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The New Leviathan: A National Disability Insurance Scheme

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THE CENTRE FOR INDEPENDENT STUDIES

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Contents

Executive Summary

- The proposed National Disability Insurance Scheme (NDIS) will provide no-fault insurance cover for Australians who are born with or acquire a severe or profound disability.
- The NDIS is a worthwhile endeavour that will improve the lives of hundreds of thousands of Australians with disability, their families and carers. This point is widely acknowledged and has led to broad public and political support for the scheme.
- Unfortunately, this broad support has meant that the NDIS has not received the scrutiny such a large and expensive scheme deserves.
- The NDIS may be the most significant social reform since Medicare. However, the NDIS will not 'be like' another Medicare. In budgetary terms, it is another Medicare.
- **In fact, the NDIS will be a monster of a government program. It will start big and get bigger, and grow to become the new leviathan of the Australian welfare state.**
- The government's cost estimates of the NDIS have been revised upwards regularly. Early estimates found that the scheme would cost about $11 billion. Revised estimates from the Productivity Commission increased the total cost of the scheme first to $13 billion, then $13.5 billion and later to $15 billion a year.
- Estimates of the NDIS eligible population have regularly changed as well: first they were 600,000, then the commission revised them downward to 360,000, and then back up to 411,000.
- However, the commission's widely used figures of a $15 billion scheme providing services to 411,000 people do not reflect the true cost of the scheme when it will be fully operational in 2018–19. These figures do not take into account wage increases, price inflation, or population growth from 2009–10 to 2018–19.
- This has led to a dichotomy between the estimates and the implementation timetable. As a result, the actual budgetary cost of the NDIS will be substantially more than the commission's estimates and substantially more than the figures being used in the public debate.
- A review of the commission's estimates by the Australian Government Actuary (AGA), released after a Freedom of Information (FoI) request by The Centre for Independent Studies, estimated that the NDIS would provide funded services to 441,000 people at a cost of $22 billion (gross) and $10.5 billion (net) in 2018–19—or around $50,000 per person.
- However, these estimates also likely underestimate the cost of the scheme beyond. The AGA's estimates do not include potential financial risks to the scheme, and in particular, the impact of scheduled increases in the pension age from 2017 to 2023.
- The NDIS eligible population will also be driven by 'back-end growth' or people receiving NDIS-funded supports choosing to stay on the scheme, rather than move into the aged care system.
- These two factors will increase the number of people receiving NDIS-funded supports by thousands every year and raise the overall cost of the scheme by hundreds of millions of dollars.
- Furthermore, the political pressures to expand eligibility, services and supports for the scheme not included in either the commission's or the AGA's estimates also threaten to increase the overall cost of the scheme.
- Around 500,000 people on the disability support pension, and another 600,000 people aged 65 and over with a severe or profound disability will also miss out on NDIS funded supports as well. Together these groups represent more than 1 million voters with a vested interest in seeing a bigger and more generous NDIS.
- Similar schemes such as Medicare Australia, Victoria's Transport Accident Commission, and New Zealand's Accident Compensation Corporation suggest that NDIS expenditure will grow at around 6% per year when the scheme is fully operational.

- **Based on the experiences of similar schemes overseas, this report estimates that the NDIS will likely provide funded supports to around 500,000 people at a cost of approximately $29.5 billion per year in 2023–24. This includes the administration costs of employing more than 8,000 bureaucrats needed to run the scheme.**
- Given the prospect for rapid real growth in the size and cost of the NDIS, there is a need to maximise the economic returns, minimise the expenses, and identify additional offsets to the scheme. This report outlines potential areas for reform that could help minimise or mitigate the overall cost of the scheme.

Introduction

In 2009, approximately $7 billion was spent on disability care and support by Australian governments: $4.7 billion by the states and $2.3 billion by the Commonwealth. An additional $15.5 billion was spent in 2009–10 on income support for people with disability and carers.[1]

Table 1: Spending on disability care and support, 2009

National Disability Agreement (NDA)	$5,210 million
Home and community care	$583 million
Residential aged care	$270 million
Community aged care	$36 million
Aids and appliances	$65 million
Taxi subsidy schemes	$36 million
Helping children with autism	$43 million
Psychiatric disability community supports	$616 million
Australian Disability Enterprises	$205 million
Total	**$7,064 million**

Source: Productivity Commission, *Disability Care and Support*.[2]

This year the Commonwealth alone will spend $24 billion to assist people with disability and carers.[3] But despite this extraordinary spending, there is a substantial lack of support and services for people with disability, their families and carers. The commission noted that these factors resulted in a lifetime of poor outcomes in income, education, employment, superannuation, health and well-being, and called for a systemic overhaul of the sector.[4]

> The current disability support system is underfunded, unfair, fragmented, and inefficient, and gives people with a disability little choice and no certainty of access to appropriate supports. The stresses on the system are growing, with rising costs for all governments.[5]

> Most families and individuals cannot adequately prepare for the risk and financial impact of significant disability. The costs of lifetime care can be so substantial that the risks and costs need to be pooled.
>
> — Productivity Commission[6]

This underfunding has led to the Soviet-style rationing of disability services and supports. Some people with disability have to wait years for specialised wheelchairs, and may live with their parents well into their 50s and 60s because of the lack of supported accommodation.[7] Underfunding in one area often leads to overdependence on others. For example, a lack of respite or supported accommodation places can lead to people with disability occupying less appropriate and more expensive publicly funded supports such as hospital beds, also known as 'bed blocking.'[8]

The disability support system is also characterised by paternalistic policies, excessive red tape, inefficient bureaucracy and poor levels of innovation and flexibility—people with disability have little control of the services they receive and how they receive them. As the commission says: 'People are told they must fit the programs—rather than have programs meet their needs—with wasteful effort going into manoeuvring around the rules.'[9] Moreover, not all states offer the same disability

The disability support system is also characterised by paternalistic policies, excessive red tape, inefficient bureaucracy and poor levels of innovation and flexibility.

support. So if a person receiving supports in one state moves elsewhere for a job or family reasons, he or she may not receive the same support as before.

> The cost of doing nothing would be the persistence and increasing intensity of the above deficiencies. Moreover, governments could not feasibly do absolutely nothing. They would need to patch up their systems to arrest the vicious cycle produced by systems in crisis. In effect, all governments face future liabilities with their current unstable systems.
>
> — Productivity Commission[10]

Background

The case for a National Disability Insurance Scheme (NDIS) was built through a series of reports after the concept was discussed at the Rudd government's 'Australia 2020 Summit' in April 2008.[11] The National People with Disabilities and Carer Council in its 2009 report, *Shut Out*: *The Experience of People with Disabilities and their Families in Australia* outlined the life of people with disability as one of poor educational and employment opportunities; lacking in services and support; inadequate access to buildings, facilities and public transport; high risk of poverty; and poor social interaction.[12]

'People are told they must fit the programs—rather than have programs meet their needs—with wasteful effort going into manoeuvring around the rules.'

> The regularity with which I meet some parents with murder suicide ideation as they have been unable to find adequate help for their child is both alarming but also a marker of the failure of coordination of any service ... murder suicide in these families is becoming a more recognised event, as recently occurred in Victoria.
>
> — submission by senior psychiatrist to commission inquiry[13]

Following the 2020 summit, the Rudd government established the Disability Investment Group (DIG), with the specific purpose of looking at disability policy from an investment rather than a welfare perspective. The DIG determined that the disability sector would face greater stress in the future because of three factors: 'increasing numbers of people with disability, decreasing availability of informal carers, and an ageing population.'[14] The combination of these factors has been labelled a 'death spiral'.[15]

> The way funding is allocated is a joke. Submissions are sent in and if you are about to die or divorce or have a breakdown, you might get considered.
>
> — Leonie Walker, as quoted by the Productivity Commission[16]

The DIG also found substantial capacity constraints in the sector, leading to long waiting lists and resources wasted on managing demand and rationing services, rather than meeting the needs of people with disability and their families.[17] To address these issues, the DIG recommended a new social insurance approach for long-term disability care and support, and that the Commonwealth, states and territories conduct a feasibility study of such a scheme.[18]

That feasibility study was the commission's report, *Disability Care and Support* (two volumes of more than a thousand pages, not including appendixes). The report called for a systemic overhaul of the disability sector and replacing it with an NDIS for economy-wide benefits.

> Looking overall as a money matter, what strikes me is that money is being wasted here. By not spending the money on aids, you're probably creating disability for the future and also by not meeting properly the costs of disability, you're putting more stress on those carers and you're probably causing more suicide, divorce, separation, abandonment. As economists, this is an area crying out for an economic improvement.
>
> — Richard Cumpston, as quoted by the Productivity Commission[19]

Generally, the NDIS will provide supports to help people with disability engage in the community by meeting their additional disability-related needs.

The commission also listed potential efficiency gains—for example, every 1% increase in productivity in the disability sector could lower the scheme's costs by $130 million.[20] Further benefits could come through reduced bed blocking in public hospitals; fewer people with an intellectual or psychiatric disability in prisons; and increased economic participation by people with disability, particularly those receiving the Disability Support Pension (DSP). The combination of these benefits would give the NDIS a net *economic* cost (not budgetary) of $1.6 billion and would only have to produce a gain of $3,800 per participant to meet a cost-benefit test.[21]

Scope of the NDIS

The commission suggested the NDIS should have a broad role in the community to minimise the impacts of disability through increased social and economic participation, education and capacity building. Consequently, the NDIS will provide no-fault insurance cover, and lifetime care and support, for all Australian residents (and some New Zealand residents) under the pension age with a severe or profound disability based on their assessed need.[22]

Using 2009–10 figures, the commission estimated that around 411,000 people would receive NDIS-funded supports. This group included around 329,000 people who need help going to the toilet, with mobility, communication, and managing or planning their day-to-day lives, such as those with an intellectual or psychiatric disability.[23]

Another 82,000 people would be eligible for early intervention supports to help improve their lives. This group includes people with autism, acquired brain injury, cerebral palsy, sensory impairments, multiple sclerosis, and Parkinson's disease.[24] Services currently supplied through Commonwealth early intervention programs like *Helping Children with Autism* and the *Better Start for Children with Disability* would be provided by the NDIS.

