TAYLOR FRY

We find the patterns that matter

NDS & Endeavour Foundation

Modelling of the supported employment population

July 2024

Contents

Executive summary

We have modelled the supported employment system

We have captured the variability of the supported employment workforce using 1,600 different segments

Setting up the model requires assumptions around:

- The number of supported employees in ADEs and mainstream employment
- Benefit receipt, age, wages, hours worked, employer type
- Awards and wage rates, including the application of the Supported Wage System.

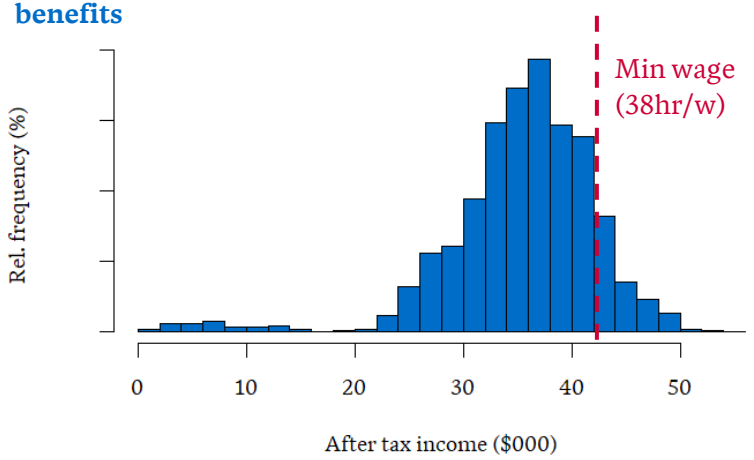
We have used a range of available data sources in setting these assumptions.

Our starting population is 17,000 people supported by ADEs, and 4,200 under the Supported Wage System (SWS) in mainstream employment.

Overall incomes are relatively healthy

Overall incomes are approaching minimum wage, albeit with variability.
The average ADE employee receives $35,500 after tax and including benefits, corresponding to about 32 hours per week at the minimum wage. Including a notional value of the Pension Concession Card, this reaches minimum wage income levels (@38 hours/week). Incomes are highest for those working more hours at higher wage rates.

Distribution of income, supported employees, after tax and benefits

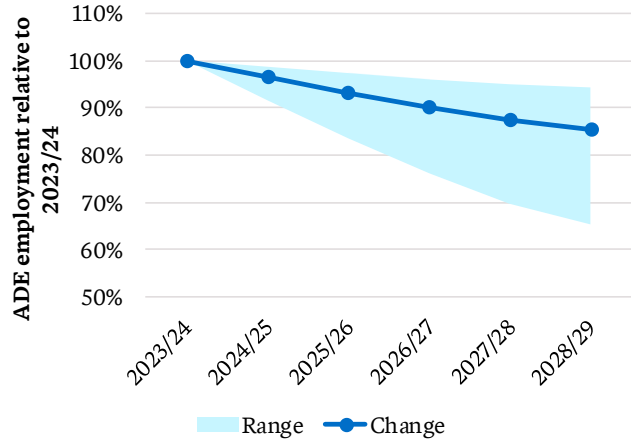


Existing policy settings may lead to a shrinking of the supported employee workforce

Grade A and Grade B wage levels under the Supported Employment Services (SES) award are scheduled to rise 47% over the next three years.

We estimate this could see 10% reduction in the size of the ADE workforce (with high uncertainty), focused on people currently in the $3.00 to $10.05 hourly wage levels.

Forecast ADE Employment size over time, using derived labour price elasticity assumptions



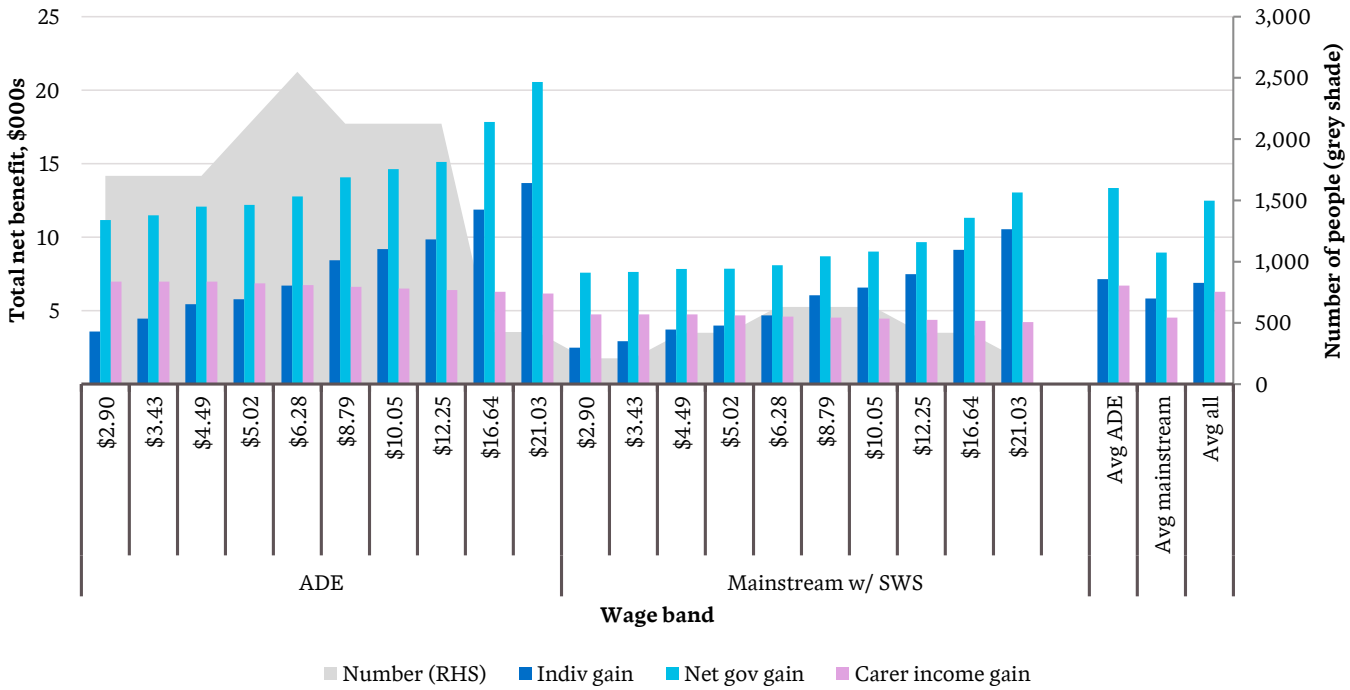
The model allows estimation of the benefits of supported employment

Current ADE arrangements generate large benefits to employees, government and others

- On average, supported employment at an ADE delivers $7,000 of additional income to supported individuals, $13,200 in net savings to government, and $6,600 of additional income to (informal) carers. In aggregate (for ADEs) this equals $120m to supported individuals, $225m to government and $113m to carers.
- For people in mainstream employment (under the SWS), the equivalent figures are $5,400 for individuals, $8,400 for government and $4,300 for carers.
- This excludes other benefits such as health and wellbeing benefits, human capital development and more leisure time for some carers.
- Gains tend to be larger for people on higher wages, and those working more hours.

The loss of supported employment jobs would lead to losses across all three groups.

Net benefits of supported employment to individuals, government and carers



Compared to no supported employment, we estimate ADEs currently deliver $120m of annual benefit to individuals, $113m to carers and $225m to government.

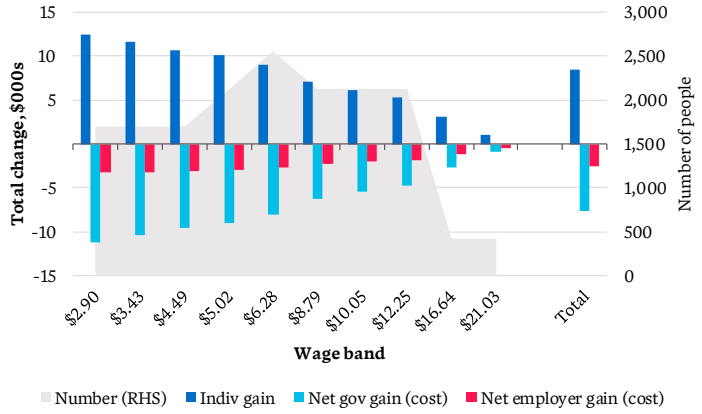
Costing a broad wage offset

A wage offset that brings up supported employees to the minimum award wage through government subsidy delivers significant benefits to employees. Cost to government is material, with 60% recouped for existing workforce through lower welfare spend and higher tax take.

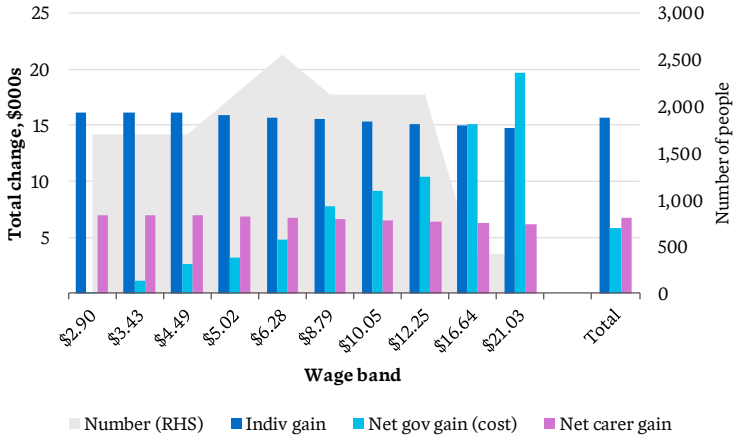
An average subsidy of $19,000 per supported employee in an ADE is needed to reach the minimum wage. 60% of this is recovered by government in the form of lower welfare spend and greater receipts across tax and housing.

Average gains for existing ADE supported employees are $8,500, with net government costs $7,600

Net change, existing ADE supported employees



Net change, new ADE supported employees



Costs for existing employees are substantial
In aggregate (and including mainstream employment), we estimate the wage offset cost of $320m per year leaves a net cost to government $124m (before consideration of employer costs). Employee benefits are slightly larger, and all supported employees who retain employment are better off. See the calculations on page 34 for additional detail.

However, benefits are strongly positive for new employees
For people not currently in work, if the wage offset increases employment, then NDIS and carer benefits mean that there are collective gains to the individual, government and informal carers.
We estimate a potential pool of 2,500 additional employees at ADEs (offsetting declines), and 7,500 for supported mainstream work.

Employer viability concerns are heightened
Under the scenario, employers could pay the extra superannuation and workers compensation costs - $41m extra per year for ADEs. These are substantial increases, particularly for those on very low wages (up to a 70% increase in employee costs). This could lead to a 27% reduction in ADE supported employment, when combined with existing scheduled wage increases. Support is likely needed to make this viable. Government support, or superannuation exemptions would reduce the impact.

Examining a social wage alternative policy option

The social wage approach recognises that, when including welfare benefits, many supported employees are close to the minimum award wage.

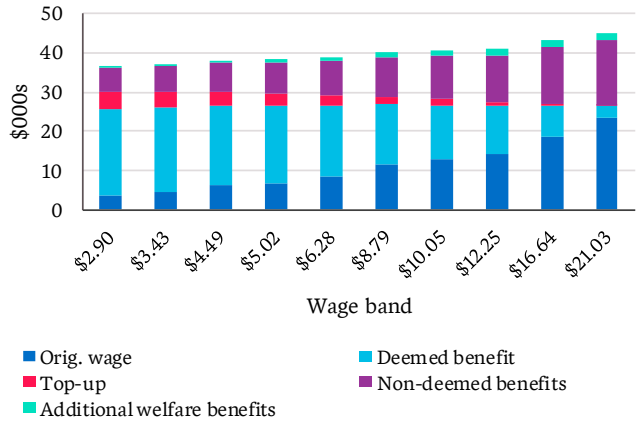
Under the proposal:

- Welfare benefits are **deemed** as the gap between current wages and the minimum award wages
- Income test thresholds are raised $150 (half the age pensioner work bonus)
- If welfare is not sufficient to cover the gap, employers 'top-up' the remainder to ensure the minimum award rate is reached
- Employers also cover higher superannuation and workers compensation obligations.

