90,273,012** |

# Notes to the financial statements

**For the year ended 30 June 2019 (cont.)**

## 8. Trade and other receivables

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| **Current** | | |
| Trade receivables | 205,169 | 184,450 |
| Premiums in arrears | 3,145,791 | 3,386,554 |
| Medicare rebate | 19,091,504 | 18,618,994 |
| Investment income receivable | 3,072,263 | 2,611,245 |
| Other receivables | 3,209,930 | 2,791,375 |
| **Total current trade and other receivables** | **28,724,657** | **27,592,618** |

Trade and other receivables have been accounted for at amortised cost under AASB 9. The ECL simplified approach under AASB 9 has been applied. The ageing of financial assets past due but not impaired is as follows:

| | Within trade terms | Past due but not impaired (days overdue) | | | Past due and impaired | Gross amount |
|---|---|---|---|---|---|---|
| | | < 30 | 31-60 | > 60 | | |
| 2019 | | | | | | |
| Trade receivables | 205,169 | – | – | – | – | 205,169 |
| Premiums in arrears | 2,831,296 | 175,900 | 52,760 | 85,835 | – | 3,145,791 |
| Medicare rebate | 19,091,504 | – | – | – | – | 19,091,504 |
| Investment income receivable | 3,072,263 | – | – | – | – | 3,072,263 |
| Other receivables | 3,209,930 | – | – | – | – | 3,209,930 |
| | **28,410,162** | **175,900** | **52,760** | **85,835** | **–** | **28,724,657** |

| | Within trade terms | Past due but not impaired (days overdue) | | | Past due and impaired | Gross amount |
|---|---|---|---|---|---|---|
| | | < 30 | 31-60 | > 60 | | |
| 2018 | | | | | | |
| Trade receivables | 184,450 | – | – | – | – | 184,450 |
| Premiums in arrears | 3,070,779 | 212,367 | 38,102 | 65,306 | – | 3,386,554 |
| Medicare rebate | 18,618,994 | – | – | – | – | 18,618,994 |
| Investment income receivable | 2,611,245 | – | – | – | – | 2,611,245 |
| Other receivables | 2,791,375 | – | – | – | – | 2,791,375 |
| | **27,276,843** | **212,367** | **38,102** | **65,306** | **–** | **27,592,618** |

## 9. Inventories

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Finished goods – eyecare centres, at cost | **502,862** | **514,262** |

## 10. Financial assets

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| **Current** | | |
| Fixed interest rate securities, designated at fair value | 255,000,000 | 205,000,000 |
| | **255,000,000** | **205,000,000** |
| **Non-current** | | |
| Equity trusts, at fair value | 29,854,654 | 29,685,858 |
| Debt trusts, at fair value | 130,928,556 | 129,038,762 |
| | **160,783,210** | **158,724,620** |

## 11. Other assets

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Prepayments | 320,043 | 34,763 |
| Bond | 2,157,238 | 2,157,237 |
| | **2,477,281** | **2,192,000** |

# Notes to the financial statements

**For the year ended 30 June 2019 (cont.)**

## 12. Property, plant and equipment

| | | 2019 | 2018 |
|---|---|---|---|
| | | $ | $ |
| **Property in use** | | | |
| At fair value | (a) | 11,800,000 | 11,800,000 |
| Accumulated depreciation | | (491,667) | (255,667) |
| **Total property in use** | | **11,308,333** | **11,544,333** |
| **Computer equipment** | | | |
| At cost | | 3,036,514 | 2,387,014 |
| Accumulated depreciation | | (1,817,385) | (1,677,671) |
| **Total computer equipment** | | **1,219,129** | **709,343** |
| **Motor vehicles** | | | |
| At cost | | 667,166 | 643,984 |
| Accumulated depreciation | | (152,285) | (225,841) |
| **Total motor vehicles** | | **514,881** | **418,143** |
| **Office furniture and equipment** | | | |
| At cost | | 18,755,820 | 15,398,114 |
| Accumulated depreciation | | (13,733,232) | (12,431,743) |
| **Total office furniture and equipment** | | **5,022,588** | **2,966,371** |
| **Total property, plant and equipment** | | **18,064,931** | **15,638,190** |

(a) The fair value of the property were estimated using observable data on recent transactions and rental yields for similar properties. The last valuation performed by an independent valuer was in May 2017. No material change was noted to the valuation of the property as at 30 June 2019.

## 12. Property, plant and equipment (cont.)

### Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

| | Property in use | Computer equipment | Motor vehicles | Office furniture and equipment | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Balance at 30 June 2017** | **11,780,333** | **399,277** | **317,473** | **2,093,542** | **14,590,625** |
| Additions | – | 625,382 | 246,955 | 2,208,444 | 3,080,781 |
| Disposals | – | (23,847) | (217,975) | (325,869) | (567,691) |
| Depreciation expense | (236,000) | (315,316) | (104,055) | (1,325,774) | (1,981,145) |
| Accumulated depreciation written back on disposal | – | 23,847 | 175,745 | 316,028 | 515,620 |
| **Carrying amount at 30 June 2018** | **11,544,333** | **709,343** | **418,143** | **2,966,371** | **15,638,190** |
| Additions | – | 1,040,120 | 325,720 | 3,635,474 | 5,001,314 |
| Disposals | – | (390,620) | (333,161) | (277,768) | (1,001,549) |
| Depreciation expense | (236,000) | (528,173) | (119,149) | (1,579,287) | (2,462,609) |
| Accumulated depreciation written back on disposal | – | 388,459 | 223,328 | 277,798 | 889,585 |
| **Carrying amount at 30 June 2019** | **11,308,333** | **1,219,129** | **514,881** | **5,022,588** | **18,064,931** |