Generally, the NDIS will provide supports to help people with disability engage in the community by meeting their additional disability-related needs. Supports and services that are more appropriately met by other systems will not be included in the scheme.[25]

Table 2: NDIS supports and services

Included	Excluded
Aids and appliances	Health and hospital care
Home and vehicle modifications	Education
Nursing and personal care	Public transport
Community access supports	Disability Employment Service (DES)
Respite care	Public housing
Supported accommodation	Disability Support Pension (DSP)
Domestic assistance	Income support payments for carers
Transport assistance	Aged care support
Orientation and mobility training	Catastrophic injuries (NIIS funded)
Australian Disability Enterprises (ADES)	Palliative care
Occupational, speech and other therapies	–
Guide and assistance dogs	–

Source: Productivity Commission, *Disability Care and Support*.[26]

The commission recommended the NDIS be a national scheme based on a corporate model with an independent board, and be administered by the National Disability Insurance Agency (NDIA).

How will the NDIS do it?

The commission expects the role of the NDIA to be largely administrative. The delivery of services would be outsourced to private disability organisations to provide personal planning services and assemble packages of supports for people with disability. The NDIA would 'assess needs, manage claims, support people with disabilities, determine efficient prices, authorise funding proposals and coordinate services.' It would also provide estimates of future funding requirements to government and provide dispute resolution mechanisms for NDIS clients.[27] Overall, the commission estimated that the broad range of administration services the NDIS requires would cost $1.1 billion based on 2009–10 figures.[28]

> [The NDIA] would be the assessor and funder, but not the provider of care and support. Services would be provided by non-government organisations, disability service organisations, state and territory disability service providers, individuals and mainstream businesses. Increased funding, choice and certainty are the key features of the recommended scheme.
>
> — Productivity Commission[29]

The commission recommended the NDIS be a national scheme based on a corporate model with an independent board, and be administered by the National Disability Insurance Agency (NDIA), which would act as a statutory independent agency that would provide funding to individuals on a consumer choice basis.[30] This will allow people with disability, family and carers to choose the supports they need from the providers they want.[31] The choices would range from 100% self-directed funding, where individuals cash out their package of supports and manage their own budget, to a 'choice of provider' model, where people would be given something akin to 'a booklet of vouchers representing each of the separate items of support, rather than an aggregate budget.' This voucher model would guarantee that people received their entitled supports; a cashed-out budget would not.[32]

Both models would provide greater choice to consumers than is currently available and would introduce competitive pressures into the market that will see good service providers flourish and poor ones fail.[33] Market mechanisms would also help keep costs low through competition, encourage new providers to enter the market where costs are high, introduce innovation in service provision and delivery, and expand the range and quality of services.

Box 1: A National Injury Insurance Scheme (NIIS)

The Productivity Commission recommended not one but two schemes to provide lifetime care and support to people with a disability. The second, and smaller, National Injury Insurance Scheme (NIIS) is aimed at providing no-fault insurance coverage to people who suffer a catastrophic injury—for example, a severe brain or spinal cord injury. Unlike the NDIS, which would be a national scheme funded with core government revenue, the commission proposes the NIIS be a federated scheme under state government control funded through compulsory insurance premiums and levies, and will use price signals to help prevent injury.[34]

The commission estimated the gross cost of an NIIS as $1.8 billion, and the net cost $830 million (as of June 2011).[35] However, this cost would not be borne evenly by the states and territories because of established no-fault insurance arrangements in the Transport Accident Commission in Victoria, the Lifetime Care and Support Authority in NSW, and the Motor Accidents Insurance Board in Tasmania.

The weekly additional costs of the NIIS would be around $50 to $60 per person in the states and territories that do not have no-fault insurance schemes—Queensland, Western Australia, South Australia and the ACT—and around $26 per person in NSW, Tasmania and Victoria. The commission proposed a 'small levy on a household's rate notice' to cover the additional costs.[36]

Like the NDIS, there is potential for the NIIS to grow substantially. The commission recommended that the NIIS only cover those who acquire a catastrophic injury that requires lifetime care and support.[37] Expanding the scope of the NIIS to cover non-catastrophic injuries would expand the scope of the NIIS beyond the commission's estimates.

There is the additional danger of governments using the NIIS as a vehicle to prop up their budgets. Australian governments (both state and federal) have extracted billions of dollars through insurance companies they wholly own through special dividends. For example, the Commonwealth will take $175 million from the Australian Reinsurance Pool Corporation for the 2012–13 financial year.[38] The Victorian government stripped $471.5 million from its monopoly workplace insurer to shore up its budget.[39] The Victorian government regularly strips the Transport Accident Commission of hundreds of millions of dollars, as does the Commonwealth government from Medibank Private.

Expanding the scope of the NIIS to cover non-catastrophic injuries would expand the scope of the NIIS beyond the commission's estimates.

Is it really insurance?

The word 'insurance' in the National Disability Insurance Scheme is a misnomer. The NDIS would be based on insurance principles and operate as an insurance scheme, but it would not necessarily entail aspects of an insurance model such as the payment of premiums by those covered by the scheme.[40] The NDIS is better understood in terms of social security or as an entitlement scheme, with strict definitions assessing client need and restricting eligibility and benefits.

The commission used the word insurance to reflect the need for the community to pool its resources to help people with disability cover the cost of long-term support.[41] The word is also used to show that insurance schemes tend to focus on low-frequency, high-cost events the NDIS will cover, rather than the high-frequency, low-cost events it will not.[42]

Insurance typically requires financial contribution from beneficiaries through co-payments for services or excesses (front-end deductibles) when making a claim. Co-contributions reduce the overall cost of insurance, discourage the overconsumption of services, and reduce risk-taking behaviour.[43] The commission's blueprint for a disability insurance scheme departs from the traditional understanding of insurance because it recommends 'no general requirement for a front-end deductible' and that excesses should only be considered if small claims 'clog up' the NDIS assessment process.[44]

Timetable

The NDIS a year earlier (in July 2013) but has not made an explicit commitment regarding when the scheme will be fully operational.

The commission outlined in detail a proposed implementation timetable for the NDIS from the initial development stages in 2011–12 right through the trial process and to completion in 2018–19.[45]

Deviating from the commission's proposed timetable, the Gillard government said it would launch the NDIS a year earlier (in July 2013) but has not made an explicit commitment regarding when the scheme will be fully operational.[46] This brings forward the launch of the NDIS trials before the federal election, which is likely to be held in the second half of 2013. The Coalition has said it will implement an NDIS in line with the commission's timetable.[47] Whichever side of politics implements the NDIS, the timetable is likely to follow the commission's recommendations fairly closely, with the scheme up and running by 2018–19.

Table 3: Progressive costs of the NDIS, 2011–12 to 2018–19

Year	Stage of implementation	Likely annual costs
Remainder of 2011-12	Getting agreement	$10 million
2012–13	Planning the details of the scheme	$50 million
2013–14	Setting up legistration Bedding down administrative arrangements	$550 million
2014–15	Scheme begins with regional rollouts	$900 million (net)
2015–16	First full year of national rollout	$2.4 billion (net)
2016–17	Second full year of national rollout	$3.9 billion (net)
2017–18	Third full year of national rollout	$5.4 billion (net)
2018–19	Final year—rollout now complete	$6.5 billion (net)

Source: Productivity Commission.[48]

Note: These figures do not include the additional $1.5 billion cost in 2018–19 as a result of the SaCS decision.

Box 2: The NDIS trials

At the time of writing, trials of the NDIS are scheduled to commence by July 2013 in NSW, Victoria, South Australia, Tasmania and the ACT. Western Australia is proceeding independently with its own trial.[49] Queensland initially refused to make a financial contribution to the NDIS trials, citing its budgetary situation, but later announced that it would conduct its own trial as well.[50]

The discussions between the states and Commonwealth over the NDIS trials at the Council of Australian Governments (COAG) meeting in July 2012 were notable for breaking down along partisan lines. The federal Labor government agreed to help fund trials for the Labor-controlled governments in South Australia, Tasmania and the ACT, but it failed to come to an agreement with the Coalition governments in NSW, Victoria, Queensland and Western Australia.

Following a public backlash aimed at Liberal premiers, Victoria agreed to give $42 million, on top of $240 million in existing expenditure, towards a trial in the Barwon region near Geelong.[51] NSW will provide $35 million towards a trial in the Hunter Valley, on top of $500 million in existing expenditure and a $300 million commitment from the Commonwealth.[52] The NSW and Victorian trials are substantially larger and more expensive than those in other states.

The funding agreement reached at COAG on 25 July 2012 is limited to the trial sites.[53] The states were concerned that their contribution to the trials could be extended to the full NDIS—and cited the commission's recommendation that the Commonwealth should be the sole funder of the NDIS.[54] This claim misrepresented the commission's recommendation by confusing the funding and governance arrangements. While the commission did state that the Commonwealth should be the sole funder of the NDIS, it also suggested a series of tax swaps to reduce state and territory stamp duties, or initiate financial transfers from the states and territories equivalent to their expenditure on disability services.[55] The state and territory governments have since indicated that they are prepared to consider abolishing some stamp duties in exchange for Commonwealth funding for the NDIS.[56]

The gap years: 2009–10 to 2018–19

The general commitment from both sides of politics to roughly follow the commission's timetable for a fully operational NDIS by 2018–19 brings to light a disconnect of nine years between the costings and the timetable. The commission's feasibility study was based on 2009–10 data; the estimates are not budget forward estimates and should not be regarded as such.