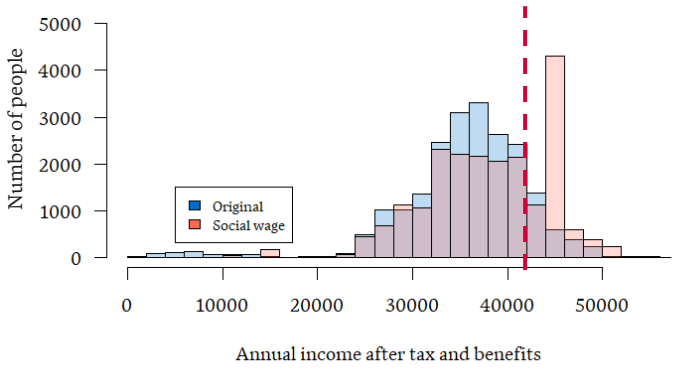
No cost to government, but some benefits such as higher income tax.

Income for individuals is slightly higher, related to top-ups and reduced welfare abatement

Average wage and benefits (before income tax) after deeming



Change in distribution of after-tax and benefit income for supported employees under social wage model



A relatively high fraction of employees receive top-ups, albeit with total extra payments relatively small fraction of total wages and benefits.
About a third of the ADE population receive a top-up under the social wage approach.

Relative increases in employer costs are large, particularly for low wage levels.
Overall employer cost increases for ADEs (top-ups plus superannuation, WC) are +65%, and up to +166% for the lowest wage band.
Total annual additional employment costs are estimated at $82m for ADEs.
These increases are likely to cause viability issues without government support – we estimate a 25% reduction in employment at ADEs without support for the increases, concentrated on lowest wage bands.

The social wage approach still delivers net gains across government and individuals for new employees.
However, growth in new employment could be limited, as the change to incentives is relatively small.

Implications for ADE workforce under scenarios

While both policies ensure comparability with the minimum award wage and increased superannuation payments, extra employment costs would threaten the viability of ADEs

- Significant cost increases would reduce the ADE workforce. Estimating the quantum of job losses from increased employer costs is necessarily uncertain, but some assumptions have been set for concreteness.
- Overall, potential job losses under modelling could be 5,500 by 2026/27 – a combination of scheduled increases (Grade A/B Award rates).
- Cost of covering employment costs is significantly less than the combined benefits of supported employment.

Estimated impact on ADE workforce by 2026/27 if employers are to meet costs

Item	ADE workforce	Change on prev.	
2023/24 workforce	**17,000**		
Grade A/B wage increases	15,300	-1,700	-10%
Additional superannuation & workers compensation levies, based on minimum award rate	13,030	-2,270	-13%
Additional Top-ups, social wage policy	11,490	-1,540	-9%
Total potential job losses		**-5,510**	**-32%**

Scheduled increases likely to lead to job losses even without further policy change.

Payable under both wage offset and social wage policy proposals. Estimated additional employment costs at $41m per year.

Payable under the social wage policy only. Estimated at $42m per year.

Avoiding significant job losses at ADEs may require government support for additional employment costs, or some exemption from the full impact of these costs. Job losses carry a net cost to government, symmetric to the benefits identified on p.5.

Updating the BuyAbility tool for estimating net economic benefit

The BuyAbility tool is a useful means of articulating economic benefit compared to government funding

The existing tool predates modern NDIS employment supports and many other policy changes.

Reviewing the formula and updating the backend calculation makes the tool once again fit-for-purpose.

Reviewing the formula

We have slightly updated the formula
Some double counting related to wages and the DSP are removed, and we have rearranged to make the beneficiaries of economic gains clearer.
We propose dropping the capital calculation component, on the assumption ADEs can incorporate existing estimates of depreciation in their expenses.

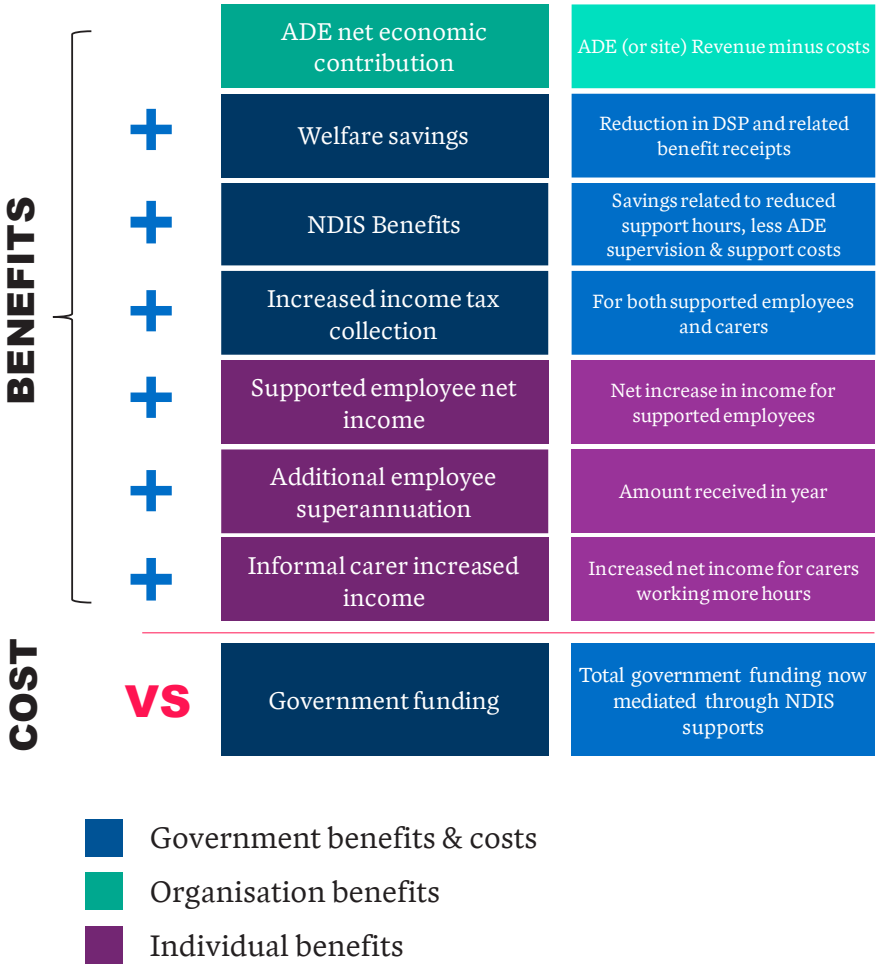
There are some benefits not recognised, for simplicity

- Extra GST income and housing (transfers to government)
- Deadweight loss savings associated with lower welfare benefits
- Recognising the value of leisure time
- The value of higher superannuation contributions

These could be considered for inclusion.

Calculations attached to each component are updated
To reflect the work undertaken and set to update into the future to maintain the usefulness of the tool.

Net economic benefit formula



01

Introduction & modelling the supported employment workforce

Introduction & contents

Scope of the project

Taylor Fry has been asked by NDS and Endeavour Foundation to undertake some modelling around understanding the current system of supported wages, as well as potential policy options for improving employment outcomes for people with disability through the supported employment system.

The work has four components, which are covered in turn in this document:

1. Modelling the supported employment workforce – Establishing reasonable assumptions around the size, composition and earnings of the current workforce.
2. Wage offset policy costing – Estimating the impact of a wage subsidy to bring people up to the minimum award wage
3. A social wage policy approach – Understanding impacts if income support money is deemed as wages, up to the minimum award wage
4. Refreshing and updating the BuyAbility Economic Impact tool.

Main data and sources

We have drawn on a range of sources in constructing our scenarios. Key sources are:

- High-level wage summary from NDS based on their annual survey
- The Disability Royal Commission (DRC) evidence, including
  - Evidence and submissions from Department of Social Services (DSS) and the National Disability Insurance Agency (NDIA)
  - Taylor Fry's research costing on supported wages (*Costing a transition away from subminimum wages* and *Costing a transition away from subminimum wages – subsidy for half minimum wage)*
- The 2021 ARTD Evaluation Report, *Fair Work Commission new wage assessment structure trial evaluation*
- NDIA Employment outcomes report, December 2020 *Employment outcomes for NDIS participants*
- Information on the existing NDS BuyAbility Impact tool
- Discussions with NDS, Endeavour Foundation.

Specific numbers and sources are footnoted throughout.

Brief background

The SES and ADE system

The current award wage system is based on the Supported Employment Services (SES) Award. All supported employees working for approved Australian Disability Enterprises (ADEs) are covered by this award.

The award has seven Grades comparable with other awards (with Grade 2 set to the current minimum wage), plus two lower wage rates Grade A ($5.02 p/h currently) and Grade B ($10.05 p/h currently). Grade 1 relates to induction and should not exceed 3 months duration.

- Grade A – Employees at this grade will perform a simple task or tasks consisting of up to 3 sequential steps or sub-tasks, any of which may involve the use of jigs or equipment or tools with basic functionality, under direct supervision and constant monitoring.
- Grade B - Employees at this grade will perform a simple task or tasks consisting of more than 3 sequential steps or sub-tasks, each of which may involve the use of mechanical or electric equipment or tools, under direct supervision with regular monitoring.
- Grade 2 Employees at this grade will perform a basic task or tasks in accordance with defined procedures under direct supervision.

The 2022-23 NDS Supported Employment Vision Survey had 30% of people at ADEs under the award in Grade A, 40% in Grade B, and the remaining people in other Grades (predominantly Grade 2).

The SWS and modified SWS

The Supported Wage System (SWS) is the mechanism for assessing the productive capacity of an employee relative to their award rate.

- The SWS refers to the tool applied to those in mainstream employment
- A modified SWS applies in an ADE context but keeps the same overall structure of an assessment and productivity-based adjustment to wages.

For example, a person rated Grade B but working at 40% of the productive capacity would have an adjusted wage rate of (40% × 10.05 =) $4.02 per hour. An absolute minimum rate of $2.90 applies, and transitional arrangements at July 2023 ensure that people regraded do not see decreases in their wage rate.

Mainstream employment and the SWS

People may be employed in mainstream employment (that is, not employed by an ADE) under the SWS also. It is applicable to employees under a range of specific awards and productivity is compared to expected productivity under the corresponding award.

We refer to supported employment to cover both ADEs and mainstream (with SWS) settings.

Sources
https://www.fairwork.gov.au/pay-and-wages/minimum-wages/supported-employment-services-award-pay-rates

Brief background

Social security arrangements

The vast majority of people employed by ADEs or in mainstream employment under the SWS are on the Disability Support Pension (DSP).

The DSP amount payable will vary by age (lower rate under 21), and household status (a lower rate per person for couples). Supplements are available, most commonly Rent Assistance. For people working over the age pension eligibility age (soon 67), pension payments are taxable but are not for those under retirement age.

Pension amounts are subject to eligibility, income and asset tests. The income test sets a minimum threshold of earnings ($204 per fortnight for singles, $360 for couples), above which pension decreases as income increases (either 40c or 50c per dollar abatement).

DSP eligibility includes an assessment that the person cannot work 15 or more hours in mainstream employment. However, the formal work limits once on benefit are (for most people):

- 30 Hours per week
- No limit for people working at ADEs or under the SWS.

DSP eligibility also enables access to related benefits, notably the Pensioner Concession Card which enables discounts on health costs and other State fees (e.g. utility, transport and registration costs).