# Notes to the financial statements

**For the year ended 30 June 2019 (cont.)**

## 13. Intangible assets

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| **Computer software** | | |
| Cost | 3,260,231 | 2,012,755 |
| Accumulated amortisation | (1,481,707) | (881,700) |
| Net carrying value | 1,778,524 | 1,131,055 |
| | | |
| **Licences** | | |
| Cost | 1,867,584 | 1,867,584 |
| Accumulated amortisation | (1,867,584) | (1,757,053) |
| Net carrying value | – | 110,531 |
| **Total intangible assets** | **1,778,524** | **1,241,586** |

### Movements in carrying amounts

| | Computer software | Licences | Total |
|---|---|---|---|
| **Balance at 1 July 2017** | **608,718** | **552,656** | **1,161,374** |
| Additions | 872,956 | – | 872,956 |
| Amortisation charge | (350,619) | (442,125) | (792,744) |
| **Carrying amount at 30 June 2018** | **1,131,055** | **110,531** | **1,241,586** |
| Additions | 1,252,575 | – | 1,252,575 |
| Disposals | (5,100) | – | (5,100) |
| Amortisation charge | (605,106) | (110,531) | (715,637) |
| Accumulated amortisation written back on disposal | 5,100 | – | 5,100 |
| **Carrying amount at 30 June 2019** | **1,778,524** | **–** | **1,778,524** |

## 14. Trade and other payables

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Trade creditors | 1,643,021 | 1,489,093 |
| Sundry payables and accrued expenses | 8,013,514 | 17,727,050 |
| Risk equalisation trust fund payable | 9,825,000 | 5,285,000 |
| | **19,481,535** | **24,501,143** |

## 15. Outstanding claims liability

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Outstanding claims – central estimate of the expected future payment for claims incurred | 74,209,956 | 56,298,848 |
| Claims handling expense | 799,619 | 562,064 |
| **Gross outstanding claims liability** | **75,009,575** | **56,860,912** |
| | | |
| Outstanding claims – expected payments to the RETF in relation to the central estimate | 1,634,161 | 1,408,500 |
| Risk margin | 6,969,278 | 5,262,928 |
| **Net outstanding claims liability** | **83,613,014** | **63,532,340** |

**(i) Risk margin**

**Teachers Health:**

(i) The risk margin of 9.0% (2018: 9.0%) of the underlying liability has been estimated to equate to a probability of adequacy of 75% (2018: 75%).

The central estimate of outstanding claims (including those that have been reported but not yet settled and which have been incurred but not yet reported) is an estimate which is intended to contain no intentional over or under estimation. For this reason, the inherent uncertainty in the central estimate must also be considered.

The risk margin has been based on an analysis of past experience of the company. This analysis examined the volatility of past payments that has not been explained by the model adopted to determine the central estimate. This past volatility has been assumed to be indicative of the future volatility.

The outstanding claims estimate is derived based on three valuation classes: Hospital, Medical, and General Treatment services. Diversification benefits within a valuation class are implicitly allowed for through the model adopted. The determination of the risk margin has also implicitly allowed for diversification between valuation classes based on an analysis of past correlations in deviations from the adopted model.

The outstanding claims provision has been estimated using a chain ladder method, based on historical experience and future expectations as to claims. The calculation was determined taking into account actual claims as at the balance date (2018: actual claims as at the balance date). As claims for health funds are generally settled within one year, no discounting of claims is usually applied as the difference between the undiscounted value of claims payments and the present value of claims payments is not likely to be material. Accordingly, reasonable changes in assumptions would not have a material impact on the outstanding claims balances. Changes in the gross outstanding claims can be analysed as follows:

**Nurses & Midwives Health:**

(i) The risk margin of 12.5% (2018: 12.5%) of the underlying liability has been estimated to equate to a probability of adequacy of 75% (2018: 75%).

The central estimate of outstanding claims (including those that have been reported but not yet settled and which have been incurred but not yet reported) is an estimate which is intended to contain no intentional over or under estimation. For this reason, the inherent uncertainty in the central estimate must also be considered.

The risk margin has been based on industry benchmarking.

The outstanding claims estimate is derived based on three valuation classes, namely Hospital, Medical, and General Treatment services. Diversification benefits within a valuation class are implicitly allowed for through the model adopted. The determination of the risk margin has also implicitly allowed for diversification between valuation classes based on an analysis of past correlations in deviations from the adopted model.

The outstanding claims provision has been estimated based on historical experience and future expectations as to claims. The calculation was determined taking into account actual claims and membership as at the balance date.