The commission's estimate of a $15 billion NDIS providing supports and services to 411,000 people is based on constant 2009–10 dollars and does not consider general wage growth, price inflation, or population increases over the nine years from 2009–10 to 2018–19. Nor does it consider variables such as increases in the pension age that could affect the overall size and cost of the NDIS.

The commission's estimate of a $15 billion NDIS providing does not consider general wage growth, price inflation, or population increases over the nine years from 2009–10 to 2018–19.

> I should clarify the nature of our projections. Ours are real expenditures, so they are based on fixed constant price terms. They are not budget forecasts per se. In a budget forecast you would have to include price increases. But our model [of the NDIS] is one of constant prices.
>
> — Ralph Lattimore, Productivity Commission[57]

The commission's cost and population figures for the NDIS, which are being widely used in the public debate, are misleading and underestimate the scheme's cost in 2018–19, when it will be fully operational, by billions of dollars and the number of people eligible for NDIS-funded supports by tens of thousands.

How much will it cost?

The overall cost of the NDIS has been estimated several times, and in each case, has been consistently revised upwards.

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The first serious estimate of the NDIS was conducted by Pricewaterhouse Coopers and gave a 'total ultimate gross annual pay-as-you-go cost of $10.8 billion,' which would cover an estimated 600,000 people under the age of 65 based on the figures available at the time.[58]

The commission's draft and final reports revised the cost upwards and the number of eligible recipients downward based on more up-to-date information and different costing assumptions.[59] The final report estimated that the NDIS would cost $6.5 billion (net) and $13.5 billion (gross) to provide long-term care and support to around 411,000 people.[60]

Table 4: Initial cost estimates of NDIS

Publication	Date released	Net additional cost estimate	Gross (total) cost estimate	No. of recipients
Disability Investment Group (DIG) report	September 2009	$5.2 billion	$10.8 billion	600,000
Productivity Commission draft report	February 2011	$6 billion	$13 billion	360,000
Productivity Commission final report	August 2011	$6.5 billion	$13.5 billion	411,000
PC final report + Community Sector Wage Case	February 2012	$8 billion	$15 billion	411,000

Source: Disability Investment Group (2009); Productivity Commission (2011); *The Australian* (2012).[61]

Note: The DIG estimates are based on 2008–09 figures and the Productivity Commission estimates are based on 2009–10 figures.

Following Fair Work Australia's (FWA) Equal Remuneration Order to increase wages for social and community sector (SaCS) workers (who are mostly female), which covered many employees in the disability sector, the federal government increased the estimates of the net and overall cost of the NDIS by $1.5 billion, the net cost to $8 billion, and the gross cost to $15 billion per annum (all in 2009–10 dollars).[62*]

These figures—which are based on 2009–10 prices, costs and population—have been the most prominent in the public debate surrounding the NDIS. However, they are misleading when studied against the commission's implementation timetable which shows that the net additional cost of the NDIS on top of existing spending will only be $6.5 billion in 2018–19.

* The AGA estimated the impact of the SaCS case on the NDIS to be $700 million. The estimated net cost of the NDIS would be $7.5 billion on top of the AGA's estimate of $7 billion ($5 billion from the states and $2 from the Commonwealth) in offsets—for a gross cost of $14.5 billion in 2011–12 (excluding $300 million in estimated offsets from the NIIS). These figures include an estimated $500 million reduction in NDIS-related offsets.

Table 5: Summary of the annual net cost of the NDIS

Care and support	$10,660 million–13,030 million
Aids and appliances	$331 million–824 million
Home modifications	$59 million–177 million
Transport	$55 million–110 million
Australian Disability Enterprises (ADEs)	$205 million
Less accident compensation scheme coverage	$–326 million
Total tier 3 individual supports	$10,980 million–14,020 million
Other costs (administration)	$1,060 million
Total gross cost	$12,040 million–15,080 million
Direct offsets	$7,060 million
Total net cost including administration	**$4,980 million–$8,010 million**

Source: Productivity Commission.[63]

Box 3: The Australian Government Actuary's review of the commission's NDIS costings

In August 2012, the Treasury released a report it had commissioned from the Australian Government Actuary (AGA) to review the Productivity Commission's costings following a Freedom of Information (FoI) request from The Centre for Independent Studies.[64]

Using future dollars, including price inflation, wage growth, and population increases to 2018–19, the AGA found that the NDIS would cost $22 billion (gross) and $10.5 billion (net), and would provide funded services to 441,000 people at an average cost of $50,000 per person.[65] These figures do not include approximately $300 million in estimated offsets from the establishment of an NIIS.

The review also highlighted the need for rigorous assessment procedures and strong governance, risk management, and cost-control measures in the development phase to prevent cost blowouts.[66] The AGA also raised concerns about the high expectations in the disability sector and the impact this could have during the development of the scheme.

Other risks the AGA outlined include developing elements of the NDIS without regard to cost implications; the need for adequate information systems; a transition strategy to minimise bureaucratic inefficiencies and perverse incentives; NDIS funding will mostly pay for support services, which in turn could lead to workforce shortages and consequently inadequate supply of support services; and the lack of adequate funding undermining public confidence in the scheme.[67]

The AGA found that the NDIS would cost $22 billion (gross) and $10.5 billion (net), and would provide funded services to 441,000 people at an average cost of $50,000 per person.

A new leviathan?

Regardless of the governance or funding structure, the size and scope of the NDIS will be large. It is not an understatement to claim the NDIS will be the largest social reform since Medicare—looking at expenditure alone, at $15 billion a year, the NDIS will be another Medicare. By way of comparison, the Commonwealth spent $15.7 billion on Medicare services in 2009–10 which accounted for 4.5% of all Commonwealth government expenditure in that year.[68]

Table 6: How big is the NDIS?

Program	Agency	2009–10 estimate
Revenue assistance to the states and territories	Treasury	$45,246 million
Income support for seniors	FaHCSIA	$29,421 million
Family tax benefits	FaHCSIA	$17,196 million
Medicare services	Health	$15,700 million
National Disability Insurance Scheme	**NDIA**	**$15,000 million**
Disability support pension	FaHCSIA	$11,869 million
Assistance to states for health care services	Treasury	$11,224 million
Pharmaceuticals and pharmaceutical services	Health	$8,674 million
Non-government schools—national support	DEEWR	$6,628 million
Jobseeker income support	DEEWR	$7,025 million
Higher education support	DEEWR	$6,143 million
Residential care	Health	$5,995 million
Public sector superannuation	Finance	$5,877 million
Parents' income support	DEEWR	$5,562 million
Fuel tax credits scheme	ATO	$5,118 million
Income support for carers	FaHCSIA	$4,079 million
Army capabilities	Defence	$4,868 million
Private health insurance	Health	$4,312 million
National Partnership Payments—Government schools	Treasury	$6,540 million
Defence support	Defence	$3,568 million
Air force capabilities	Defence	$4,246 million
All other programs	–	$113,413 million
Total (excluding NDIS)	–	$343,122 million

Source: 2010–11 Budget Paper No. 1, Table 3.2.

Note: This table is purely illustrative and designed to show NDIS expenditure in relation to other programs if the scheme existed in 2009–10 per the commission's study. It double counts $2.3 billion in Commonwealth spending on disability care and support, includes $4.7 billion in spending by state governments, and assumes a national rather than a federal scheme.

There remain a number of fundamental, structural and political issues that will increase the real cost of the NDIS substantially, up to full implementation and beyond.

Although the commission's and the AGA's cost estimates are authoritative and of high quality, there remain a number of fundamental, structural and political issues that will increase the real cost of the NDIS substantially, up to full implementation and beyond.

> In 2005, for example, the Congressional Budget Office (CBO) projected that Medicare would cost $1.5 trillion in 2050. Two years later, in 2007, the same CBO projected that this cost would reach $2.8 trillion in 2050. And in 2009, it projected that the cost would be $3 trillion instead. In other words, the program's projected cost doubled in four years.
>
> — Veronique de Rugy, *Reason Magazine*[69]

The fundamental issues relate to the core cost and population estimates used in the commission's NDIS costings, the structural issues to the commission's proposed design of the NDIS, and the political issues to the various pressures that will be placed on decision-makers to expand eligibility and funded entitlements under the scheme. Some of these issues were addressed in the AGA's report. However, politicians, policymakers and the public should know that an NDIS will cost billions more than the commission's estimates, and maybe more than the AGA's estimates.

Wage increases, price inflation and population growth

The commission confirmed the potential for continued rapid growth in future years during the development phase of the NDIS. But it did not include wage increases, price inflation or population growth from 2009–10 to 2018–19, which is significant because these factors will increase the cost of the scheme to 2018–19 and beyond.

This is a significant omission. The number of people receiving disability supports and government expenditure on those supports has increased rapidly in recent years and is likely to increase rapidly into the future. According to the Australian Institute of Health and Welfare (AIHW), the number of people using the same disability support services that will be provided by the NDIS (supported accommodation, community supports and respite services) increased by 35% from 2005–06 to 2010–11.[70]

Government expenditure on these services increased by a similar percentage, from $3.5 billion in 2005–06 to $4.8 billion in 2010–11.[71] Per person expenditure also increased over the same period for accommodation support (8.3%), community support (24.6%), and respite (5.1%) but declined for community access (–4.6%).[72]

Growth in the eligible population will drive up the overall cost of the NDIS.