Assumptions

Assumption	Adopted	Comment
Number of people employed at ADEs under the SES	17,000	Rounded down from 17,232 NDIS participants working for ADE recorded in NDIS survey 2020-21[1].
Number of people in mainstream employment on SWS	4,200	Triangulated from DSS SWS assessments, NDIS employment survey and ARTD extrapolation. Unchanged from Taylor Fry's DRC analysis.
Percentage of people on the Disability Support Pension (DSP) or similar income support benefit	96% (ADEs) 100% (Mainstream)	NDIS survey has 96.2% of people in ADEs in DSP. Of remaining 4%, some could be on a similar benefit (e.g. Age pension) but we have assumed no benefit. For non-recipients, the balance between people eligible but not on benefit, and those not eligible (e.g. failing an income/asset test based on partner) is unknown.
Percentage of people receiving other benefits (Commonwealth Rent Assistance)	35%	Consistent with DSS Demographic data.
Percentage of welfare recipients receiving single / couple rate	80% (single) 20% (couple)	Consistent with DSS Demographic data.
Start year	July 2024 (2024/25 FY)	Payment and wage levels inflated to 2024/25 year as part of setup.
Taxation and benefit abatement assumptions	Current legislation	We include Medicare Levy and Low-Income Tax Offset (LITO) as part of income tax calculations throughout. Uses final form of Stage 3 tax cuts.
Superannuation and workers compensation (WC) costs	11.5% (2024/25), 12% thereafter. 1.7% WC loading	Aligned to national rates, assuming current imbalances corrected for 2024/25.

Sources

[1] https://disability.royalcommission.gov.au/system/files/exhibit/STAT.0523.0002.0001.pdf .

Assumptions

Assumption	Adopted	Comment
Benefit rates Disability Support Pension (DSP) Commonwealth Rent Assistance (CRA)	**DSP** $1097 p/f (21+ single), $827p/f (21+ couple), & $806 p/f (U21) **CRA** - $168 p/f	Based on full rates Feb-24, with AWE increases applied to rates CRA based on average rates (DSS demographic data), and compares to $184 max rate.
NDIS support costs	$70 per hour	$65.47 standard rate for both group sessions and employment supports increased slightly for non-weekday work. Assume employment supports are delivered at a 1:3 ratio ($23.33 per hour) and group at 1:2 ($35 per hour), giving an $11.67 difference per hour. *See later slide for more.*
Carer assumptions	33% of supported employees would otherwise fall back on informal care, of which 51% of the carers would pick up extra hours when given the opportunity	Remaining 67% of supported employees assumed to be otherwise supported by NDIS day activities, in the absence of supported employment. *See later slide for more.*
Carer earnings	$39 per hour 12% average marginal tax rate	Based on ABS average figures for part-time work, and tax rate is consistent with tax rate payable on a $41k average part-time income.
Value of Pension Concession Card	$5,000	Received by people on the DSP (among others). Set to the same value as Taylor Fry's work for the DRC, but originally based on a Challenger estimate quantifying sub-benefits. The true value depends on the volume of health services, which is uncertain (and variable).
Housing costs	20% of cohort in social housing 25% marginal rate of rent based on income test	People in social housing (public or other community discounted housing) typically have discounted rents that are tied to income. *See later slide for more.*
Wage level inflation		See later slide – scheduled larger increases for Grade A/B, and WPI for minimum wages and absolute minimum.

Assumptions

Wage distribution assumptions

We have used 11 wage bands for modelling the population, with assumed levels of wages and hours worked for each. Set to be broadly consistent with data sources.

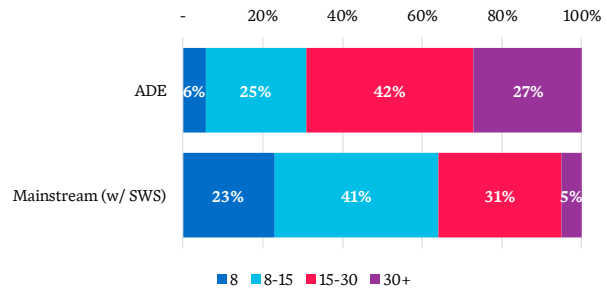
Wage rate ($/hr)	Description	Average rate in band assumed	ADE - distribution	ADE - Average hours	Mainstream employment with SWS	Mainstream employment with SWS – average hours
2.90	Absolute minimum	$2.90	10.0%	23.0	5%	15.3
2.91 - 3.96		$3.43	10.0%	23.0	5%	15.3
3.97-5.01		$4.49	10.0%	23.0	10%	15.3
5.02	Grade A (no SWS)	$5.02	12.5%	22.6	10%	15.0
5.03 - 7.53		$6.28	15.0%	22.1	15%	14.7
7.53 - 10.04		$8.79	12.5%	21.7	15%	14.4
10.05	Grade B (no SWS)	$10.05	12.5%	21.3	15%	14.0
10.06-14.44		$12.25	12.5%	20.9	10%	13.7
14.45-18.83		$16.64	2.5%	20.5	10%	13.4
18.84-23.22		$21.03	2.5%	20.0	5%	13.1
$23.23+	Current min. wage	$23.23	0%	19.6	0%	12.8
Average wage			$7.48		$8.98	

Notes

Understanding impact of policy change requires an estimate of the distribution of wages, in addition to average levels.

- For ADEs, the assumed wage distribution matches the average rate from NDS surveys ($7.22 for 22/23, plus some inflation.
- Assumed average SWS wage rates are higher in mainstream employment – although not much information found on this topic.
- Average hours based on an assumed distribution across bands (8,8-15,15-30,30+), similar to previous DRC work.

Assumed distribution of hours worked (avg)



Assumptions

Wage growth

We assume that improved wages for ADEs / SWS in mainstream employment grow the sector.

- Large Grade A/B wage increases are already scheduled through to 2026/27. We have extrapolated this, continuing the above-WPI rate of growth.
- Minimum wage forecast using WPI forecasts – the first two years based on RBA estimates and remainder consistent with our 2023 analysis.
- Assume absolute minimum ($2.90) grows in line with the minimum wage.

Wage rates

	Absolute min.	Grade A	Grade B	Minimum wage
2023/24	$2.90	$5.02	$10.05	$23.23
2024/25	$3.02	$5.82	$11.63	$24.16
2025/26	$3.13	$6.61	$13.22	$25.07
2026/27	$3.23	$7.40	$14.81	$25.90
2027/28	$3.34	$8.14	$16.29	$26.77
2028/29	$3.45	$8.79	$17.59	$27.67

Growth in rates

	Absolute min.	Grade A	Grade B	Minimum wage
2024/25	4.0%	16%	16%	4.0%
2025/26	3.75%	14%	14%	3.75%
2026/27	3.35%	12%	12%	3.35%
2027/28	3.35%	10%	10%	3.35%
2028/29	3.35%	8%	8%	3.35%

Officially scheduled

Average award wage

Our wage offset costing work tests the impact of increasing wages to the minimum applicable award. While we do not see these relevant awards, the NDS survey has categories of business – we have attempted a simple mapping of these to awards, and relevant levels to estimate the applicable minimum rate. Overall, the average rate is $23.99, which is 3% higher than the $23.23 minimum wage.

Category	% of ADEs	Mapped award	Award level	Wage (p/h)
Business and administration services	10%	Clerks	Level 1 - year 2	$25.11
Catering and hospitality	8%	Hospitality	Level 1	$23.23
Building products	7%	Manufacturing	C14 employee - level II	$23.23
Cleaning services	10%	Cleaning	Cleaning service employee Level 2	$24.07
Food and beverages	8%	Manufacturing	C13 employee	$23.23
Horticulture and arboriculture	12%	Horticulture	Level 2	$23.23
Material handling	11%	Manufacturing	C14 employee - level II	$23.23
Merchandise	5%	Storage and Wholesale	Storeworker level 1 after 12 months	$24.65
Printing services	4%	Printing	Level 2	$23.23
Property services	9%	Minimum wage		$23.23
Transport, freight and logistics	7%	Transport	Transport worker grade 1	$23.89
Waste management	11%	Waste Mgmt	Level 1	$26.77
Total	**100%**			**$23.99**

Numbers may not sum due to rounding

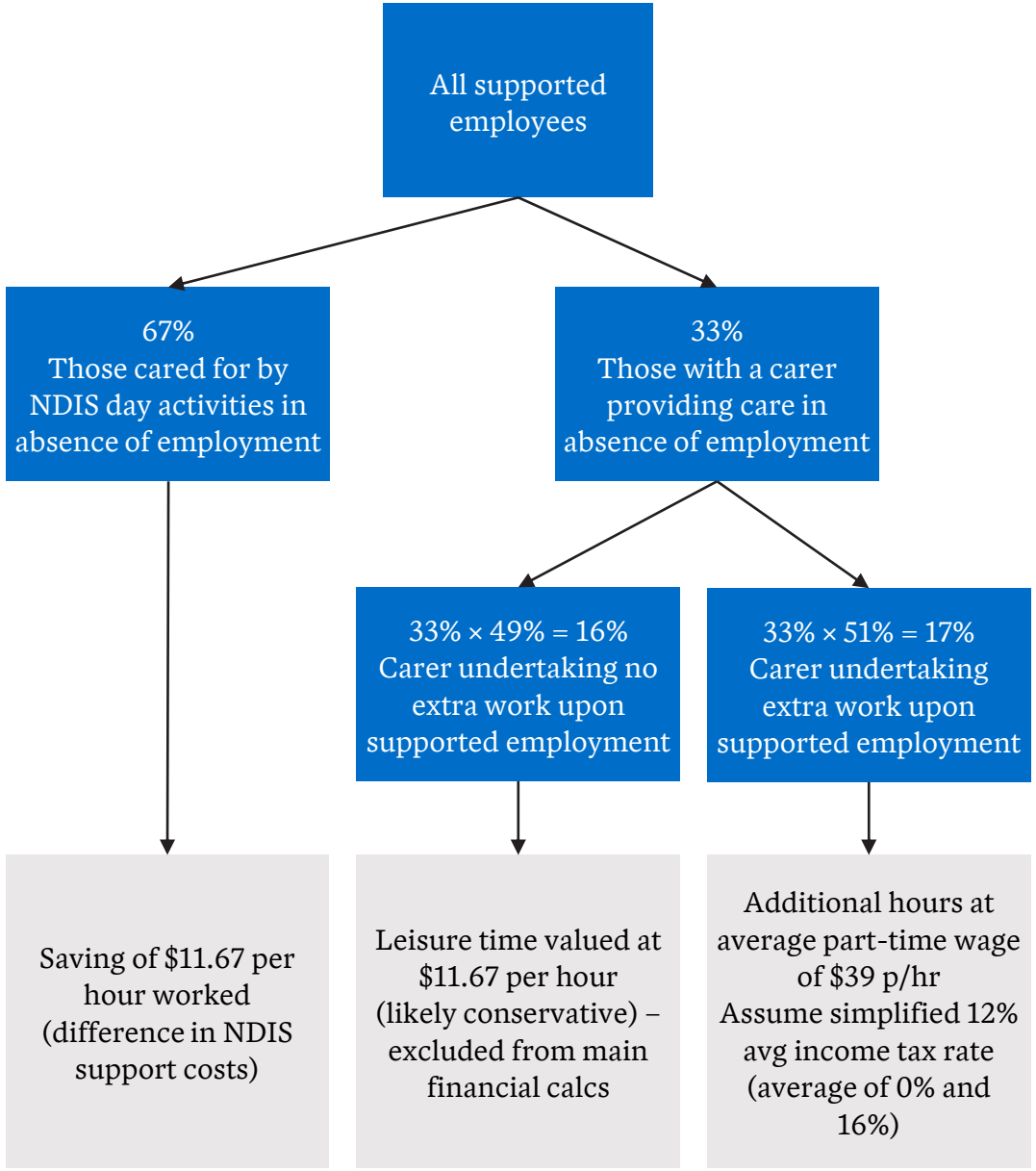
Assumptions

(Informal) carer and NDIS support impacts

The benefits attached to employment also relate to those who would otherwise be caring or supporting people with disability. This is split between other NDIS services and informal carers*, as shown in the figure.