As claims for health funds are generally settled within one year, no discounting of claims is usually applied as the difference between the undiscounted value of claims payments and the present value of claims payments is not likely to be material. Accordingly, reasonable changes in assumptions would not have a material impact on the outstanding claims balances. Changes in the gross outstanding claims can be analysed as follows:

# Notes to the financial statements

## For the year ended 30 June 2019 (cont.)

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Gross outstanding claims at beginning of period | 56,860,912 | 45,221,447 |
| Administration component – claims handling | (562,064) | (544,276) |
| **Central estimate at beginning of period** | **56,298,848** | **44,677,171** |
| Change in claims incurred for the prior year | (3,650,350) | 7,441,865 |
| Claims paid in respect of the prior year | (52,477,210) | (51,783,463) |
| Claims incurred during the year (expected) | 622,407,610 | 569,410,050 |
| Claims paid during the year (expected) | (548,368,942) | (513,446,775) |
| **Central estimate at end of period** | **74,209,956** | **56,298,848** |
| Administration component – claims handling | 799,619 | 562,064 |
| **Gross outstanding claims at end of period** | **75,009,575** | **56,860,912** |

### 16. Unexpired risk liability

#### Liability Adequacy Test

At reporting date, the Group assesses the sufficiency of the unearned premium liability to cover all expected future cash flows relating to future claims against current health insurance contracts. This assessment is referred to as the Liability Adequacy Test ('LAT').

The LAT is performed to ensure that unearned premiums (unearned premium liabilities) and premiums expected to be received based on a current policyholder's option to renew their existing contract (constructive obligation) is adequate to cover the expected liabilities arising from the policyholder's existing rights and obligations. The expected liabilities include benefits, member servicing costs and a margin for risk. The period of the projections is up until the next price review or change in contractual benefits.

If the present value of the expected future claims cash flows plus the additional risk margin exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, then the unearned premium liability is deemed to be deficient.

| | Unearned premium | Unearned unclosed business | Constructive obligation | Total |
|---|---|---|---|---|
| 2019 | $ | $ | $ | $ |
| **Hospital and General Treatment Combined Premium** | **71,136,070** | **1,462,004** | **497,928,655** | **570,526,729** |
| **Outflows** | | | | |
| Central estimate of future benefits | 64,659,245 | 1,328,033 | 458,930,940 | 524,918,218 |
| Central estimate of future management expenses | 3,228,753 | 65,709 | 22,681,744 | 25,976,206 |
| Risk margin | 2,115,717 | 42,065 | 15,154,283 | 17,312,065 |
| **Total outflows** | **70,003,715** | **1,435,807** | **496,766,967** | **568,206,489** |
| **Total deficiency/(surplus)** | **(1,132,355)** | **(26,197)** | **(1,161,688)** | **(2,320,240)** |
| **Total unexpired risk liability** | **403,445** | **1,429** | **3,207,133** | **3,612,008** |

When considered as a standalone entity Nurses & Midwives Health showed a deficiency requiring a reserve of $3.6m as shown.

| | Unearned premium | Unearned unclosed business | Constructive obligation | Total |
|---|---|---|---|---|
| 2018 | $ | $ | $ | $ |
| **Hospital and General Treatment Combined Premium** | **63,325,826** | **1,743,215** | **459,718,193** | **524,787,234** |
| **Outflows** | | | | |
| Central estimate of future benefits | 56,976,017 | 1,552,532 | 418,925,249 | 477,453,798 |
| Central estimate of future management expenses | 2,719,362 | 73,846 | 19,898,433 | 22,691,641 |
| Risk margin | 1,827,147 | 49,173 | 13,527,197 | 15,403,517 |
| **Total outflows** | **61,522,526** | **1,675,551** | **452,350,879** | **515,548,956** |
| **Total deficiency/(surplus)** | **(1,803,300)** | **(67,664)** | **(7,367,314)** | **(9,238,278)** |
| **Total unexpired risk liability** | **50,524** | **489** | **585,345** | **636,358** |

The liability adequacy testing as at 30 June 2018 resulted in a deficiency of $636k in the subsidiary Nurses & Midwives Health.

The risk margins have been estimated in respect of each private health insurer to equate to a probability of adequacy of 75% (2018: 75%). For Teachers Health the risk margin is 3.0% (2018: 3.0%), and for Nurses & Midwives Health 7.5% (2018: 7.5%). These margins are applied to the respective benefits, risk equalisation, state levies and claims related expenses forecasts when determining the unexpired risk liability.

### 17. Other current liabilities

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Lease liability | 51,317 | 84,701 |
| | **51,317** | **84,701** |

### 18. Provisions

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | $ | $ |
| **Current** | | | |
| Employee benefits | (a) | 5,596,859 | 5,165,125 |
| | | **5,596,859** | **5,165,125** |
| **Non-current** | | | |
| Employee benefits | (a) | 1,459,171 | 1,485,045 |
| Make good-Level 3&4 260 Elizabeth St | | 800,000 | 800,000 |
| | | **2,259,171** | **2,285,045** |

# Notes to the financial statements

For the year ended 30 June 2019 (cont.)

| | Employee Benefits | Make good | Total |
|---|---|---|---|
| | $ | $ | $ |
| **Balance at 30 June 2017** | **6,171,013** | **800,000** | **6,971,013** |
| Net amounts recognised/(used) during the year | 479,157 | – | 479,157 |
| **Balance at 30 June 2018** | **6,650,170** | **800,000** | **7,450,170** |
| Amounts recognised during the year | 3,377,919 | – | 3,377,919 |
| Amounts used during the period | (2,972,059) | – | (2,972,059) |
| **Balance at 30 June 2019** | **7,056,030** | **800,000** | **7,856,030** |

**(a) Provision for employee benefits**

A provision has been recognised for employee entitlements relating to annual and long service leave for employees. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based upon historical data. The measurement and recognition criteria for employee benefits have been included in Note 1 (i).