Wage increases and price inflation

The commission expected wages in the disability sector would 'probably rise in line with average weekly earnings over the longer run,' and that 'to attract significant numbers of people into the disability sector, in the short to medium term, wage growth will probably exceed the economy-wide average [of 4% per annum].'[73] This is consistent with the AGA's 4% general wage growth (excluding the impact of the SaCS wage case).[74]

Combined with the result of the SaCS case, which will further increase wages for people working in the disability sector, wage growth likely will exceed 4% a year in the development phase of the NDIS. Other funded supports, like aids and equipment, are more likely to rise in line with the Consumer Price Index (CPI), typically 2% to 3% a year. The AGA based its projections on a CPI of 2.5%.[75]

Population growth

Growth in the eligible population will drive up the overall cost of the NDIS. For the past 30 years, Australia's overall population grew at an average annual rate of 1.35% (typically at no less than 1% and no more than 2%).[76] In the year to March 2012, Australia's population has grown by 1.5%.[77] Table 7 uses the commission's estimated NDIS eligible population of 411,000 in 2009–10 to calculate the number of people eligible to receive NDIS-funded supports in 2018–19 at varying rates of overall growth in the NDIS-eligible population.[78]

Table 7: Projected annual NDIS eligible population growth rates

Year	0.75%	1%	1.25%	1.35%	1.5%	1.75%
2009–10	411,000	411,000	411,000	411,000	411,000	411,000
2018–19	439,589	449,504	459,618	463,719	469,933	480,453

Given that Australia's population figures include people with and without a disability, and that Australia's migration program tends to discriminate against people with disability, the actual population growth in the NDIS eligible cohort is likely to be less than Australia's historical population growth rate.[79] Therefore, population growth of between 0.75% and 1.00% is a more likely outcome, which will add 30,000 to 40,000 people to the commission's estimates.

How much?

The AGA estimates that the NDIS will provide funded supports to almost 441,000 people at a cost of $22 billion (gross) and $10.5 billion (net) in 2018–19. These estimates consider key variables such as wage increases, price inflation, and population growth that the commission did not include in its estimate of a $15 billion scheme providing funded services to 411,000 people. The AGA also revised some of the commission's estimates—for example, it reduced NDIS offsets by $450 million because the commission had included some people over the age of 65, who will be ineligible for NDIS-funded supports. This does not reduce overall government expenditure, only NDIS-related expenditure.[80]

The AGA estimates that the NDIS will provide funded supports to almost 441,000 people at a cost of $22 billion (gross) and $10.5 billion (net) in 2018–19.

Table 8: NDIS costs from 2013–14 to 2018–19 ($ million)

	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19
Potential tier 3 population	0	20,606	122,597	226,629	332,726	440,916
Gross cost of care and support	$0	$729	$4,720	$9,203	$14,227	$19,717
Local area coordinators	$0	$84	$464	$805	$1,123	$1,299
Other administration	$130	$154	$331	$435	$550	$706
Tier 2 and capacity building	$0	$35	$191	$264	$211	$290
Total gross cost	$130	$1,002	$5,706	$10,707	$16,110	$22,012
Existing Commonwealth offsets	$0	$132	$835	$1,611	$2,465	$3,382
State offsets including population growth and SaCS	$0	$296	$1,919	$3,748	$5,807	$8,059
Total offsets	$0	$428	$2,754	$5,359	$8,272	$11,441
Net cost to Commonwealth	$130	$574	$2,952	$5,348	$7,838	$10,571

Source: Australian Government Actuary.

The reduction in offsets is also reflected in the AGA's population estimates. The AGA brought forward the commission's 2009–10 population estimate (411,000) to 2011–12, and in doing so, excluded two years of population growth. If these two years of population growth had been included, an additional 8,500 individuals would be eligible for NDIS-funded supports. This explains the discrepancy between the 449,500 figure in Table 7 and the AGA's 441,000 figure in Table 8.

The AGA outlined a number of risks that could affect the costings of the NDIS: managing public expectations and scope creep, instituting appropriate information systems, building a transition strategy, and dealing with workforce supply issues and underfunding. But the AGA ignored a key risk factor that will directly affect the overall cost of the NDIS—scheduled increases in the pension age from July 2017. Pension age increases will have an impact on the overall size and cost of the scheme in the years following full implementation.[81]

The pension age

The commission's and the AGA's cost and population estimates depend on a constant pension age of 65, which was the commission's recommended upper age limit for NDIS eligibility. But the Commonwealth government will increase the eligibility age for the Age Pension by six months every two years from July 2017 to July 2023.[82] In July 2017, the pension age will increase to 65 and six months, 66 in 2019, 66 and six months in 2021, and 67 in 2023. Pension age increases will have a material impact on the size and cost of the NDIS.

The pension age is crucial in determining not just the overall cost of the NDIS but also its economic benefits. People already receiving NDIS-funded supports will receive them for longer, and more people will be eligible to receive the supports. The upper age limit restriction will maximise the economic benefits of the NDIS. This will happen largely through increased workforce participation from people with disability and their carers and through reduced income support spending on DSP and carers.[83] The commission says the increased employment of people with disability would, by 2050, see a 'one per cent increase in GDP above its counterfactual level, translating to around $32 billion in additional GDP (in constant price terms) in that year alone.'[84] The NDIS is expected to help people with disabilities that prevent them from working 'gain employment leading to some 45,000 new jobs (35,000 full time equivalents).'[85]

The pension age is crucial in determining not just the overall cost of the NDIS but also its economic benefits.

Increasing the pension age

A pension age of 65 and six months would have a modest impact on the NDIS in the first full year of operations. However, over the medium term, it will have a significant impact on the cost of the NDIS as new people enter the scheme and existing recipients stay on the scheme for longer.

Using the 2009 ABS Survey of Disability, Ageing and Carers, it is possible to estimate the number of additional people that will receive NDIS supports as a result of pension age increases. The ABS data show that there were 33,000 people with a 'profound core activity limitation' and another 43,500 people with a 'severe core activity limitation' aged 65 to 69.[86]

Assuming that impairments are spread uniformly across the age cohort, and as the pension age increases every six months, of the 76,500 people with a profound or severe disability in 2009, approximately 3,300 more people with a profound disability and another 4,350 with a severe limitation will continue to receive supports or be eligible to receive NDIS supports. It is highly unlikely that all 7,650 people will receive NDIS-funded supports. Even if around half of them (4,000 or so) received funded supports (and without taking into account population growth) it would cost the NDIS an extra $200 million for every six-month increase in the pension age (based on an average gross cost of $50,000 per person). However, this figure would be substantially less once various offsets associated with an increasing pension age, including increased workforce participation and reduced costs in the aged care sector, are taken into account.

Using a similar methodology to account for subsequent increases in the pension age to July 2023, an additional 16,000 people could be eligible for NDIS-funded supports as a result of pension age increases and add approximately $800 million to the gross cost of the NDIS. Once population growth is taken into account, changes in the pension age will increase the number of NDIS eligible people to 18,400 (assuming 1% average annual population growth).

After the pension age?

The commission recommended that people receiving NDIS-funded supports should have the option to move onto the aged care system once they reach the pension age.[87] However, they would be required to make co-contributions to help cover the cost of their care in line with what exists in the aged care system.[88] While this provides an

Over time, the NDIS will grow to include many thousands of people older than the pension age.

opportunity for people to move off NDIS supports, it also allows them to continue receiving NDIS-funded supports well beyond the pension age. This choice in itself is not a problem, and is good policy in its own right as it allows people to choose the most appropriate support system; however, this option will increase the number of people receiving NDIS-funded supports.

The choice to stay on NDIS-funded supports or move onto the aged care system, while providing the opportunity to reduce the overall number of people on the NDIS, means that the commission's initial eligible population estimate of 411,000 does not include anyone with a disability over the pension age of 65 years. Over time, the NDIS will grow to include many thousands of people older than the pension age. So the commission's estimate of 411,000 and the AGA's estimate of 441,000 underestimate the potential number of people who could receive NDIS-funded supports into the future: neither figure includes the potential for 'back-end' growth in NDIS eligibility.

Growth at the 'back-end' of the NDIS has the potential to be significant when compared to the overall cohort of individuals receiving NDIS-funded supports. Taking the behaviour of DSP recipients as a guide, from 2001 to 2011, on average each year, around 29,500 people, or 54.6% of all people who exited the DSP every year, reached the pension age and moved off the DSP and onto the Age Pension.[89]

If between 5% and 10% of the 29,500 people reaching the pension age while on the DSP received NDIS-funded supports and chose to continue receiving NDIS supports rather than move onto the aged care system, 1,500 to 3,000 more people (in addition to new entrants) would continue to receive NDIS-funded supports each year. Taking the $50,000 per person average gross cost in 2018–19 as a guide, the additional 1,000 people who stay on the NDIS after reaching the pension age will add another $50 million to the gross cost of the NDIS every year. If 3,000 people decided to stay on the NDIS, the additional cost to the NDIS would be around $150 million every year.

While an increasing pension age from 2017 to 2023 will complicate movements off the NDIS to the aged care sector, increases in the pension age will occur at a slower rate than the natural ageing of NDIS-support recipients. So the prospect of at least 3,000 more people choosing to continue receiving NDIS-funded supports, rather than moving onto the aged care system, is a conservative estimate representing less than 1% of the entire NDIS-eligible population in the first full year of operation in 2018–19. If in each year following full implementation, an additional 3,000 people choose to stay on the NDIS rather than move onto the aged care system, it would add another 15,000 people to population projections in 2023–24.