- 33% assumed to be in informal care – This assumption is fairly uncertain, but is consistent with the previous BuyAbility tool assumption, and comparable to rates of employment among carers in NDIS outcomes survey.
  - Of the 33%, assume about half would pick up extra hours, based on NDIS survey of people wanting more hours with care responsibilities a key limiter
  - Relatively high uncertainty attached to carer assumptions.
- Savings for people otherwise receiving NDIS day activities is set as the difference between 1:2 and 1:3 ratio of care, based on NDIS advice, working out to $11.67 an hour. In reality, some higher-cost specialist day activities could imply much larger savings. Feedback suggests some ADEs have seen lower ratios (e.g. 1:5) and some day activities lower (e.g. 1:3) – in this example savings would equal $9.33 an hour, within 20% of our assumption.
- For carers not picking up additional hours it would be possible to put a value on increased leisure time, and most estimates are above the $11.67 NDIS support cost differential – so this would be a suitable conservative figure. However, we do not include this in most estimates.
- There might be an additional benefit to government as carers work more, in the form of lower benefit payments. Welfare receipt for carers is less clear in the data, and we have not attempted to recognize this additional impact in our modelling.

** Note: All references to carers are referring to informal unpaid care, unless otherwise stated*



Further assumption detail and other considerations

Housing

We know less about the 65% not receiving rental assistance

- About 141,000 people in social housing have a disability[1]. If all were on the DSP, this equates to about 18%. Typically, rents are 25% of income, so some additional earnings would be collected as higher rents.
- About 33,500 people in the NDIS receive Supported Independent Living supports, a large portion as part of Specialist Disability Accommodation funding. These rents typically do not scale with income.

Value of the Pensioner Concession Card

A Challenger analysis put the value of various non-medical concessions of the Pensioner Concession Card at $4,000. Medical benefits generally include cheaper services (particularly GP visits) and pharmaceuticals. We previously assumed a $1,000 medical benefit, giving a $5,000 overall benefit.

The value is likely conservative given the high rate of health service usage for people with disability and inflationary effects since the original analysis. The assumption only plays a limited role in our analysis since we assume people retain the card under the scenarios.

Broader economic impacts

We primarily focus on the impacts of individuals, businesses and government directly affected by supported employment policy changes. Broader economy-wide considerations are possible (e.g. growth in the ADE sector may be partly offset by less growth elsewhere), but are less relevant to the main findings.

Sources

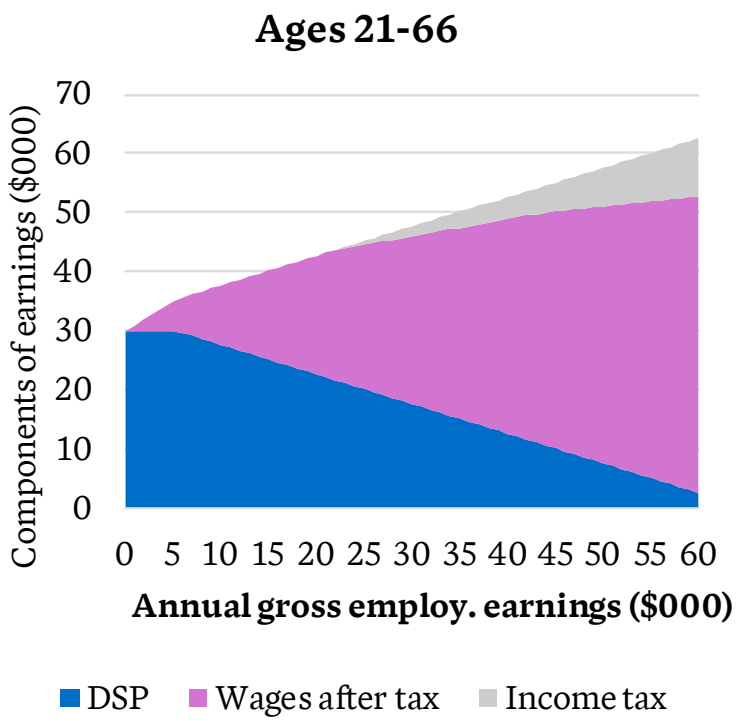
[1] https://www.aihw.gov.au/reports/disability/people-with-disability-in-australia/contents/housing/housing-assistance

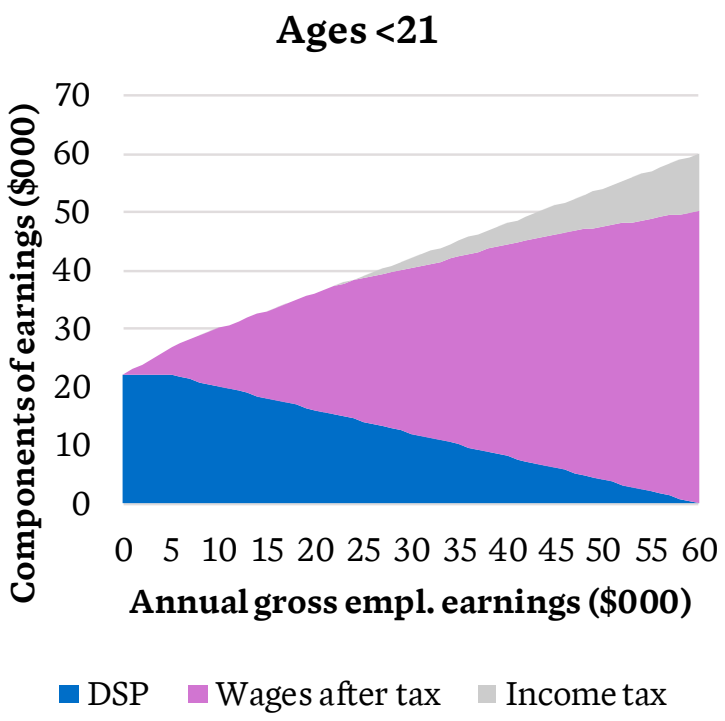
[2] https://www.challenger.com.au/-/media/shared/challenger/document/challenger-tech/value-of-centrelink-concession-cards.pdf

3 https://disability.royalcommission.gov.au/system/files/2023-10/Costing%20a%20transition%20away%20from%20subminimum%20wages.pdf

Interplay between tax and benefits

Relationship between employment earnings, benefits and income tax
Charts are for singles on the DSP not receiving Rent Assistance





Benefit abatement and taxation

The charts show that while benefit abatement (50% for people aged 21+, 40% for younger) starts relatively early, income tax is not payable until earnings rise above ~$22k.

The largest subgroup differences are between people under 21 and other employees – they have differing benefit levels and abatement rates.

Thresholds and rates vary across other parameters too. Pensions over age 67 are taxable if a person is earning wages.

Generated supported wage population

Setup

Using the assumptions above, we generate an estimated number of people for each unique combination of:

- Age band
- Household status (single vs couple)
- Wage band (11 categories)
- Hours worked (4 categories)
- Benefit group (No benefit, DSP only, DSP + CRA)
- Employer type (ADE vs Mainstream with SWS).

This gives about 1,600 categories. For each we can set or derive assumptions for remaining characteristics, and then test the impact of different policy changes.

Limitations of the modelling work

- Still some distributional variability not modelled within each band (e.g. hours, award wages). For example, some people may be working a very large number of hours (>50) and have a different resulting picture to the cohorts modelled.
- Largely assume the balance across bands remains stable over time.
- Uncertainty around carer rates and propensity to work (compared to NDIS day supports) for people in or considering supported employment.

General approach to measuring benefits

Straightforward benefits

Some benefits are **straightforward to estimate**, since there are clear rules for how they are affected and reasonable data to construct estimates.

- Income support – Can calculate abatement directly.
- Income tax – Can calculate changes to income tax directly.

Other feasible benefits

Some benefits have **some uncertainty but still reasonable to estimate**, given the data available

- GST tax revenue – most additional income is likely to flow to consumption, and we have applied some conservatism to the estimate.
- Housing – While we have attributed the benefit to government, some of the benefit may flow to community housing providers, depending on circumstances.
- NDIS cost offsets – The reduced cost of supports appears reasonable. We have attributed the benefit to government, but some may actually be related to similar (or larger) benefits for other stakeholders, mainly carers.

Included

Other benefits not modelled

Some benefits are **difficult to estimate and omitted from our work**. This does not mean they are unimportant, and future work could look at developing estimates.

- Human capital development – People, particularly those not currently in employment, may learn new skills and have opportunities to move to higher-paying positions in the future.
- Broader improvements to health and wellbeing – Generally accepted there are health benefits to work, but the cohort is specialised and attribution potentially complex.
- Reduced interaction with other services, such as justice – It is reasonable to expect that employment acts as a preventative to offending, but we are not aware of appropriate data to base analysis on. Future data linkages such as the National Disability Data Asset (NDDA) may provide insight.

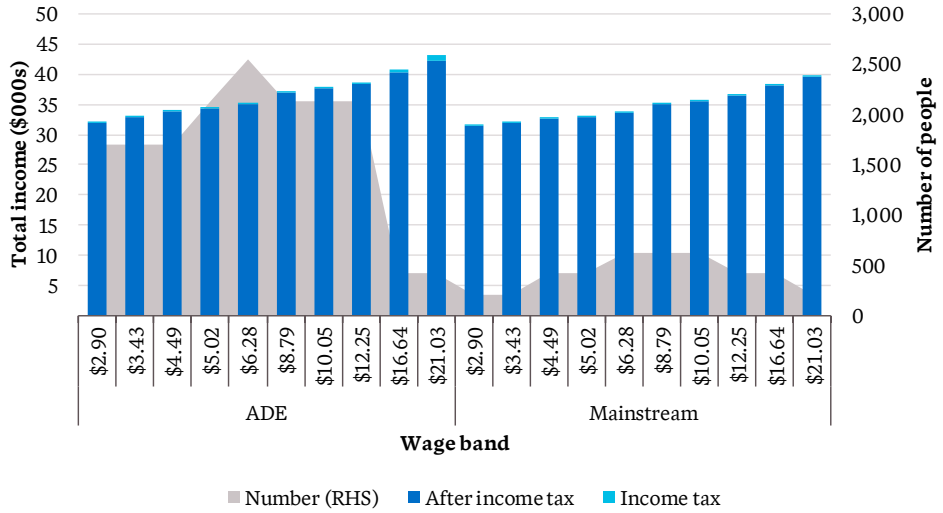
Results – existing policy settings

Most supported employees have (after-tax and welfare benefit) annual income in the range of $34k to $42k

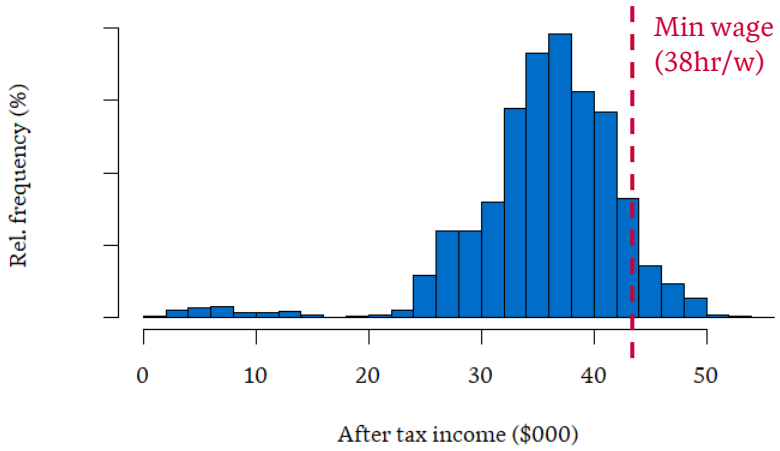
We've calculated the status quo for 2024/25, assuming no change in total employee population

- The average ADE employee receives $35,600 after tax. This is equivalent to a person working 32 hours per week on the minimum wage without benefits.
  - Adding a $5,000 value of the Pension Concession Card, this is very close to the after-tax income of someone working 38 hours per week on the minimum wage.
  - Average for SWS employees in mainstream employment is $34,800 – slightly lower due to fewer average hours worked.
  - Income tax paid is small. For those under 67, tax is not payable (after Low Income Tax Offset adjustment) until employment income is greater than $23,000.
- Results vary with hours worked and wage rate. We estimate 11% of the cohort (including SWS) has an after-tax income above $42,500 in 2024/25 (our estimated income for people on minimum wage earning 38 hours per week and no benefits). This would be larger if other supports (NDIS, housing, pension concession card) were taken into account.
  - Note those at the very top of the distribution will tend to have higher costs (single renters).