## 19. Reserves

**Asset revaluation reserve**

The asset revaluation reserve records the cumulative revaluations of non-current assets. The current balance of this reserve, being $6,948,801 has been recognised as a result of the revaluation of the property in use since acquisition.

| | Asset Revaluation Reserve Movement |
|---|---|
| | $ |
| **Balance at 30 June 2017** | **6,948,801** |
| – Revaluation | – |
| | |
| **Balance at 30 June 2018** | **6,948,801** |
| – Revaluation | – |
| **Balance at 30 June 2019** | **6,948,801** |

## 20. Capital and leasing commitments

**(a) Operating lease commitments**

Non-cancellable operating leases contracted for but not capitalised in the financial statements

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| **Payable — minimum lease payments** | | |
| – not later than 12 months | 2,534,520 | 1,596,626 |
| – between 12 months and five years | 12,837,679 | 1,805,717 |
| – greater than five years | 232,506 | – |
| | **15,604,705** | **3,402,343** |

The operating lease commitments relate to non-cancellable premises leases entered for the operation of Health Services centres within Parramatta and Richmond and administrative premises' within Surry Hills.

## 21. Segment reporting

The Group operates predominantly in one operating segment which includes parent company Teachers Federation Health Limited, subsidiaries Nurses & Midwives Health Pty Ltd and Teachers Healthcare Services Pty Ltd.

## 22. Cash flow information

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| **(a) Reconciliation of Cash Flow from Operations with Surplus after Income Tax** | | |
| Surplus after income tax | 18,445,178 | 19,390,057 |
| **Non-cash flows in surplus:** | | |
| – Depreciation | 2,462,609 | 1,981,145 |
| – Amortisation | 715,637 | 792,744 |
| – Net loss on disposal of property, plant and equipment | 111,965 | 52,072 |
| – Fair value losses/(gain) on investment trusts | (1,953,486) | (1,953,486) |
| | | |
| **Changes in assets and liabilities** | | |
| – Decrease/(increase) in trade and term debtors | (1,132,039) | (1,519,523) |
| – Decrease/(increase) in inventories – eyecare centres | 11,400 | (90,707) |
| – Decrease/(increase) in other assets | (285,280) | (5,377) |
| – Increase/(decrease) in payables | (5,019,608) | 725,969 |
| – Increase/(decrease) in other liabilities | 7,504,772 | 3,438,060 |
| – Increase/(decrease) in provisions | 23,462,184 | 14,088,484 |
| | | |
| **Cash flow from operations** | **44,323,332** | **36,899,438** |

## 23. Events after the balance sheet date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

# Notes to the financial statements

**For the year ended 30 June 2019 (cont.)**

## 24. Related party transactions

The following table details transactions with related parties.

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | $ | $ |
| Teachers Dental – profit distribution | (a) | 571,396 | 553,946 |
| Teachers Dental – management fees and expense allocation recharge | (b) | 1,645,073 | 1,483,055 |
| | | **2,216,469** | **2,037,001** |

(a) The Group receives profit distribution from Teachers Dental.

(b) The Group charges Teachers Dental for Surry Hills office rental, staff services provided, and resources used. The total amount due from Teachers Dental to the Group is $134,060 at 30 June 2019 ($116,900 at 30 June 2018).

## 25. Financial instruments

### (a) Financial risk management

The Group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to subsidiaries and leases.

The totals for each category of financial instruments, measured in accordance with AASB 9 as detailed in the accounting policies to these financial statements, are as follows:

| | 2019 | 2018 |
|---|---|---|
| **Financial assets** | $ | $ |
| Cash and cash equivalents | 78,237,349 | 90,273,012 |
| Financial assets at fair value through profit or loss | | |
| – Equity trusts | 29,854,654 | 29,685,858 |
| – Debt trusts | 130,928,556 | 129,038,762 |
| – Fixed interest rate securities | 255,000,000 | 205,000,000 |
| – Investment income receivable | 3,072,263 | 2,611,245 |
| Financial assets at amortised cost: | | |
| – Trade and other receivables | 25,652,394 | 24,981,373 |
| – Other current assets | 2,477,280 | 2,192,001 |
| | **525,222,496** | **483,782,251** |

| | 2019 | 2018 |
|---|---|---|
| **Financial liabilities** | $ | $ |
| Financial liabilities at amortised cost | | |
| – Trade and other payables | 19,481,535 | 24,501,143 |
| – Other current liabilities | 72,658,514 | 65,153,742 |
| | **92,140,049** | **89,654,885** |

### Fair value hierarchy

The table below separates financial assets and financial liabilities on a hierarchy that reflects the significance of the inputs used in the determination of fair value. The fair value hierarchy has the following levels:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Owner-occupied properties were reclassed from Level 2 investments as at 30 June 2018 to level 3 investments as at 30 June 2019.