However, given the proposal to align NDIS supports with those in the aged care system post-pension age, there would be substantial offsets to these figures through co-contributions by NDIS-support recipients. As a consequence, the gross cost of the NDIS could increase substantially (by about $600 million in 2018–19 dollars), but the net cost of the scheme should not increase substantially because of the offsets from the aged care sector.

Because the NDIS, as proposed by the commission, will exclude those older than the pension age that acquire a disability, but allow those already receiving NDIS-funded supports to continue receiving these supports beyond the pension age, there will be the potential for back-end growth in the overall number of people receiving NDIS-funded supports. When combined with 'front-end' growth from new entrants, the back-end growth will drive the numerical, financial and administrative growth of an NDIS, albeit with offsets from the aged care sector.

Table 9: Possible NDIS eligible populations

Average annual population growth	0.75%	1%	1.25%	1.35%	1.5%	1.75%
2009–10	411,000	411,000	411,000	411,000	411,000	411,000
2018–19	439,590	449,505	459,618	463,720	469,933	480,454
2023–24	456,323	472,434	489,071	495,877	506,252	523,991
Including pension age increases from 65 to 67	16,000	16,000	16,000	16,000	16,000	16,000
Population growth, 2009–10 to 2023–24	17,764	18,392	19,039	19,304	19,708	20,399
'Back-end' growth, 2019–20 to 2023–24	15,000	15,000	15,000	15,000	15,000	15,000
Approximate NDIS eligible population, 2023–24	489,088	505,825	523,111	530,182	540,960	559,389

NOTE: A similar calculation using the AGA's estimated population of 411,000 in 2011–12, at 1% population growth per annum, provides an estimated NDIS eligible population of 496,000 in 2023–24, including pension age increases and 'back-end' growth.

Politics and populism

The NDIS has received substantial public acclaim, with high expectations by people with disability and the disability sector about the scheme's capacity to solve their problems.[90] These expectations, combined with the hundreds of thousands of people with an assessed disability who will *not* receive NDIS-funded supports for any number of reasons, will add to the political pressure to expand the scope (and therefore the cost) of the scheme. In fact, even though the NDIS is still in its early stages of development, vested interests are calling to expand the eligible cohort beyond the age of 65, include school education, and expand the scope of the appeals and review process.

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The pension age—A line in the sand

The loudest voices will likely come from those who will be initially excluded from the scheme—for example, people with a disability *and* older than the pension age. The Australian Greens are already criticising the creation of a 'two-tier system' caused by the pension age.[91] Some in the disability sector have also expressed this concern. As Rod Harris, chief executive of the Motor Neurone Disease Foundation, said:

> By excluding people over the pension age, NDIS is effectively putting out a sign saying 'No old people.' They are denying a person aged 66 the right to access the same service opportunities as a person aged 64, even though they may need identical levels of service and support for the same reason.[92]

Indeed, the point Harris makes about the differential treatment for people with disability above and below the pension age will be a continuing source of concern and an avenue for political pressure.

The commission distinguishes between disabilities acquired as part of the natural ageing process and those that are not, and the expectations (particularly for work) that exist for people who acquire a disability below the pension age.[93] The economic benefits of the NDIS as outlined by the commission depend on people with disability of working age moving from welfare to work. That is why eligibility for the NDIS is initially restricted to those of working-age or younger.

The relationship between age and disability is worth considering in more detail. Not only are we more likely to have a disability as we get older but the severity of that disability is likely to increase too.[94] About 1.5 million people in Australia over the age of 65 have a disability, 600,000 of whom are defined as having a severe or profound disability.[95] Nearly 90% of those who are 90 or over (93,000 people) have a disability, and about 75,000 of them are defined as having a severe or profound disability.[96] This contrasts with the 25–34 age group, where 265,000 people have a disability (8.6% of the 25–34 cohort), and 61,000 of this group are defined as having a severe or profound disability.

At an average cost of approximately $50,000 per person per year when the NDIS is fully operational, any expansion of the scope of the NDIS to include people with disability over the pension age, and who by definition are not expected to work, will drive up the net and gross costs of the NDIS even further, but without corresponding economic benefits.

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How many other people might miss out?

A substantial number of people of working age with disability will also miss out on funded supports because their disability is likely to be assessed as not severe enough to warrant NDIS-funded supports. This group will likely believe they should receive funded supports, but in reality will not.

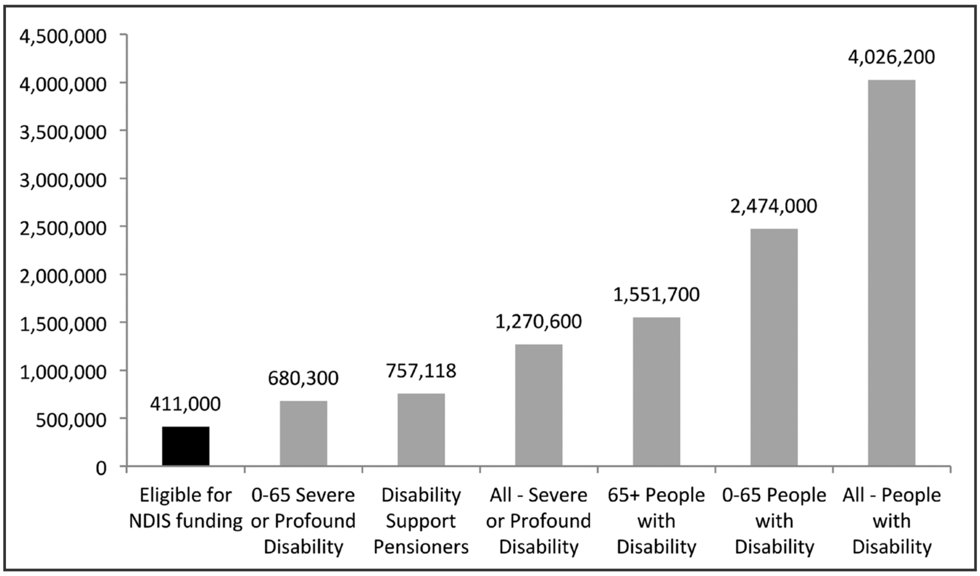
Comparing the 411,000 people outlined by the commission to the size of the DSP population gives the number of people who will miss out on NDIS-funded supports. In 2009, more than 757,000 people were receiving the DSP, or about 350,000 more than the commission's estimate of the number of people with a severe or profound disability who would receive NDIS-funded supports.[97]

However, this underestimates the number of DSP recipients to be excluded from the NDIS. According to the commission, of the 411,000 eligible for NDIS-funded supports, only 250,000 disability pensioners will actually receive funded supports.[98] This is because the 411,000 figure includes 121,000 children aged 0 to 14 years, while the minimum age for DSP eligibility is 16.[99] This suggests that at least 500,000 disability pensioners aged 16 to 65 will not receive NDIS-funded supports.

The number of disability pensioners has continued to increase; as of May 2012, there were 827,512 DSP recipients.[100] This politically powerful cohort will likely generate substantial public support with their call to expand the scope of the NDIS to include their interests.

The AGA's report makes the further point that some people currently receiving government-funded specialist disability support through the NDA may not be eligible for NDIS-funded support.[101] For example, someone with a terminal illness may have a significant disability requiring substantial support; however, they would not be covered by the NDIS because of the temporary nature of their disability. This could potentially reduce the estimated cost of the NDIS—as those with a terminal illness would not be eligible for NDIS-funded supports. However, this would not reduce government expenditure, as this group would receive government funding through other care and support systems.[102]

Figure 1: Estimated number of people with disability, 2009



Source: Productivity Commission (2011); Australian Bureau of Statistics (2010); Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) (2009).

At least 500,000 disability pensioners aged 16 to 65 will not receive NDIS-funded supports.

Expanding the scope of NDIS supports

The scope of NDIS services is tightly defined as meeting the 'reasonable and necessary specialist disability support needs of people with a significant and enduring disability.'[103] Supports that people with disability want but deemed neither reasonable nor necessary will not be provided by the NDIS. The AGA cites the very high public expectations from the NDIS as a significant risk: 'The PC's emphasis on reasonable and necessary services may not necessarily have registered and thus expectations are unreasonably high.'[104]

> The Productivity Commission envisages a scheme based on the concept of 'reasonable and necessary support.' A scheme based on an alternative concept such as 'reasonable and appropriate support' might be expected to have a different cost, all else being equal.
>
> — Australian Government Actuary[105]

For example, services that meet the needs of the broader population, including people with disability, are not covered under the commission's design of the NDIS. These services include, but are not limited to, 'health, public housing, public transport, education and open employment.'[106]

People with disability will receive supports that will help them at school and in the workplace, including aids, equipment and mobility assistance; the NDIS will not provide specific supports in the classroom or the workplace. These supports could include captioning technology (for the hearing impaired) and screen reading software and audio description technology (for the vision impaired). These supports are intended to be provided through the education system and employment programs (for example, Disability Employment Services).

This continual expansion of the range of funded supports and services to cover more items than originally intended is called 'mission creep' or 'scope creep'.[107] For example, as part of the legislation to establish the NDIS Launch Transition Agency, the government announced measures to 'explicitly' include early intervention supports and a reference to 'psychosocial disability' to 'recognise the impact of mental illness on a person's social abilities and need for support.'[108]

Another example for potential scope creep would be the inclusion of 'integration (education) aides,' which provide assistance to children with a disability in an educational setting. According to the AGA, including funding for integration aides would increase the cost of the scheme by more than $400 million every year.[109] There have also been calls to expand the NDIS' voucher-based funding model to include school education for students with a disability.[110]

Merit review process

The commission says its dispute mechanism procedure is fair and transparent, and will not expand the scope of the scheme beyond sustainability.[111] Its recommendation for an internal merits review process to help inform the long-term sustainability of the NDIS and 'the obligation of people with disabilities or their families to avoid decisions that unreasonably impose costs on the scheme' is welcome.[112] However, the preference for an internal review process, rather than an external review process, has come under criticism. As Anthony Scarcella, member of the Law Society's Injury Compensation Committee, says:

This continual expansion of the range of funded supports and services to cover more items than originally intended is called 'mission creep' or 'scope creep'.