Average incomes (including benefits) by wage band

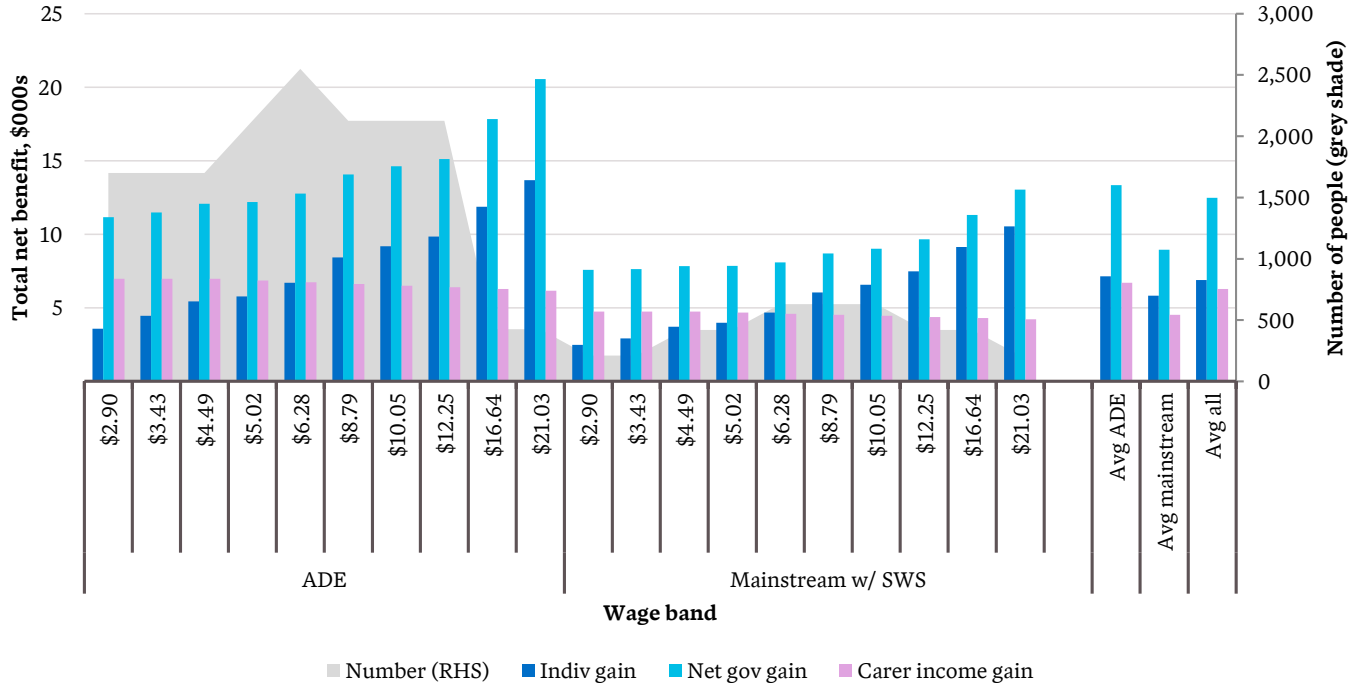


Distribution of income, supported employees, after tax and benefits but before value of other supports (NDIS, concession card)



Results – existing policy settings (2)

Net benefits of supported employment to individuals, government and carers



Existing ADE arrangements generate large benefits to employees, government and others

- On average, supported employment at an ADE delivers $7,100 of additional income to individuals, $13,300 in net savings to government, and $6,700 of additional income to carers.
- For Mainstream employment, the equivalent figures are $5,800 for individuals, $9,000 for government and $4,500 for carers.
- This excludes other benefits such as health and wellbeing benefits, human capital development and more leisure time for some carers.
- Gains tend to be larger for people on higher wages, and those working more hours.

The loss of supported employment jobs would lead to losses across all three groups.

Results – existing policy settings (3)

Aggregate net benefits of the status quo for employees, carers and government

	ADEs		Mainstream	
	Avg per employee ($)	Total ($m)	Avg per employee ($)	Total ($m)
Employee benefits				
Wage income (after tax)	9,400	159	7,200	30
Welfare benefits reduction	-2,200	-38	-1,400	-6
Employee net gains	**7,100**	**121**	**5,800**	**24**
Carer gains (after tax)	**6,700**	**114**	**4,500**	**19**
Government benefits				
Income benefit reduction	2,200	38	1,400	6
Income tax - employee	100	1	0	0
Income tax - carers	900	16	600	3
Net NDIS savings	9,400	161	6,400	27
Additional GST	400	6	300	1
Housing rent (State)	400	6	300	1
Total government benefit	**13,300**	**227**	**9,000**	**38**

Note: Table figures may not add due to rounding

We estimate ADEs currently deliver $120m of benefit to individuals, $113m to carers and $225m to government

While there are concerns with the payment of SES award wages below the minimum wage, the results do show that the loss of supported employment would lead to material losses across all three groups.

Results – existing policy settings (4)

Wage elasticity and scheduled wage increases

- There are large scheduled wage increases for Grade A and Grade B. Current wage escalation tables have a 47% nominal increase for these grades over three years, or 32% real growth after netting off our assumed growth in WPI.
- These changes are large enough to cause employer stress. Using the elasticity estimate from our Disability Royal Commission work[1], we estimate a 10% reduction in workforce (1,700 jobs) by then end of 2026/27, focused on the $3.43 to $10.05 wage levels (where the Grade A/B ratings are most relevant). By 2028/29 it is 2,500 jobs, or 15% of the workforce.
- There is significant uncertainty in forecasting effects – the ADE labour market is relatively unique, and most academic estimates of wage price elasticity are context-specific. Other factors influencing uncertainty:
  - If ADEs have new SWS assessments that lead to lower wage rates than currently paid (and so people are paid the higher old rate under the no disadvantage test), this may create a buffer for some employees where scheduled increases do not need to be passed on in full.
  - The degree to which providers can pass on cost increases more than other employers is uncertain – our estimate implies competitive pressures are significant.
  - There may be ongoing impacts of previous wage rises not built into the projection .

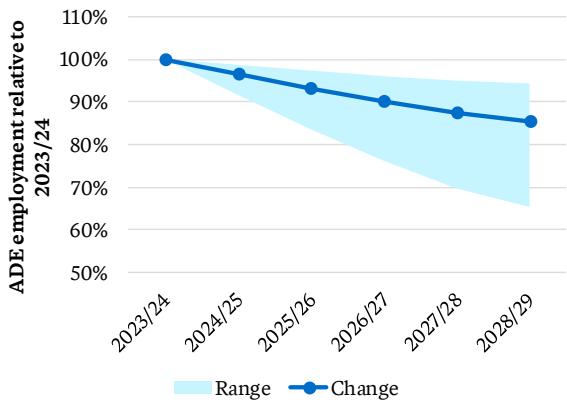
Sources

[1] https://disability.royalcommission.gov.au/system/files/2023-10/Costing%20a%20transition%20away%20from%20subminimum%20wages.pdf

Changes to ADE workforce, assuming further Grade A/B increases and wage price elasticity of -0.5

Wage band	Current size	Change by 2026/27, -0.5 elasticity	Change in employment by 26/27	Change by 2028/29, -0.5 elasticity	Change in employment by 28/29
$2.90	1,700	0	-0.0%	0	-0.0%
$3.43	1,700	-244	-14.4%	-354	-20.8%
$4.49	1,700	-244	-14.4%	-354	-20.8%
$5.02	2,125	-305	-14.4%	-443	-20.8%
$6.28	2,550	-366	-14.4%	-531	-20.8%
$8.79	2,125	-269	-12.6%	-388	-18.2%
$10.05	2,125	-269	-12.6%	-388	-18.2%
$12.25	2,125	-1	-0.0%	-1	-0.0%
$16.64	425	0	-0.0%	0	-0.0%
$21.03	425	0	-0.0%	0	-0.0%
Total	**17,000**	**-1,697**	**-10.0%**	**-2,459**	**-14.5%**

Forecast ADE Employment size over time, using -0.5 elasticity and an uncertainty range (-0.2, -1.2)



Results – existing policy settings (5)

The cost of scheduled wage increases

- We can quantify the expected cost of the wage increases (above WPI) across ADEs related to Grade A/B rises. This represents the amount of support ADEs would require to maintain current levels of viability and employment. We calculate this by computing the difference between expected wage bills and what we expect if all wage bands increase at WPI only.
- The estimate depends on the fraction of the total ADE workforce with wages at (or pegged to) Grade A and B wage rates. While uncertain, we assume wage levels as strongly indicative (that is, we assume not many people on wages below $10.05 are on award levels other than Grade A/B).
- For this exercise we hold the number of ADE supported employees at 17,000. We include additional superannuation and workers compensation payments associated with the above-WPI wage increases too.
- The first table shows estimated impact of wage increases above WPI by wage band for the year 2026/27. The additional cost is centred on wage bands between $2.90 and $10.05, as expected. The total increase in employee costs for ADEs is 17%, or $31.4m.
- The impact grows over time, consistent with the scheduled wage growth. Government support to maintain current viability levels grows from $10.1m in 2024/25 to $48.7m in 2028/29. This is shown in the second table.

Estimated impact on wage bill for ADEs in 2026/27 (year 3), comparing scheduled Grade A/B increases to WPI

Wage band (avg wage)	Number of supported employees	Expected wage bill, schedule	Expected wage bill, WPI only	Diff. %	Diff. $m
$2.90	1,700	$8.1m	$8.1m	0%	$0.0m
$3.43	1,700	$11.8m	$9.4m	26%	$2.4m
$4.49	1,700	$15.2m	$11.9m	27%	$3.2m
$5.02	2,125	$20.9m	$16.3m	28%	$4.5m
$6.28	2,550	$30.6m	$24.0m	28%	$6.7m
$8.79	2,125	$34.1m	$27.3m	25%	$6.8m
$10.05	2,125	$38.3m	$30.6m	25%	$7.7m
$12.25	2,125	$36.6m	$36.6m	0%	$0.0m
$16.64	425	$9.8m	$9.8m	0%	$0.0m
$21.03	425	$12.1m	$12.1m	0%	$0.0m
Total	**17,000**	**$217.4m**	**$186.1m**	**17%**	**$31.4m**

Estimated impact on supported employee wage bill for ADEs over time

	2024/25	2025/26	2026/27	2027/28	2028/29
Expected wage bill, schedule ($m)	183.5	201.0	217.4	233.0	247.1
Expected wage bill, WPI only ($m)	173.4	180.2	186.1	192.1	198.4
Difference ($m)	**10.1**	**20.8**	**31.4**	**40.9**	**48.7**

02

Wage offset policy

Wage offset design

Assumed structure

The core feature is a (government-funded) subsidy that covers the gap between a person's current wage and the minimum award rate, referred to as a wage offset.

For costing the wage offset we assume:

- The offset is ongoing once introduced
- Gradual decline in the number of existing supported employees at ADEs, prior to the introduction of the wage offset – consistent with the previous section (due to the impacts of Grade A & B wage increases)
- There is a need for an estimate for new employees hired under the scheme, using a similar distribution of characteristics to the existing workforce
- Existing exemptions to the 30-hour limit for ADEs / SWS continue to apply under a wage offset model
- No change to current hours worked for existing workforce.

Design considerations

- There is a practical concern of ensuring that employers are still paying wage rates they would have under the existing system. Employers will have an incentive not to increase wages if the difference is met by government.
- A range of variations that could be potentially be explored:
  - A higher abatement rate could 'incorporate' more DSP into the wage offset, albeit creating a high effective marginal tax rate. In some cases, compound marginal rate effects may discourage this. For example, someone earning around 28,000 and in public housing already sees a marginal rate of about 100% [Abatement rate (50%) + Medicare level phase in (10%) + Rental increases (25%) + Income tax (16%)].
  - Limits to the size of the wage offset (e.g. capped to $12 p/h) or number of hours (e.g. at most 15 hours per week). In some cases this would still ensure the vast bulk of people earn higher than $42k per year.
  - Degree to which the wage offset also covers employer costs (superannuation, workers compensation).