### Fair value measurement

The following table provides the fair value measurement hierarchy of the Group's financial assets and liabilities, other than those with carrying amounts that are reasonable approximations of fair values:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **2019** | $ | $ | $ | $ |
| **Assets at fair value through profit or loss** | | | | |
| Fixed rate interest securities deposits | 255,000,000 | – | – | 255,000,000 |
| Holdings in unlisted unit trust – equities | – | 29,854,654 | – | 29,854,654 |
| Holdings in unlisted unit trust – debt | – | 130,928,556 | – | 130,928,556 |
| **Total assets at fair value through profit or loss** | **255,000,000** | **160,783,210** | | **415,783,210** |
| **Assets at fair value through OCI** | | | | |
| Owner-occupied properties | – | – | 11,308,334 | 11,308,334 |
| **Total assets at fair value through OCI** | **–** | **–** | **11,308,334** | **11,308,334** |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **2018** | $ | $ | $ | $ |
| **Assets at fair value through profit or loss** | | | | |
| Fixed rate interest securities | 205,000,000 | – | – | 205,000,000 |
| Holdings in unlisted unit trusts – equities | – | 29,685,858 | – | 29,685,858 |
| Holdings in unlisted unit trusts – debt | – | 129,038,762 | – | 129,038,762 |
| **Total assets at fair value through profit or loss** | **205,000,000** | **158,724,620** | **–** | **363,724,620** |
| **Assets at fair value through OCI** | | | | |
| Owner-occupied properties | – | 11,544,333 | – | 11,544,333 |
| **Total assets at fair value through OCI** | **–** | **11,544,333** | **–** | **11,544,333** |

# Notes to the financial statements

## For the year ended 30 June 2019 (cont.)

The Group holds land and buildings at fair value of $11.3m classified as Level 3. The Level 3 fair value of land and buildings has been derived using the market value approach. The key inputs under this approach are the current observable prices in an active market for similar properties in the same location and condition, and the net market rental income as at valuation date, capitalised at an appropriate market yield.

The Group does not have any derivative instruments at 30 June 2019 (2018: nil).

The Audit and Finance Committee has been delegated responsibility by the Board of Directors for, amongst other issues, monitoring and managing financial risk exposures of the Group. An investment policy has been developed in order to comply with APRA's requirements.

The Group's overall investment strategy seeks to assist the Group in meeting its financial targets, while minimising potential adverse effects on financial performance. The main risks the Group is exposed to through its financial instruments have been addressed below including; market risks, liquidity risks, credit risks and insurance risks.

### Market risks

#### Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at reporting date whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. No disclosure has been made below in relation to financial liabilities as the Group has no material interest-bearing financial liabilities as at 30 June 2019.

| | Weighted average effective interest rate | Within 1 year | Fixed interest rate maturing 1 to 5 years | Greater than 5 years | Total |
|---|---|---|---|---|---|
| | % | $ | $ | $ | $ |
| **2019** | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | 1.38% | 78,237,349 | - | - | **78,237,349** |
| Fixed interest rate securities | 2.63% | 255,000,000 | - | - | **255,000,000** |
| Debt trusts | 3.10% | - | 130,928,556 | - | **130,928,556** |
| **Total interest bearing financial assets** | | **333,237,349** | **130,928,556** | - | **464,165,905** |
| **2018** | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | 1.42% | 90,273,012 | - | - | 90,273,012 |
| Fixed interest rate securities | 2.55% | 205,000,000 | - | - | 205,000,000 |
| Debt trusts | 1.80% | - | 129,038,762 | - | 129,038,762 |
| **Total interest bearing financial assets** | | **295,273,012** | **129,038,762** | **-** | **424,311,774** |



The following table illustrates sensitivities to the Group's exposures to changes in interest rates. The table indicates the impact on how surplus and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Interest rate movement | +2.00% | -2.00% | +2.00% | -2.00% |
| Impact on net result for the year | 9,283,318 | (9,283,318) | 8,486,235 | (8,486,235) |
| Impact on equity | 9,283,318 | (9,283,318) | 8,486,235 | (8,486,235) |

#### Equity price risk

The Group holds investments with various equity investment portfolios. These investments are held for long-term strategic purposes rather than trading.

The following table illustrates sensitivities to the Group's exposures to changes in equity prices. The table indicates the impact on how surplus and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Equity price movement | +5.00% | -5.00% | +5.00% | -5.00% |
| Impact on net result for the year | 1,492,733 | (1,492,733) | 1,484,293 | (1,484,293) |
| Impact on equity | 1,492,733 | (1,492,733) | 1,484,293 | (1,484,293) |

#### Commodity price risk

The Company is not exposed to any material commodity price risk.

#### Insurance risk

The Group's health insurance activities primarily include pricing, claims management and investment management. Because of the specific requirements of health insurance community rating, risks must be accepted at a standard premium rate that is not individually risk rated. The premium rates that are proposed are subject to review by the Minister for Health and must ensure the financial viability of the health fund.

While the Group has the ability to determine rates and benefits payable within certain guidelines, there is limited ability to price risk. This includes the impact of the Risk Equalisation Scheme which is a government mandated policy which allocates a percentage of all payments to members based upon age cohorts, to be paid or received by all health funds in proportion to their overall membership.

#### Credit risk

The Group and parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so they continue to provide benefits for stakeholders, and to maintain an optimal capital structure.

Each of the health benefit funds in the Group needs to satisfy APRA Prudential Standards HPS 100 (Solvency) and APRA Prudential Standards HPS 110 (Capital Adequacy) under the Private Health Insurance (Prudential Supervision) Act 2015.

In brief, the intention of these capital standards is to ensure that each health benefits fund of a private health insurer has sufficient, appropriate assets available to be able to demonstrate that it will be able to meet future policyholder and creditor obligations under a range of adverse outcomes.