> I would like to see a totally independent tribunal hearing or reviewing decisions on their merits, not on procedure. Procedure can take you down another track, we really need to look at the merits, we need to take it outside the authority itself if you want it to be fair, and if ... in that case scenario there is an important role for disability advocates and lawyers to be involved in that process to ensure that everyone gets a fair go.[113]

The commission recommended an internal merit review process because of its concerns about an external review mechanism's capacity to impose additional unforeseen costs on the NDIS, and therefore, undermine the long-term financial integrity of the scheme.[114]

> [The Productivity Commission] remains concerned at the capacity of *external* complaints-handling mechanisms to undermine the financial integrity of the NDIA, and considers that the financial risks to the scheme that could arise from external review should be constrained to the maximum extent possible. [emphasis in original]
>
> — Productivity Commission[115]

There is potential for the NDIS to be gamed and manipulated to provide services and supports that are neither budgeted for nor expected to be covered by the scheme. The merit review process is an avenue for interested parties to expand the range of funded supports available under an NDIS.

The commission said the government should make financial allowances to accommodate the dangers of an external merit review process if it chooses this approach:

> The Australian Government should set aside significant additional resources to fund this specialist arm and should include a larger reserve for the NDIS, calculated to take account of the higher risks of this approach.[116]

> The notion of an 'entitlement' scheme also becomes problematic when entitlement is taken to mean 'person A' had a computer/gym program/new bathroom funded so I am entitled to have that computer/gym program/new bathroom.
>
> — Yooralla (disability service provider)[117]

Case studies

The commission and the AGA emphasise the need for strong governance and cost control measures as integral to minimising the potential cost blowouts. It is worth considering how similar arrangements have fared in Australia and overseas.

Medicare Australia

Given the comparisons between Medicare and the NDIS, it is appropriate to consider the growth of Medicare to predict growth expectations from the NDIS. The Department of Health and Ageing (DHA) expects the 336 million medical and associated services in Medicare would cost $17.9 billion in 2012–13[118] compared to the $2.3 billion in 1985–86.[119] From 1985–86 to 2010–11, the cost of Medicare increased on average every year by nearly 8%, and as a percentage of government expenditure, from 3.5% to 4.7%.[120]

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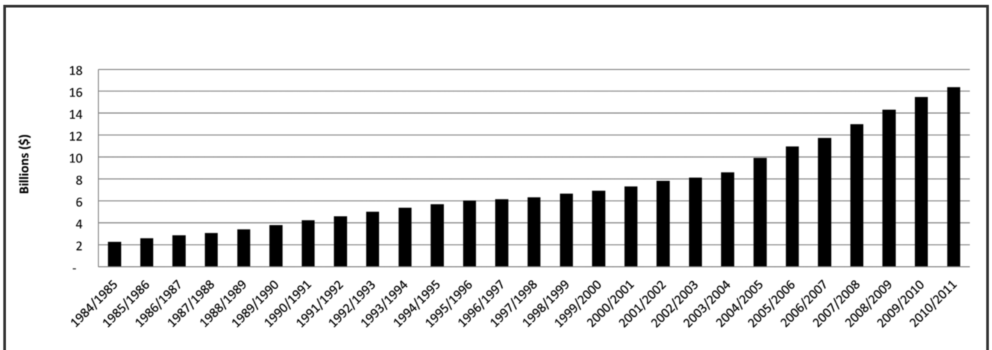
Figure 2: Medicare expenditure—benefits paid, 1984–85 to 2010–11



Source: Department of Health and Ageing.[121]

Another factor driving the extraordinary growth in Medicare costs, as Jeremy Sammut says, is that Medicare is a 'reverse insurance' scheme that provides health care on an inverted basis, where 'the least costly, least serious health expenses are excessively subsidised, while the cost of the most serious, most expensive illnesses are inadequately covered.'[122]

If everything goes according to the commission's plan, the NDIS will, in contrast to Medicare, provide coverage on a more cost-effective basis for people with severe disabilities that require expensive care. This should minimise the risk of a Medicare-style blowout; however, this experience should be a warning to those who wish to create the NDIS in the image of Medicare.[123]

> Based on past experience with the Whitlam Government's Medibank scheme, and the problems that the current government has had in getting Medicare to its current state, Medicare will be an expensive monster the country cannot afford.
>
> — Liberal Party of Australia, *Medicare: Unwanted Socialist Remedy*, Secretariat Briefing (February 1984)[124]

New Zealand's Accident Compensation Corporation

New Zealand's Accident Compensation Corporation (ACC) is a comprehensive no-fault personal injury insurance scheme fully funded through a series of levies on personal income, business payroll, vehicles registration, and general revenue.[125] The scheme was introduced in 1972 to replace New Zealand's system of compensating personal injuries through tort action.

In 1999, the ACC transitioned from a pay-as-you-go (PAYG) system to a fully funded scheme. Under the PAYG scheme, future taxpayers covered the costs of care for injuries acquired in previous years. Under a fully funded scheme, the ACC was supposed to collect enough money each year to cover the lifetime costs of every claim that occurred in a year. This funding model was considered to be fairer for future levy payers, who are not forced to cover the cost of claims for injuries from previous years.[126] But some disagree. Sir Owen Woodhouse, one of the architects of the ACC, said the 'ACC suddenly became far more expensive when it became a funded system and that was a grave mistake.'[127]

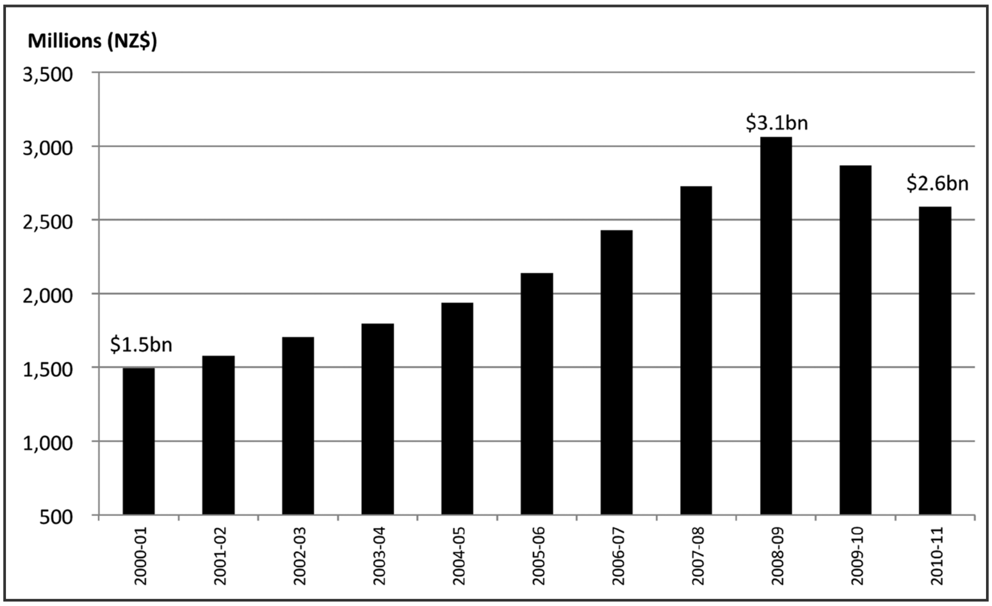
New Zealand's Accident Compensation Corporation has been subject to multibillion-dollar deficits.

Woodhouse's claim has a solid foundation. The ACC has been subject to multibillion-dollar deficits, driven largely by inflationary pressures on the future cost of some services, the reactivation of previous claims, slower recovery rates, and the cost uncertainty associated with injury insurance coverage.[128] The ACC's liabilities increased over time, and as at 30 June 2010, the ACC had unfunded liabilities of NZ$10.3 billion. However, this position has since improved, and as of 30 June 2011, the ACC had unfunded liabilities worth NZ$6.7 billion.[129] The ACC's financial problems illustrate many of the risks that could beset an NDIS and drive up the overall cost of an Australian scheme.

From 2000–01 to 2010–11, the ACC experienced average annual growth of 6% in the value of Total Claims Paid (including rehabilitation, compensation and miscellaneous claims costs). However, the average annual growth was 9.4% from 2000–01 to 2008–09, when expenditure increased from nearly NZ$1.5 billion in 2000–01 to more than NZ$3 billion in 2008–09 (when the reforms aimed at reducing the overall expenditure of the ACC were implemented), before falling to NZ$2.6 billion in 2010–11.[130] Most of this growth was driven by increases in rehabilitation costs, which increased at an average rate of 8% every year from NZ$784 million in 2000–01 to NZ$1.64 billion in 2010–11. The following example is characteristic of the sorts of requests the ACC received and sometimes funded:

> A recent decision in New Zealand held ACC liable to fund the retrofit of a lift and other access features to a new home built by a man with long standing paraplegia who had not, in contravention of ACC policies, consulted with the ACC before building a home that would need modifications. Requests for in ground swimming pools, home gymnasiums, ordinary transport costs, computer systems not related to the disability, GPS systems and funding for ordinary child care are sadly common.[131]

Figure 3: New Zealand ACC: Total claims paid, 2000–01 to 2010–11



Source: ACC annual reports.