Sources
https://www.servicesaustralia.gov.au/working-while-youre-getting-disability-support-pension?context=22276

Example of the impact

As an example, we look at a specific group (in fact the largest): ADE, aged 21-66, 15-29 hours, single, receiving DSP but not Rent Assistance, and in the 5.03 - 7.53 wage band – we estimate about 500 people fit this description.

Existing employees

Existing employees see a significant increase – but largely offset by additional costs to government.

	Before wage offset	With wage offset	Change
Hours	22.5	22.5	
Wage rate (2024/25, p/h)	$7.19	$24.95	+$17.76
Fortnightly wage	$324	$1,123	+$799
Fortnightly benefit	$1,090	$690	-$400
Annual wage offset subsidy	-	$20,800	+$20,800
Annual income (wage + benefit) after tax	$36,800	$45,700	+$8,900
Annual income tax	-	$1,600	+$1,600
Annual income support benefits (DSP & other)	$28,400	$18,000	-$10,400
Change in GST spend	-	$400	+$400
Change in super / WC	-	+$2,800	+$2,800
Change in social housing	-	$400	+$400
Change for individual (after income tax, excl super)		+$8,800	$8,800
Change for government		-$8,100	-$8,000
Change for employer		-$2,800	-$2,800
Change for carers		-	-

Note: Annual figures rounded and may not sum

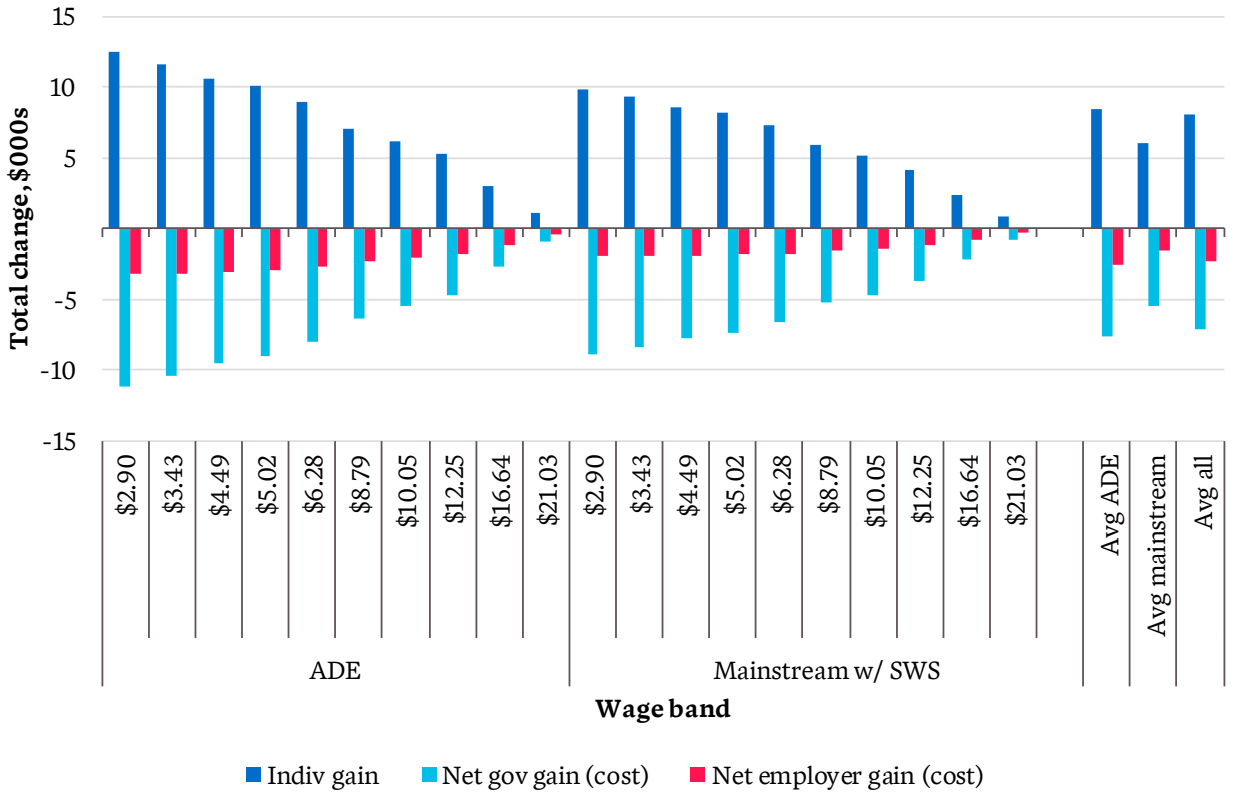
New employees

For newly hired people who fit into this group, the change for government is positive – this is driven by the savings related to lower NDIS costs, with additional significant benefits for carers who take on more employment.

	Before wage offset	With wage offset	Change
Hours	0.0	22.5	
Wage rate	-	$24.95	+$24.95
Fortnightly wage	-	$1,123	+$1,123
Fortnightly benefit	$1,149	$690	-$459
Annual wage offset subsidy	-	$20,800	+$20,800
Annual income after tax	$30,000	$45,700	+$15,700
Annual income tax	-	$1,600	+$1,600
Annual income support benefits (DSP & other)	$30,000	$18,000	-$12,000
Change in GST spend	-	$800	+$800
Change in super / WC	-	$5,800	+$5,800
Change in social housing	-	$800	+$800
Change in NDIS costs	-	$9,500	+$9,500
Annual carer income tax	-	$900	+$900
Annual carer income after tax	-	$6,800	+$6,800
Change for individual (after income tax, excl super)		$15,700	+$15,700
Change for government		$4,700	+$4,700
Change for carers		$6,800	+$6,800

Existing employees – impact by wage band

Net benefits (individual) and costs (government, employers) of wage offset proposal



Note: No impact for carers assumed for existing supported employees

Commentary

- We see very significant benefits to supported employees, Average gains are $8,500 per person employed at an ADE and $6,100 for those in mainstream employment with SWS (fewer average hours).
  Gains are largest for lower-wage groups, as expected – they see the largest boost to wages.

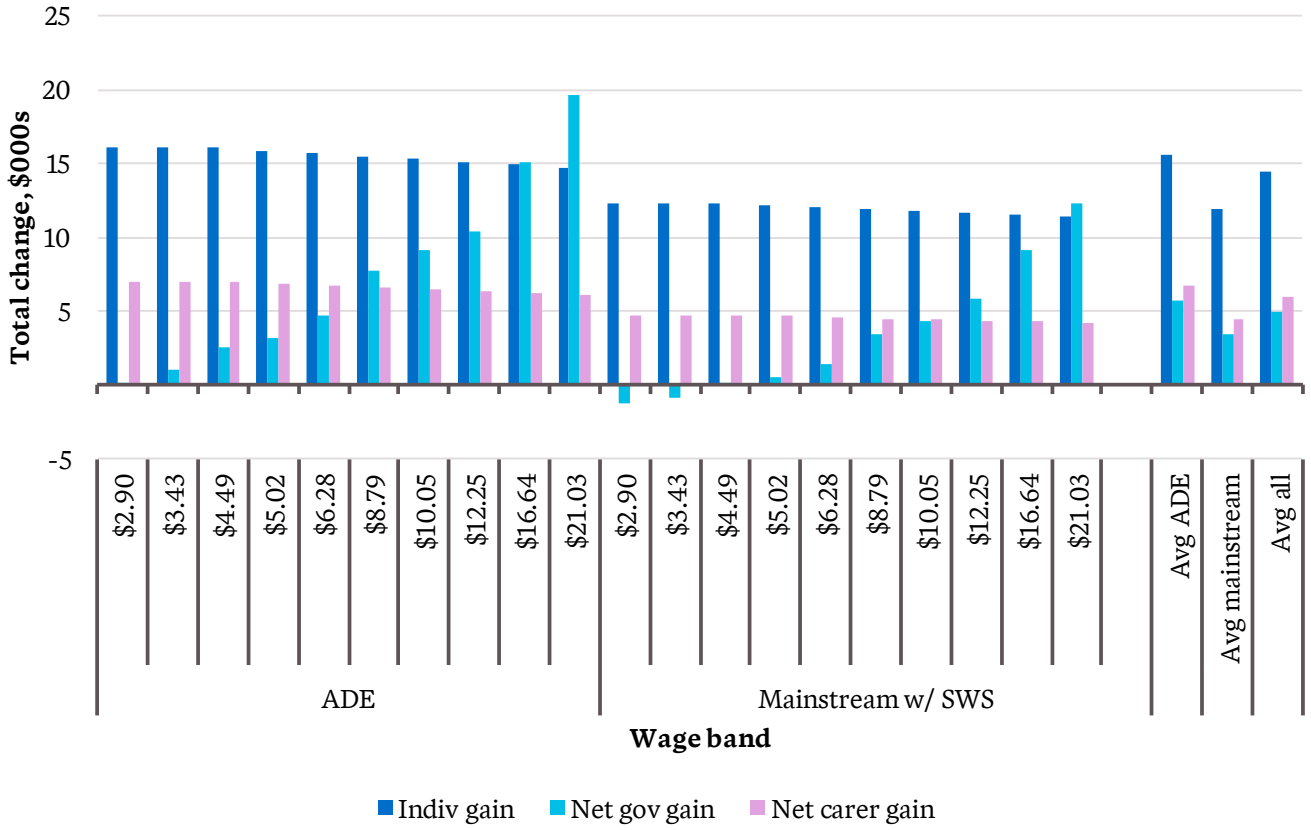
- However, we also see significant costs to government and employers. Average net government costs are $7,600 per person at an ADE, or $5,500 for mainstream employment (with SWS). This is obviously a lot lower than the $19k per person paid; about 60% is recouped through welfare and tax gains. No assumed impact on NDIS costs for existing employees (as they were already working).

- If employment costs are borne by employers then these costs are significant, mainly due to extra superannuation payments, estimated at $2,500 / $1,500 per person (ADE / Mainstream). The changes are highest in absolute terms for people on lower wages currently (and larger hours), and this represents and very large relative increase for these groups too.

- There is no impact on carers (who are assumed to still working similar hours).

New employees – impact by wage band

Net benefits and costs for individuals, government and carers of wage offset proposal, for people newly entering employment



Note: Employer costs are higher, but not shown here – any hiring of new staff would add cost

Commentary

- For new employees, the calculus of costs and benefits are very different, mostly driven by NDIS support cost assumptions.
- Savings to government are largest for higher wage bands where the wage offset is low relative to the NDIS savings.
- Overall savings to government average is $5,800 for ADEs, and $3,500 for mainstream employment with SWS.
- Overall savings to carers average is $6,700 for ADEs, and $4,500 for mainstream employment with SWS.
- Additional individual benefits are large ($15,500 and $11,300 for ADEs and mainstream employment respectively). The size reflects that previously these people were not assumed to be earning employment income.

This pattern of strong improvements across individuals, government and carers **would also apply to additional hours taken on by existing employees**.

Potential size of new employee group

Considerations and approach

The wage offset would provide a strong incentive on the labour supply side – people with disability would have greater financial gains from employment. The supply (employer) side is less clear. ADEs may grow slightly with better ability to find and tailor staffing. Mainstream supported employment may grow strongly, if the offset overcomes existing stigma around current SES award wage rates.

Estimation of the potential size of the impact is very uncertain, but we can infer some features from NDIS population, who dominate the supported wage system.

- The NDIS reports above 20% of participants aged 15+ currently have a paid job[1] and have a target of 30%[2]. Of the 20%, about a third are employed through ADEs.
- The Taylor Fry report to the NDIS Review[3] estimates 24% of people of working age having a job (about 90,000 of 370,000 people). A six-percentage point increase to 30% would represent about 22,000 people. Additionally, the report noted around 30,000 participants without work are currently seeking a job.

It means that **potential** growth in supported employment of about 10,000 people seems reasonable – about a third of 30,000 people.

We emphasise the downsides of unexpectedly large growth in employment under a wage offset model is low; we estimate that the benefits to government outweigh the costs.