As part of its liquidity management policy, the Fund hold a Cash Amount Ratio of least 1.4 times as approved by the Board and above the minimum Solvency requirement of 1.0. The Fund fully met both its capital and solvency requirement at all times over the past 12 months

#### Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

# Notes to the financial statements

## For the year ended 30 June 2019 (cont.)

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities
- maintaining a reputable credit profile
- managing credit risk related to financial assets
- investing only in surplus cash with major financial institutions
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

### Financial liability and financial asset maturity analysis

No disclosure has been made below in relation to financial liabilities. Note that the Group's financial liabilities as at 30 June 2019 are due within 12 months.

| | Due < 1 yr | Due 1 – 5 yrs | No Fixed Date | Total |
|---|---|---|---|---|
| **2019** | $ | $ | $ | $ |
| **Financial assets — cash flows realisable** | | | | |
| Cash and cash equivalents | 78,237,349 | – | – | 78,237,349 |
| Investment income receivable | 3,072,263 | – | – | 3,072,263 |
| Fixed interest rate securities | 255,000,000 | – | – | 255,000,000 |
| Equity trusts | – | – | 29,854,654 | 29,854,654 |
| Debt trusts | – | 130,928,556 | – | 130,928,556 |
| **Total anticipated inflows** | **336,309,612** | **130,928,556** | **29,854,654** | **497,092,822** |
| **Net inflow on financial instruments** | **336,309,612** | **130,928,556** | **29,854,654** | **497,092,822** |

| | Due < 1 yr | Due 1 – 5 yrs | No Fixed Date | Total |
|---|---|---|---|---|
| **2018** | $ | $ | $ | $ |
| **Financial assets — cash flows realisable** | | | | |
| Cash and cash equivalents | 90,273,012 | – | – | 90,273,012 |
| Investment income receivable | 2,611,245 | – | – | 2,611,245 |
| Fixed interest rate securities | 205,000,000 | – | – | 205,000,000 |
| Equity trusts | – | – | 29,685,858 | 29,685,858 |
| Debt trusts | – | 129,038,762 | – | 129,038,762 |
| **Total anticipated inflows** | **297,884,257** | **129,038,762** | **29,685,858** | **456,608,877** |
| **Net inflow on financial instruments** | **297,884,257** | **129,038,762** | **29,685,858** | **456,608,877** |

### Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counter parties of contractual obligations that could lead to a financial loss to the Group.

Management monitors credit risk by actively assessing the rating quality and liquidity of counter parties. The below table demonstrates the translation of grading used to assess the investments held by the Group.

| APRA Grade | Standard & Poor's | Moody's | AM Best | Maximum exposure |
|---|---|---|---|---|
| 1 | AAA to AA | Aaa to Aa3 | A++ to A+ | 100% |
| 2 | A+ AA- | A1 A2 A3 | A to A- | 50% |
| 3 | BBB+ to BBB- | Baa1 to Baa3 | B++ to B+ | 20% |
| 4 | BB+ to B- | Ba1 to B3 | B to C- | 1% |
| 5 | CCC+ to D | Below B3 | Below C- | 1% |
| Unrated | – | – | – | 20% |

| **Analysis of Standard & Poor's Ratings:** | |
|---|---|
| AAA to AA-: | Encompasses the major Australian banks and the Australian government |
| A+ to A- | Enables exposure to the region Australian banks that offer good risk/rewards |
| BBB+ to BBB- | Provides for greater exposure to regional Australian banks and hybrid securities, but a maximum of 30% is set as a prudent level when combined with liquidity requirements |
| Unrated | Enables access to a wide range of ASX Listed instruments and non-bank securities such as credit unions and building societies |

The investment policy adopted by the Group is designed to meet the standards set by APRA. Below is an analysis of the credit risk as it stands at year end.

| | APRA GRADING | | | | |
|---|---|---|---|---|---|
| | 1 | 2 | 3 | Unrated | Total |
| **2019** | | | | | |
| Cash and cash equivalents | 78,231,499 | – | – | 5,850 | 78,237,349 |
| Investment income receivable | 2,313,290 | 758,973 | – | – | 3,072,263 |
| Fixed interest rate securities | 181,000,000 | 74,000,000 | – | – | 255,000,000 |
| Equity trusts | – | – | – | 29,854,654 | 29,854,654 |
| Debt trusts | 82,477,506 | 46,902,137 | 1,044,832 | 504,081 | 130,928,556 |
| **Total** | **344,022,295** | **121,661,110** | **1,044,832** | **30,364,585** | **497,092,822** |
| % of total | 69.21% | 24.47% | 0.21% | 6.11% | |
| Maximum allowable per investment policy | 100% | 50% | 20% | 20% | |

# Notes to the financial statements

**For the year ended 30 June 2019 (cont.)**

| | APRA GRADING 1 | 2 | 3 | Unrated | Total |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Cash and cash equivalents | 90,266,962 | – | – | 6,050 | 90,273,012 |
| Investment income receivable | 2,081,957 | 529,288 | – | – | 2,611,245 |
| Fixed interest rate securities | 160,000,000 | 45,000,000 | – | – | 205,000,000 |
| Equity trusts | – | – | – | 29,685,858 | 29,685,858 |
| Debt trusts | 78,642,258 | 49,448,509 | 739,054 | 208,941 | 129,038,762 |
| **Total** | **330,991,177** | **94,977,797** | **739,054** | **29,900,849** | **456,608,877** |
| | | | | | |
| % of total | 72.49% | 20.80% | 0.16% | 6.55% | |
| Maximum allowable per investment policy | 100% | 50% | 20% | 20% | |