Unlike in the private sector, where a formal communication terminates the financial relationship between the insurer and the insured, ACC claims never close. Claims reactivation introduced a great deal of uncertainty into the ACC scheme, particularly from 2006 to 2008, as New Zealanders unexpectedly reactivated past injury claims.[132] One explanation for the renewed claims is that over time, 'other factors such as normal aging may influence the manifestation of the need for medical treatment that was not necessarily due to the original injury. These co-morbidities can be costly and difficult to determine.'[133] Given that the NDIS will provide lifetime care and support, it too carries the risk of claims reactivation, or unexpected and increasing claim costs over time.

Claims reactivation introduced a great deal of uncertainty into the ACC scheme, particularly from 2006 to 2008, as New Zealanders unexpectedly reactivated past injury claims.

The longer time needed to recuperate from injuries also increased the cost of ACC, particularly from 2005 to 2009, when an increasing number of claimants 'stayed on the scheme for extended periods of time receiving compensation support. Claimants were moving into the long-term weekly compensation claims pool at an ever increasing pace.'[134] Ageing was a factor in longer recovery rates because older people generally recover from injuries at a slower rate, and their compensation costs are higher under the ACC because they are also compensated for lost salary as a result of injury. There is also greater risk of reactivation of claims and ageing related co-morbidities as people get older. While the NDIS will not compensate for lost salary as a result of acquiring a disability, given the strong correlation between ageing and disability, the prospect of more spending as a result of ageing is a serious risk to the financial sustainability of the NDIS.

Inflationary pressures on ACC-funded services also drove up costs. While normal economic inflation increasing costs of funded services is to be expected, the ACC also had to cope with additional inflation pressures 'on the cost of medical, elective surgery, and social rehabilitation services that exceed normal inflation. For several decades annual movement in inflation on the cost of healthcare related services has continued to rise above normal inflation.'[135] The cost increases beyond CPI for these services was variously attributed to improvements in medical technology, labour shortages, and administrative and regulatory changes.

While there are differences between the NDIS and the ACC schemes, similar underlying factors will drive growth in expenditure of the NDIS. The extraordinary growth in the ACC's expenditure and outstanding claims liability show just how quickly a scheme like the NDIS can grow.

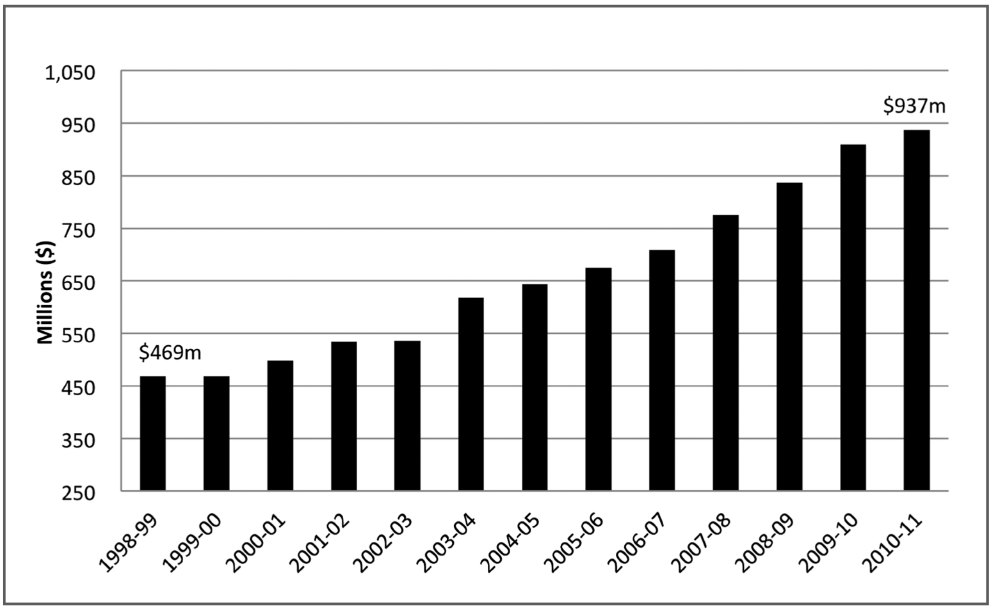
Victoria's Transport Accident Commission

The benefits that Victoria's Transport Accident Commission (TAC) has been paying to eligible recipients have grown from $469 million in 1998–99 to $937 million in 2010–11 at an average annual growth rate of just over 6%.[136]

The TAC has a track record of rapid expenditure growth. A 2001 audit of the TAC by the Victorian auditor-general found that from 1996–97 to 2000–01, long-term care costs rose by 89%; attendant care costs by 92%; and home modification costs by almost 250% (although some of this growth was off a relatively small base).[137] Major injury claims, despite comprising only 5% of total volume of claims managed by the TAC, constituted 46% of its outstanding claims liability in 2001.[138] In June 2011, the TAC had liabilities of $9 billion.[139]

The extraordinary growth in the ACC's expenditure and outstanding claims liability show just how quickly a scheme like the NDIS can grow.

Figure 4: TAC benefits paid, 1998–99 to 2010–11



Source: TAC annual reports.

Box 4: Lifetime care and support scheme

NSW's Lifetime Care and Support Authority (LTCSA) is one of the inspirations for the NDIS and will be used as a reference during the developmental phase of the scheme. The link between the two schemes is very strong. The first CEO of the LTCSA, David Bowen, was also appointed as the first CEO of the NDIS Launch Transition Agency.[140] The former NSW minister for disability services responsible for the LTCSA, John Della Bosca, is the national campaign director of Every Australian Counts, the major grassroots campaign supporting the NDIS.

Despite its strong links with the NDIS, the LTCSA is not a good comparison for predicting growth in the NDIS. The LTCSA is only six years old and its growth rates come from a very low base: total expenses increased from $516,000 in 2006–07 to $49 million in 2010–11.[141] This 320% annual average growth is the result of the LTCSA being open only to new entrants (hence, the low base).[142] In contrast, the NDIS will be open to all people with a disability, irrespective of when they received that disability. So the exponential expenditure under the LTCSA does not accurately indicate prospective growth in an NDIS.

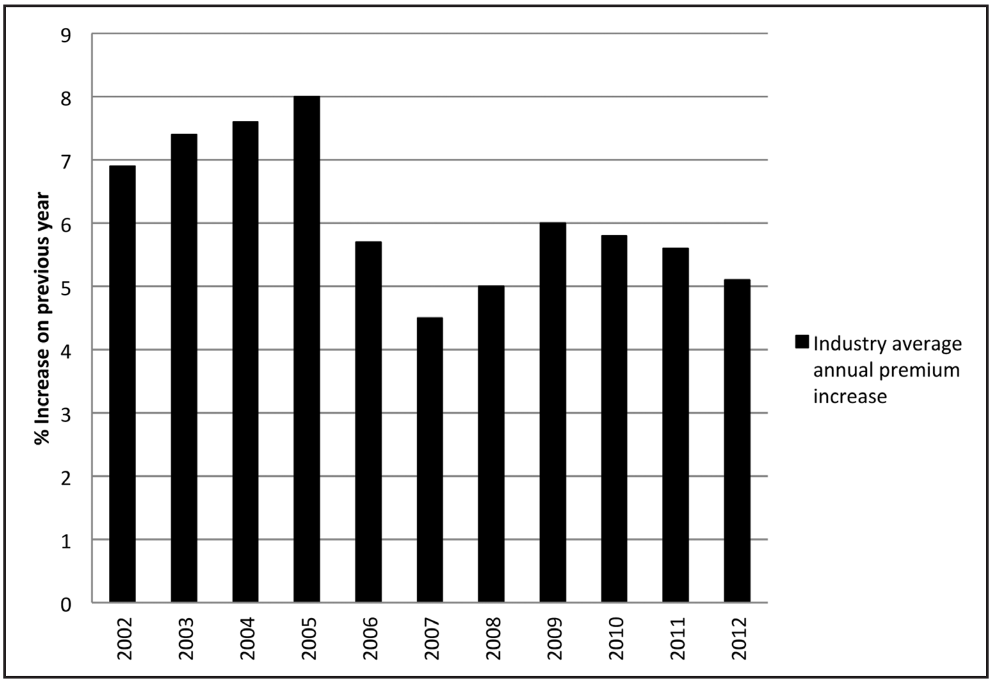
However, an NDIS will face the same pressures as the LTCSA: the capacity of medical specialists to meet current and future demand[143] and expanding services to include recreation and leisure activities, particularly for those who cannot return to work. Both factors have 'significant cost implications.'[144]

NSW's Lifetime Care and Support Authority (LTCSA) is one of the inspirations for the NDIS and will be used as a reference during the developmental phase of the scheme.

Private health insurance increases

From 2002 to 2012, the industry average annual premium increase was 6.15% each year, consistently exceeding the average CPI growth of 2.8% in the same period.

Figure 5: Private health insurance premiums, June quarter, 2012



Source: Parliamentary Library; Department of Health and Ageing; Australian Bureau of Statistics.[145]

The reasons for the continuing above-inflation increases in insurance premiums are similar to those in other schemes, particularly the ACC:

- population ageing, which increases both insurance claims and spending on benefits
- adverse selection—younger and healthier people do not purchase insurance but older and less healthy people do, which drives up overall costs
- innovations in medical technology and new treatments
- service provider costs rising faster than CPI.[146]

The cost of the NDIS: 2018–19 and beyond

If the overall expenditure on the NDIS grew at 6% per year from 2018–19 to 2023–24, in line with the growth figures for similar schemes, the gross cost of the NDIS would increase from $22 billion in 2018–19 to $29.5 billion in 2023–24 and serve around 500,000 people.