Approach

For modelling, we assume an effective wage offset will:

- Prevent the projected decline in ADE employment, so 17,000 is maintained (rather than a 2,500 decline over 5 years)
- Lead to 7,500 additional people in mainstream employment settings
  - We assume this group phases in evenly over 5 years, for financial modelling purposes.

This gives a total impact of 10,000 more people employed, which based on the discussion (left) seems plausible.

Sources

[1] https://data.ndis.gov.au/reports-and-analyses/outcomes-and-goals/participant-families-and-carer-outcomes-reports . Exact percentage hard to estimate due to the way components are split

2 https://www.ndis.gov.au/about-us/strategies/participant-employment-strategy

3 https://www.ndisreview.gov.au/resources/fact-sheet/commissioned-reports

Aggregate financial summary

Existing employee base

	ADEs					Mainstream employment w/ SWS					Total				
	24/25	25/26	26/27	27/28	28/29	24/25	25/26	26/27	27/28	28/29	24/25	25/26	26/27	27/28	28/29
Government															
Number	16,400	15,834	15,303	14,865	14,541	4,200	4,200	4,200	4,200	4,200	20,600	20,034	19,503	19,065	18,741
Subsidy ($m)	320.1	311.5	302.9	297.5	295.8	52.0	53.9	55.7	57.6	59.5	372.1	365.5	358.7	355.1	355.4
Income tax (incl. carer, $m)	-32.6	-35.4	-37.1	-38.8	-40.6	-2.7	-3.2	-3.5	-3.8	-4.0	-35.3	-38.6	-40.6	-42.5	-44.7
GST ($m)	-7.0	-6.6	-6.2	-6.0	-5.8	-1.3	-1.3	-1.3	-1.4	-1.4	-8.3	-7.9	-7.6	-7.4	-7.2
Welfare spend ($m)	-148.0	-144.7	-141.1	-138.9	-138.4	-23.5	-24.6	-25.5	-26.5	-27.5	-171.5	-169.2	-166.6	-165.4	-165.9
Housing ($m)	-9.0	-8.7	-8.4	-8.2	-8.2	-1.4	-1.5	-1.5	-1.6	-1.6	-10.4	-10.1	-9.9	-9.8	-9.8
NDIS spend change ($m)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net spend	**123.7**	**116.1**	**110.0**	**105.6**	**102.8**	**23.0**	**23.4**	**23.9**	**24.4**	**25.0**	**146.7**	**139.6**	**133.9**	**130.0**	**127.8**
Supported employees															
Empl. income (after tax, $m)	287.5	276.1	265.8	258.7	255.2	49.3	50.8	52.3	53.9	55.5	336.8	326.8	318.1	312.5	310.7
Welfare change ($m)	-148.0	-144.7	-141.1	-138.9	-138.4	-23.5	-24.6	-25.5	-26.5	-27.5	-171.5	-169.2	-166.6	-165.4	-165.9
Net change	**139.6**	**131.4**	**124.7**	**119.8**	**116.8**	**25.7**	**26.2**	**26.8**	**27.4**	**28.0**	**165.3**	**157.6**	**151.4**	**147.2**	**144.8**
Carers															
Empl. income (after tax, $m)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Employer															
Extra costs (Super, WC, $m)	41.0	41.9	40.9	40.4	40.3	6.2	6.8	7.1	7.4	7.7	47.2	48.7	48.0	47.7	48.0

Note: Employee numbers allows for the loss of workers associated with Grade A/B wage increases, but does not allow for further losses related to additional employer costs under the wage offset (superannuation)

Aggregate financial summary

New workers

	ADEs					Mainstream employment w/ SWS					Total				
	24/25	25/26	26/27	27/28	28/29	24/25	25/26	26/27	27/28	28/29	24/25	25/26	26/27	27/28	28/29
Government															
Number	500	1,000	1,500	2,000	2,500	1,500	3,000	4,500	6,000	7,500	2,000	4,000	6,000	8,000	10,000
Subsidy ($m)	9.8	19.8	29.8	40.3	51.2	18.6	38.5	59.7	82.3	106.3	28.4	58.3	89.6	122.6	157.5
Income tax (incl. carer, $m)	-1.5	-3.2	-5.2	-7.4	-9.8	-1.9	-4.2	-6.6	-9.3	-12.2	-3.4	-7.4	-11.8	-16.7	-22.0
GST ($m)	-0.4	-0.8	-1.2	-1.7	-2.1	-0.9	-1.8	-2.8	-3.8	-4.9	-1.3	-2.6	-4.0	-5.5	-7.0
Welfare spend ($m)	-5.6	-11.8	-18.4	-25.5	-33.1	-10.4	-21.9	-34.4	-47.8	-62.4	-16.1	-33.7	-52.7	-73.3	-95.6
Housing ($m)	-0.5	-0.9	-1.5	-2.0	-2.6	-0.9	-1.9	-3.0	-4.1	-5.3	-1.4	-2.9	-4.5	-6.1	-7.9
NDIS spend change ($m)	-4.7	-9.8	-15.2	-20.9	-27.0	-9.6	-19.8	-30.8	-42.4	-54.8	-14.3	-29.6	-45.9	-63.3	-81.8
Net spend	**-2.9**	**-6.8**	**-11.6**	**-17.2**	**-23.5**	**-5.2**	**-11.2**	**-17.8**	**-25.2**	**-33.3**	**-8.1**	**-18.0**	**-29.4**	**-42.3**	**-56.7**
Supported employees															
Empl. income (after tax, $m)	13.5	27.7	42.8	58.7	75.4	28.4	58.6	90.6	124.5	160.5	41.8	86.3	133.4	183.2	235.9
Welfare change ($m)	-5.6	-11.8	-18.4	-25.5	-33.1	-10.4	-21.9	-34.4	-47.8	-62.4	-16.1	-33.7	-52.7	-73.3	-95.6
Net change	**7.8**	**16.0**	**24.4**	**33.2**	**42.3**	**17.9**	**36.7**	**56.2**	**76.7**	**98.1**	**25.8**	**52.6**	**80.6**	**109.9**	**140.4**
Carers															
Empl. income (after tax, $m)	1.0	2.3	3.8	5.5	7.5	1.0	2.3	3.8	5.6	7.6	2.0	4.7	7.7	11.1	15.1
Employer															
Extra costs (Super, WC, $m)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Note: Does not model cost to employers, on the assumption additional hires will only be made when it makes business sense

Aggregate financial summary

Combined existing and new workers

	ADEs					Mainstream employment w/ SWS					Total				
	24/25	25/26	26/27	27/28	28/29	24/25	25/26	26/27	27/28	28/29	24/25	25/26	26/27	27/28	28/29
Government															
Number	16,900	16,834	16,803	16,865	17,041	5,700	7,200	8,700	10,200	11,700	22,600	24,034	25,503	27,065	28,741
Subsidy ($m)	329.9	331.3	332.8	337.7	347.0	70.6	92.5	115.5	139.9	165.9	400.5	423.7	448.3	477.6	512.9
Income tax (incl. carer, $m)	-34.0	-38.7	-42.3	-46.2	-50.4	-4.7	-7.4	-10.1	-13.0	-16.2	-38.7	-46.0	-52.4	-59.2	-66.7
GST ($m)	-7.4	-7.4	-7.5	-7.6	-8.0	-2.2	-3.1	-4.2	-5.2	-6.3	-9.6	-10.5	-11.6	-12.9	-14.3
Welfare spend ($m)	-153.6	-156.4	-159.5	-164.3	-171.5	-34.0	-46.5	-59.9	-74.3	-90.0	-187.6	-202.9	-219.4	-238.7	-261.4
Housing ($m)	-9.4	-9.6	-9.9	-10.3	-10.8	-2.4	-3.4	-4.5	-5.7	-6.9	-11.8	-13.0	-14.4	-15.9	-17.7
NDIS spend change ($m)	-4.7	-9.8	-15.2	-20.9	-27.0	-9.6	-19.8	-30.8	-42.4	-54.8	-14.3	-29.6	-45.9	-63.3	-81.8
Net spend	**120.8**	**109.4**	**98.5**	**88.4**	**79.3**	**17.8**	**12.2**	**6.1**	**-0.7**	**-8.3**	**138.6**	**121.6**	**104.6**	**87.7**	**71.0**
Supported employees															
Empl. income (after tax, $m)	301.0	303.8	308.6	317.3	330.6	77.6	109.3	142.9	178.4	216.0	378.6	413.1	451.4	495.7	546.6
Welfare change ($m)	-153.6	-156.4	-159.5	-164.3	-171.5	-34.0	-46.5	-59.9	-74.3	-90.0	-187.6	-202.9	-219.4	-238.7	-261.4
Net change	**147.4**	**147.4**	**149.1**	**153.0**	**159.1**	**43.7**	**62.9**	**83.0**	**104.0**	**126.1**	**191.1**	**210.2**	**232.1**	**257.0**	**285.2**
Carers															
Empl. income (after tax, $m)	1.0	2.3	3.8	5.5	7.5	1.0	2.3	3.8	5.6	7.6	2.0	4.7	7.7	11.1	15.1
Employer															
Extra costs (Existing empl., $m)	41.0	41.9	40.9	40.4	40.3	6.2	6.8	7.1	7.4	7.7	47.2	48.7	48.0	47.7	48.0

Note: Cost to employees only consider the increase related to baseline employee numbers, and not any new workers.

Financial viability and employment

Net impact on supported employee jobs if employers bear costs of additional employment costs (superannuation, WC) in addition to Grade A/B wage increases

Employer	Item	Start	24/25	25/26	26/27	27/28	28/29
ADEs	Baseline	17,000	16,400	15,834	15,303	14,865	14,541
	With additional employer costs		15,209	13,536	13,083	12,711	12,435
	Change from start (2023/24 numbers)		-1,791	-3,464	-3,917	-4,289	-4,565
			-11%	-20%	-23%	-25%	-27%
Mainstream	Baseline	4,200	4,200	4,200	4,200	4,200	4,200
	With additional employer costs		3,788	3,788	3,788	3,788	3,788
	Change from start (2023/24 numbers)		-412	-412	-412	-412	-412
			-10%	-10%	-10%	-10%	-10%

Commentary

We can estimate (with significant uncertainty) the impact on jobs related to additional labour costs (superannuation) in the **absence of government support** for these employment costs.

- Baseline projections reflect viability issues explored in Section 1 with existing scheduled increases to Grade A/B wages.
- Additional reductions due to employer costs assume an elasticity of demand for labour of -0.5.
- In total over a quarter of the ADE supported workforce would lose employment through the combined effect of wage and superannuation cost increases. Impacts are less significant in mainstream contexts. Reductions are largest for the lowest age bands (and higher hours), which see the largest relative increase in employer costs.
- Further details towards the end of section 3.

Feasibility of a temporary subsidy

One question is the feasibility of making the wage offset temporary, so that employers can build up to the minimum wage. This question was studied in the Royal Commission work[1], albeit with slightly different parameters and wage bands.

The projected impacts were severe, which is why we have not pursued them in greater detail. Under our intermediate elasticity scenario, three quarters (76%) of jobs are lost, heavily skewed towards those on lower wages.

Previous estimates of % job losses after phasing out of a wage subsidy, under different elasticity assumptions

Wage band	E = -0.2	E=-0.5	E=-1.2
≤ $3.59	100%	100%	100%
$3.60-7.00	52%	100%	100%
$7.01-10	28%	69%	100%
$10.01-20	14%	34%	81%
Total	**45%**	**76%**	**95%**

Sources

[1] https://disability.royalcommission.gov.au/publications/costing-subminimum-wage-subsidy

Wage offset modelling – key results

All existing workers who retain employment are better off

The wage offset represents additional income, no situations identified in segments where perverse outcomes arise.

- We have not recognised the **additional** benefit of higher superannuation payments, but this will have later quality of life benefits at retirement too.
- Largest gains for people not currently employed, and those on lower wages, as expected.

Overall costs to government for existing employees are substantial

Cost to government roughly balances the net benefits to the individual. Cost to government for existing supported workforce is $123m, plus another $41m borne by employers.