## 26. Interest in subsidiaries and other entities

| | Note | Country of incorporation and principal place of business | Principal activity | Group's proportionate of ownership 2019 | 2018 |
|---|---|---|---|---|---|
| Nurses & Midwives Health Pty Ltd | 1a | Australia | Providing private health insurance | 100% | 100% |
| Teachers Healthcare Services Pty Ltd | 1a | Australia | Broader health cover services of care coordination | 100% | 100% |
| Teachers Federation Health Foundation Pty Ltd* | 1a | Australia | Trustee for foundation, funding or promoting medical research | 100% | 100% |
| Teachers Dental (Surry Hills) ** | 1t | Australia | Dental services | 51% | 51% |

* This entity did not actively trade during the year and hence no impact on the consolidated statement of profit or loss and other comprehensive income.

** This entity is an unincorporated joint venture entity that is not material to the consolidated financial statements.

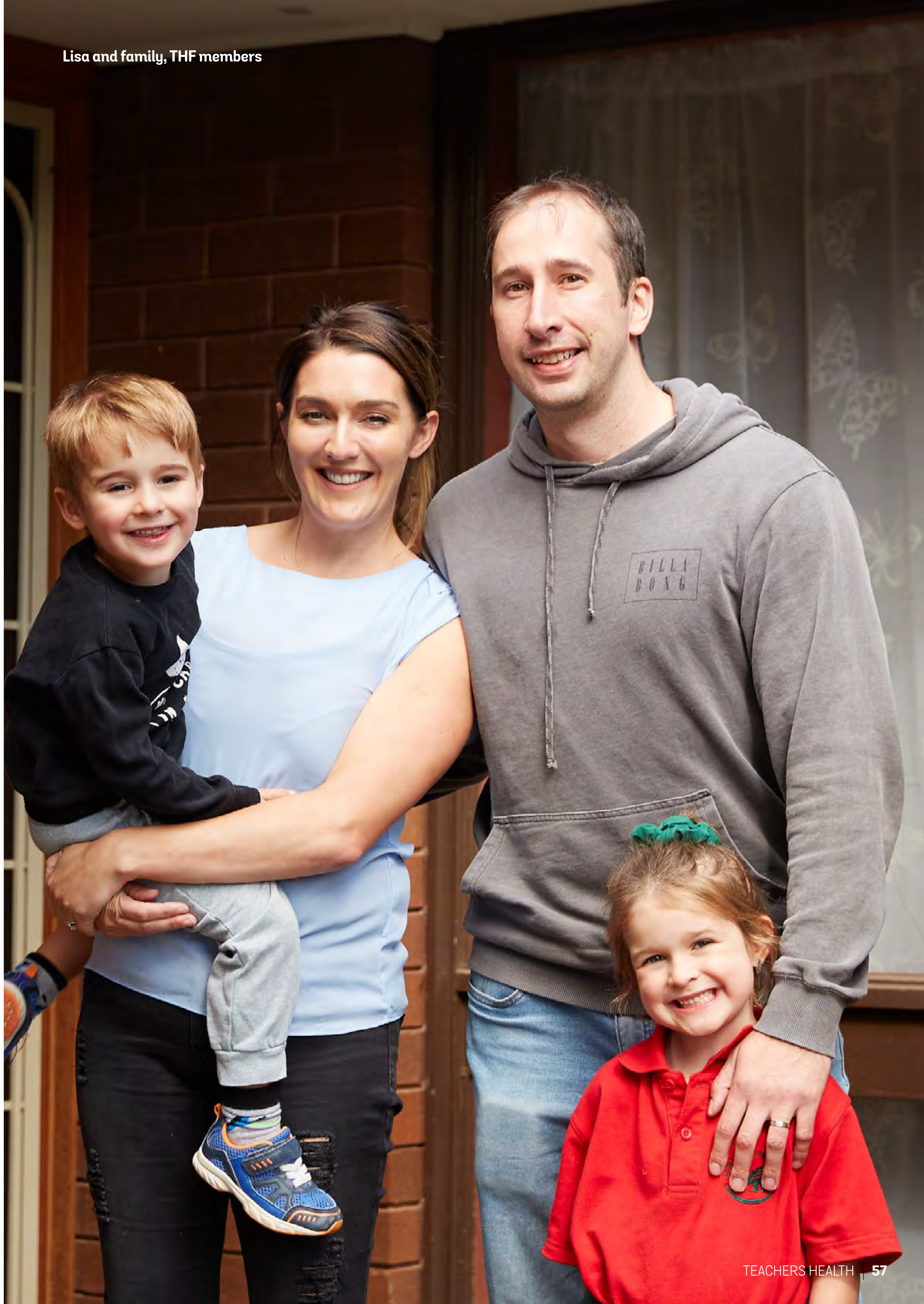
## 27. Group details

The registered office and principal place of business of the Group is:

Teachers Federation Health Limited
ABN 86 097 030 414
Level 4, Tower A
260 Elizabeth Street
SYDNEY NSW 2000



Lisa and family, THF members



# Directors' declaration

The Directors of Teachers Federation Health Limited declare that:

1. The consolidated financial statements and notes, as set out on pages 24 to 56, are in accordance with the Corporations Act 2001 and:
   i. comply with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
   ii. give a true and fair view of the financial position as at 30 June 2019 and of the performance for the year ended on that date of the Group.
2. In the Directors' opinion there are reasonable grounds to believe that Teachers Federation Health Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

**H M MacGregor**

Helen MacGregor

Director

Dated this 24th day of September 2019
Sydney, NSW

# Independent auditor's report

EY
Building a better working world


Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au


## Independent Auditor's Report to the members of Teachers Federation Health Ltd

### Opinion

We have audited the financial report of Teachers Federation Health Ltd (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.









- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

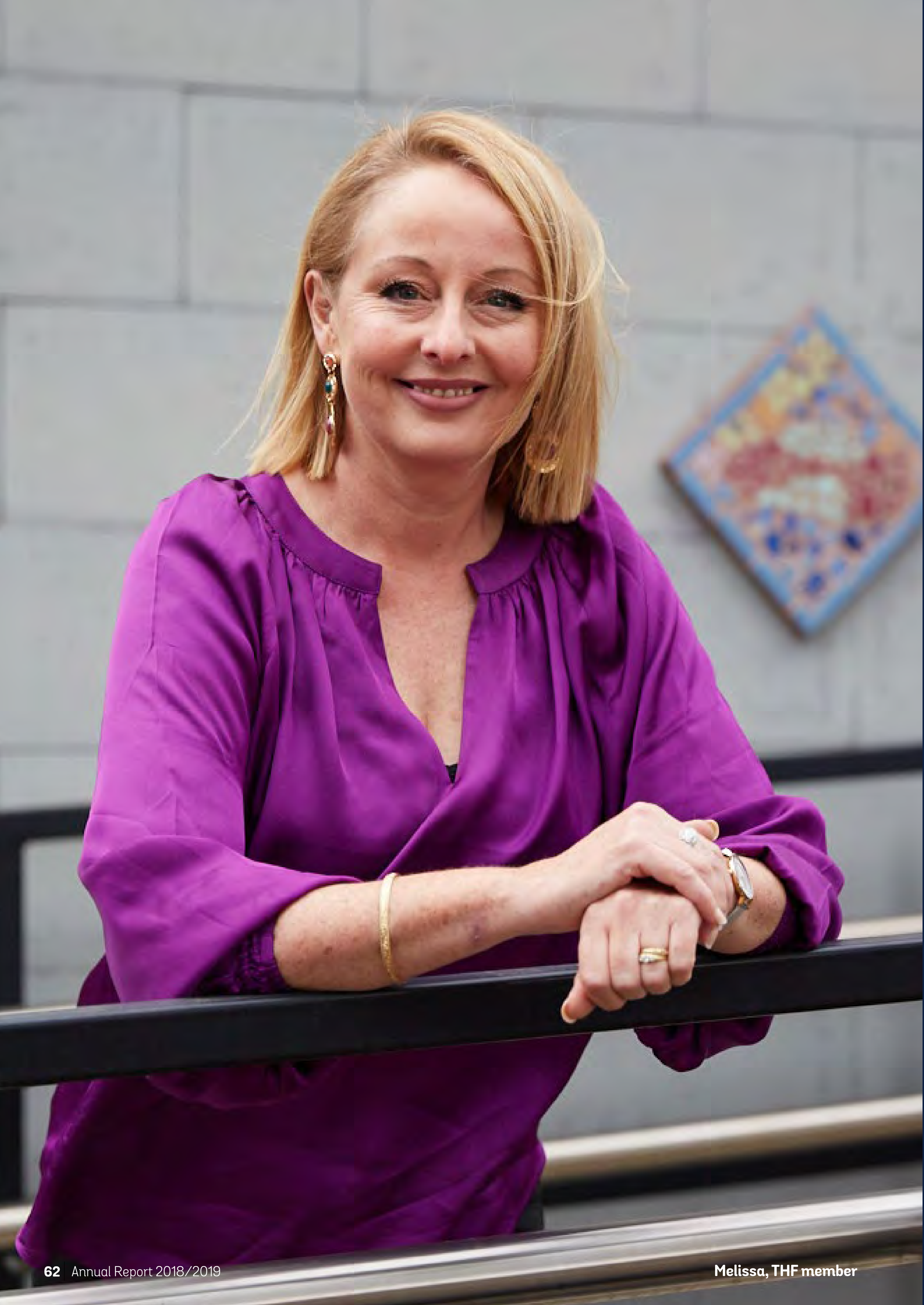
We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Ernst & Young

David Jewell

David Jewell
Partner
Sydney
24 September 2019



Melissa, THF member

# OUR PROMISE

We're for Teachers.

We're for the educators,
the inspirers and the nurturers.

The ones who lead the way
and the ones behind the scenes.

For the teachers who put in the hard yards
and make it look simple,
you inspire us to do the same for you.

Just as every child deserves a teacher champion,
we believe every teacher deserves a health champion.

We're part of the education community –
our role is to serve you as well as you've served our kids.

We care for you in sickness and health
because your wellbeing is important to so many.

We're invested in your future,
just as you're invested in future generations.

We're with you from your first day to your last day,
at sport time to report time.

We're here for you when your feet are sore,
your voice is gone and your patience is tested.

We're for people, not profit.
Everything we do is for the benefit of our members.

We are Teachers Health,
we're for Teachers.

We're for teachers

TEACHERS HEALTH

Phone: 1300 727 538
Email: info@teachershealth.com.au
teachershealth.com.au