Schemes similar to the NDIS suggest that the nominal average annual growth of the NDIS will be approximately 6% from 2018–19. This growth will cover the gamut of potential cost drivers that entitlement schemes can face—price inflation, population growth, legislative changes, scope creep, political pressures, fraud and waste.

The AGA estimated that the NDIS, if it existed in 2011–12, would have had a cost of approximately $14.5 billion (gross) and $7.5 billion (net). At 6% average annual growth, the AGA's $14.5 billion gross estimate in 2011–12 increases to $22 billion by 2018–19, which is identical to the AGA's more rigorously calculated $22 billion estimate.

This suggests that using a 6% average annual nominal growth figure to calculate forward projections from 2018–19 is reasonable. If the overall expenditure on the NDIS grew at 6% per year from 2018–19 to 2023–24, in line with the growth figures for similar schemes, the gross cost of the NDIS would increase from $22 billion in 2018–19 to $29.5 billion in 2023–24 and serve around 500,000 people.[147]

The net additional costs of the NDIS are difficult to estimate without knowing the extent of increases in government spending on disability services in the future. Already, there have been substantial increases in funding for disability services to be covered by the NDIS through the NDA.[148] According to the commission on calculating the net cost of the NDIS in future years:

> In theory, the Commission could have produced a comprehensive set of forward estimates that took account of impending program spending displaced by the NDIS, but the available data for all packages at the detail required are not available. In any case, such estimates would suggest a spurious level of accuracy and would fail to clearly communicate the net magnitude of resources for the NDIS.[149]

Despite the difficulties, it is possible to estimate the net cost of the NDIS in 2023–24. Applying the 6% average annual growth figure to the AGA's net cost figure of $10.5 billion in 2018–19 provides an estimated net cost of approximately $15 billion in 2023–24.

However, the commission's and the AGA's estimates do not take into account certain factors that could have a material impact on the cost of the scheme—for example, increases in the pension age and 'back-end' growth. There is also the potential for political pressures and scope creep, the financial impact of which the AGA has not incorporated into the initial cost estimates of the NDIS. Once these costs are taken into account, the gross and net costs of the NDIS in 2018–19 could be even higher than the AGA's estimate. This in turn will affect the cost of the NDIS from 2018–19 and beyond.

> Federal 'entitlement' programs, such as Medicare and Medicaid, grow unconstrained and far beyond the promised limits. Politicians low-ball initial costs to gain approval by putting supposed benefit limits in legislation. But cost limits either do not work, are evaded or are later repealed.
>
> — Chris Edwards, Director of Fiscal Policy, Cato Institute, September 2003.[150]

It is important to note that the tax base supporting this spending will be much larger than it is now, and therefore, the NDIS will appear to be more affordable. However, doubts are growing about the government's capacity to raise sufficient revenue from the current tax bases, raising the need for substantial fiscal reforms to help pay for the NDIS.[151]

Extrapolating the LACs estimates further, and using the estimated 2023–24 population of 500,000, shows that with an individual caseload of 60 per LAC, the NDIA will employ around 8,300 LACs at a unit cost of around $190,000.

Box 5: Administration

The estimated costs used by the commission and the AGA include the administrative cost ($1.1 billion) of running the NDIS:

- $300 million for the bureaucrats and support staff who will manage the scheme (most of this will be spent on the NDIS IT system)
- $550 million for around 6,850 local area coordinators (LACs) who will case manage around 60 people each
- $200 million for other support costs for disability organisations, people who are not eligible for NDIS supports, and other administrative tasks
- $13 million for dispute resolution
- $3 million for advertising.

The number of LACs alone will make the NDIS one of the largest employers in the Australian government. Based on the 2011–12 average staffing levels, only the Department of Defence (civilian, military and reserves, each individually), the Department of Human Services (which includes Medicare and Centrelink), the Australian Taxation Office, and the Department of Immigration and Citizenship will have more employees.[152] The figure of 6,850 does not include the additional administrative staff that will be based at the NDIA in Canberra.

The AGA's review of these costings found that the commission's unit cost estimate for the LACs was too low and increased it from $80,000 to $120,000 per LAC based on evidence from Western Australia.[153] This revision increased the cost of LACs by around $270 million in 2011–12 dollars. By 2018–19, $1.3 billion will be spent on 7,350 LAC case managers and $700 million on administrative and bureaucratic support.

Extrapolating the LACs estimates further, and using the estimated 2023–24 population of 500,000, shows that with an individual caseload of 60 per LAC, the NDIA will employ around 8,300 LACs at a unit cost of around $190,000.[154] The overall estimated cost in 2023–24 of the LACs alone will be at least $1.6 billion.

Taming leviathan

Given the size and scope of the NDIS, and the prospect of new taxes to pay for it, the number of potential policy ideas and mechanisms that could control, mitigate or offset the cost of the NDIS leviathan would be large. Although a detailed discussion is beyond the scope of this report, it is worth considering some suggestions briefly.

First, it is imperative that the boundaries of the scheme remain relatively unchanged from the commission's recommendations. Scope creep—in age restrictions, severity of disability, and funded supports—poses a significant risk to the financial sustainability of an NDIS. Expanding the scheme to include those who are older than the pension age and have acquired a disability, or to include funding for educational aides for children with disability, would drive up the overall cost of the scheme. Preventing such growth is a matter of political will, and policymakers have to stand up to special interests despite the potential for short-term political pain.

Labour will be the most significant expense under the scheme, and workforce shortfalls could drive up the cost of providing care and therefore the overall cost of the scheme. Reducing barriers to labour supply in the disability sector is one avenue to ensure the sector has enough staff. Putting to one side the various issues inherent in Australia's employment laws, it is worth considering importing labour from overseas. The commission recommended establishing a live-in caregiver program based on a Canadian scheme, which would allow people with NDIS-funded supports to sponsor someone from overseas to live in their home and provide care.[155] This is a worthwhile initiative, but may not be enough given the needs of the sector. Further reforms to working holiday visas—for example, allowing 417 visa holders to work as attendant carers in regional areas for three months to be eligible to apply for a second 417 visa—would be an appropriate change that could modestly expand the supply of labour in areas of need. Eligibility criteria for skilled migration visas—for example, the 457 visa allows employers to sponsor workers in areas with identified skills shortages—could be expanded to include people with some experience as attendant carers if labour shortages persist.

Preventing such growth is a matter of political will, and policymakers have to stand up to special interests despite the potential for short-term political pain.

The commission looked at co-payments, means testing, and front-end deductibles (excesses) as potential ways to control costs.[156] However, it suggested rejecting the first two if there was evidence in the implementation phase of the NDIS that 'many unnecessary or small claims were clogging up the assessment process (noting that the administrative costs associated with processing small claims may outweigh their benefit).'[157] It is worth considering implementing a limited co-payment scheme for assessment claims during the implementation phase.

Assessment costs for the scheme will be high initially, as people applying for NDIS-funded supports have their eligibility tested. The AGA estimated that the initial assessment would cost approximately $600, and that the number of assessments would be multiples of the number of people receiving funded supports in the first few years of the scheme, and may run into tens or hundreds of thousands.[158] The cost of these assessments can be minimised by charging a nominal excess or co-payment (of perhaps $60 or 10%); this fee could be refunded for successful applications, and would help reduce the demand for assessments and the overall start-up costs of the NDIS. Exemptions from this fee could be granted, for example, to those who already receive funded disability supports from state governments, or are manifestly eligible for the DSP.

There is substantial opportunity for administrative savings for the NDIS by incorporating some back-office functions of the NDIA with the Commonwealth Department of Human Service (DHS). In 2011, DHS, Medicare, Centrelink, and the Child Support Agency merged their back-office operations and many service delivery features, saving taxpayers hundreds of millions of dollars.[159] There is potential to generate savings by integrating NDIA functions with existing service delivery operations within DHS. NDIA offices could be co-located with Medicare and Centrelink offices to offset the overall cost of the scheme.

Further administrative savings could be made by aligning elements of the DSP assessment process with those of the NDIS. The commission rightly recommends reviewing the DSP to align its objectives with those of the NDIS.[160] If the NDIS is to provide people with disability the support they need to return to the workforce, it is imperative to establish appropriate incentives and sanctions. For example, all NDIS-funded supports should be taken into account when assessing a DSP applicant against the DSP impairment tables and the continuing incapacity to work at least 15 hours a week test. Many of the economic benefits of the NDIS come from people with disability returning to work. However, the incentives and disincentives prevalent in Australia's welfare system could undermine these benefits, hence the need for further DSP reform. Additional savings could come from reducing or eliminating some income support measures, particularly for carers. For example, the Child Disability Assistance Payment (CDAP) should be scrapped because it provides additional income support to help parents buy the kinds of disability supports the NDIS will provide.

The NDIS will be a monster of a government program—the new leviathan of the Australian welfare state.

Conclusion

This report was born out of a frustration with the public debate surrounding the NDIS and a desire to challenge some of the facts and figures being used in this debate. The broad public and cross-party political support for the NDIS has ensured the scheme has not received the scrutiny it deserves.

It is highly likely that following full implementation, government expenditure on the NDIS will grow at around 6% per annum. By 2023–24, the scheme will provide funded services to around 500,000 people at a total cost of approximately $29.5 billion annually. This figure could increase even more if government caves in to pressure from special interest groups to expand the scope of NDIS-funded supports to include people older than the age pension and educations supports, for example.

The sheer size of the NDIS means that every effort needs to be made to ensure that the economic benefits of the scheme are maximised, the cost drivers are minimised, and the offsets are identified. The NDIS will be a monster of a government program—the new leviathan of the Australian welfare state.

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