- It is not reasonable to recognise NDIS cost savings, since people are already employed, so no additional saving.
- However, it is reasonable to say that **relative to not working**, there is a saving to government even with the wage offset.

The wage offset is cost-effective for new employees

NDIS Support cost savings are large enough that new supported employment placements are a net benefit to government.

- Benefit is larger as wage rate gets close to minimum wage (since wage offset costs are lower).
- Design issues remain on setting wages fairly between employer and wage offset.

Without government support on employer costs, there are significant employer viability concerns

Large increases to Superannuation and Workers' Compensation costs will add to employer viability concerns without support.

- We look at potential impacts related to higher super and WC costs in the next section. Under assumed elasticity scenario, about 27% of the ADE workforce would be lost due to combined impact of higher employer costs and scheduled wage increases, concentrated on lower-wage groups.

03

Social Wage policy change

Social wage policy design

Assumed structure

The key observation is that many DSP recipients on supported wages are on overall incomes that are comparable to that of people on the minimum wage when viewed as an overall package.

The proposal combines deeming of benefits as income combined with a work bonus:

- Part of the DSP (or other benefit) is deemed as wage income, to cover the gap between current and minimum award wages. This deemed income would **not** be counted as part of a person's welfare income test, or their income tax assessment.
- Employers would also pay for any shortfall ('top-up') between the minimum award rate and the implied level wage + income support after deeming. These employment costs could be met by either employers or government. Implications of employers covering this cost are explored on p45.
- Higher superannuation (and workers' compensation) costs would be incurred to reflect the deemed rate of pay. As with top-ups, these employment costs could be met by either employers or government.
- An additional $150 fortnightly can be earned before benefit abatement. This is increasing income test for DSP recipients, and is half of the current $300 Work Bonus for Age Pensioners.

We have included Rent Assistance in the deeming process, although it would be possible to exclude. We also assume that for couples, the partner's benefit is not eligible for deeming.

Design considerations

- **Although we refer to 'employer costs' throughout (for top-ups and superannuation), these are ultimately costs that could be met by employers or government, or some combination of the two.**
- Compared to wage subsidies, there is no automatic improvement in take-home wages associated with the social wage. In particular, additional income per hour worked remains at existing levels.
- The changes have differential impacts on incentives depending on whether a top-up is applied:
  - For people who do not reach the minimum wage threshold, their marginal rate of income associated with wage increases is zero, since extra earnings are offset by reduced top-up.
  - For others, marginal rates associated with benefit abatement remain unchanged.
- As specified, there are no extra obligations on government, but significant costs to employers (top-up wages and additional superannuation). In reality, some sharing of the impact would likely be needed.
- As with wage subsidies, many design parameters exist. One natural option is to cap the number of hours per week that can be topped-up. Or change the level of the Work Bonus.

Results (1)

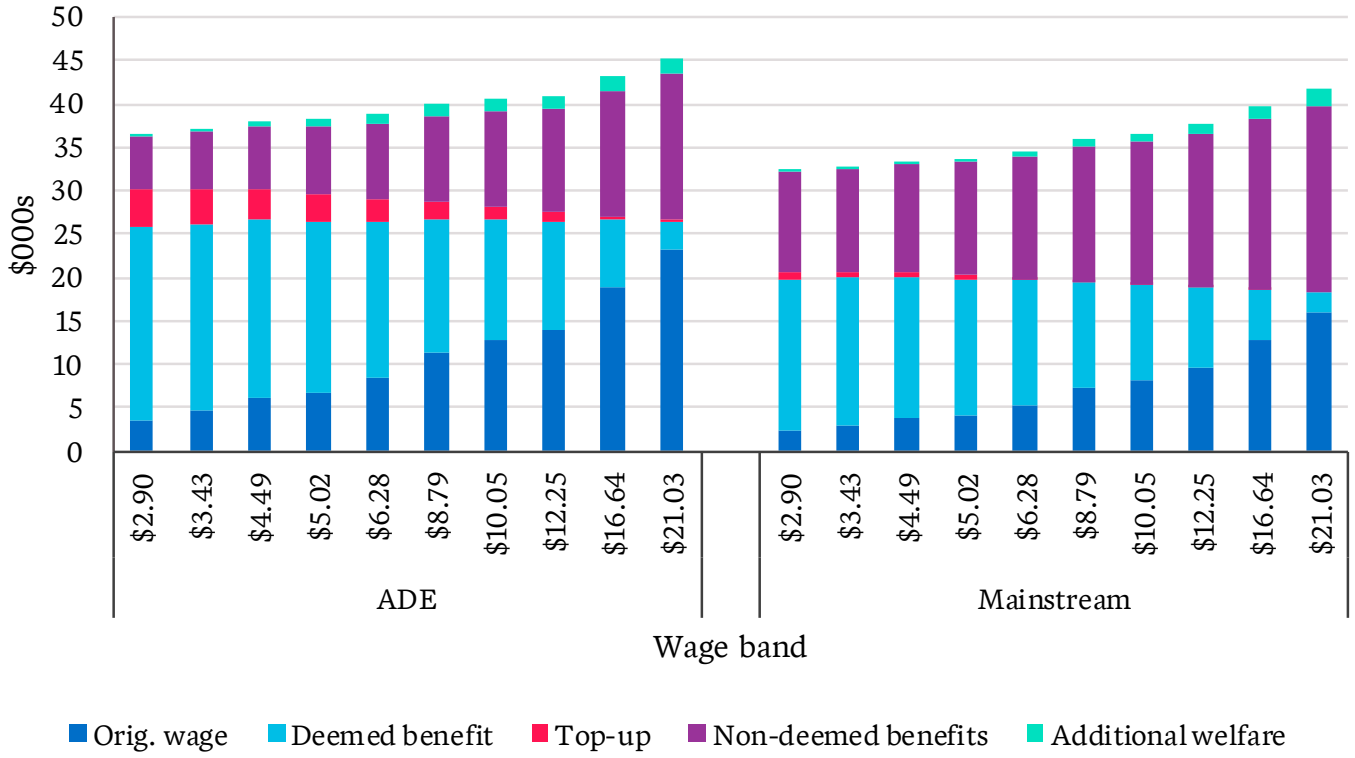
Top up and increased employment costs

- A reasonable fraction of the population would require an employer top-up – just under a third of people in ADEs. Typically, these are people on lower wages and higher hours and lower benefit rates (U21 or couple rate).
- Overall estimate of a fortnightly increase per person of $188 for employers, with about half relating to top-up payments and the other half additional superannuation and WC costs.
- Increased cost to employer is highest for low-wage groups (particularly those with higher hours). The $2.90 wage group sees a 166% increase in cost.
- Significantly lower rates of top-up expected for the mainstream cohort – due to lower assumed hours worked.

Employer	Wage band avg	Number	Employer Fortnightly cost increase (before top-up)	Employer pp cost increase - excluding top-up	Top up rate	Employ Fortnightly cost increase (including top-up)	Employer pp cost increase, including top-up
ADE	$2.90	1,700	$122	+71%	39%	$285	+166%
	$3.43	1,700	$121	+56%	39%	$270	+125%
	$4.49	1,700	$117	+42%	39%	$250	+91%
	$5.02	2,125	$113	+37%	38%	$234	+78%
	$6.28	2,550	$103	+28%	37%	$202	+55%
	$8.79	2,125	$87	+17%	23%	$155	+31%
	$10.05	2,125	$78	+14%	22%	$132	+24%
	$12.25	2,125	$69	+11%	21%	$111	+18%
	$16.64	425	$43	+5%	9%	$62	+8%
	$21.03	425	$17	+2%	7%	$23	+2%
Mainstream	$2.90	210	$74	+58%	13%	$88	+77%
	$3.43	210	$73	+51%	13%	$86	+65%
	$4.49	420	$72	+40%	13%	$81	+49%
	$5.02	420	$70	+36%	12%	$78	+43%
	$6.28	630	$66	+28%	11%	$71	+32%
	$8.79	630	$58	+18%	2%	$60	+19%
	$10.05	630	$54	+15%	1%	$54	+16%
	$12.25	420	$46	+11%	1%	$45	+11%
	$16.64	420	$29	+5%	0%	$27	+5%
	$21.03	210	$12	+2%	0	$11	+2%
ADE	**$7.48**	**17,000**	**$96**	**+31%**	**31%**	**$192**	**+65%**
Mainstream	**$8.98**	**4,200**	**$56**	**+24%**	**6%**	**$60**	**+28%**
All	**$7.78**	**21,200**	**$88**	**+30%**	**26%**	**$166**	**+58%**

Results (2)

Average wage and benefits (before income tax) with social wage arrangements, by wage band



Average receipts and impact of top-ups

- Top-ups have the impact of leveling up lower wage groups, particularly affecting those with higher hours. These are visible as the red portions in the chart.
- The chart shows the average amount of welfare benefit that is deemed (light blue) and residual (purple). It shows that on average, the fraction of non-deemed benefits still substantial.
- The top-up represents a lower-cost way of ensuring a minimum wage for supported employees, particularly compared to a full wage offset.
- The additional welfare benefit arising from the altered income test (Work Bonus) is relatively mild, ranging from $50 per year benefit for low wage groups up to $1,850 per year at the higher end. This also makes it relatively inexpensive for government.

Examples

The examples show the range of outcomes under the social wage approach. In the first example left, the overall increase in employment costs is $141 per fortnight, of which $25 relates to a top-up since the couples' rate of DSP fall short of the target wage. The remainder is the increase in superannuation costs.

Note employment costs might be met by employers or government.

Impact on fortnightly payments under social wage arrangements

Example	Age 21+, 22.5 hr/pw, $5.14 wage rate Couples rate, no CRA	Age 21+, 11.5 hr/pw, $3.93 wage rate Singles DSP rate, no CRA	Age <21, 35 hr/pw, $5.75 wage rate Singles DSP rate, no CRA	Age 21+, 22.5 hr/pw, $7.19 wage rate Singles DSP rate, no CRA
Original wage (incl 2024/25 inflation)	$231	$90	$402	$324
Original benefit	$841	$1,149	$765	$1,090
Original employer additional costs (Super + WC)	$34	$32	$54	$43
Target wage (incl. 2024/25 inflation)	$1,097	$1,240	$1,686	$1,413
Top-up required (Target minus original benefit, if >0)	$25	-	$519	-
Undeemed benefits	-	-	-	-
Extra welfare benefits due to income test threshold	$26	-	$60	$60
New Employer additional costs (Super + WC)	$150	$77	$234	$150
Total increase in employment costs (top-up and super/WC)	**$141**	**$45**	**$699**	**$107**
Total increase for employee (top-up plus extra welfare)	**$51**	**-**	**$579**	**$60**
Comment	*Top-ups often needed for low wage rates and couples DSP rate*	*Top-ups rarely needed for lower hours per week*	*Top-ups more common for lower benefit rate under 21. Top-ups can be larger if a large number of hours*	*Top-ups less common at higher wage rates*

Potential impacts of higher employment costs

Employer	Wage band avg	Cohort size	Without top-up				With top-up			
			Employ-ment cost change	Price impact on cohort			Employ-ment cost change	Price impact on cohort		
				E = -0.2	E = -0.5	E=-1.2		E = -0.2	E = -0.5	E=-1.2
ADE	$2.90	2,125	+71%	-13%	-33%	-80%	+166%	-27%	-54%	-82%
	$3.43	2,125	+56%	-10%	-26%	-63%	+125%	-21%	-45%	-74%
	$4.49	1,700	+42%	-8%	-20%	-48%	+91%	-15%	-35%	-64%
	$5.02	1,700	+37%	-7%	-18%	-42%	+78%	-13%	-31%	-59%
	$6.28	2,550	+28%	-5%	-13%	-32%	+55%	-9%	-23%	-47%
	$8.79	1,700	+17%	-3%	-8%	-20%	+31%	-5%	-14%	-30%
	$10.05	1,700	+14%	-3%	-7%	-16%	+24%	-4%	-11%	-24%
	$12.25	2,550	+11%	-2%	-6%	-13%	+18%	-3%	-8%	-19%
	$16.64	425	+5%	-1%	-3%	-6%	+8%	-1%	-4%	-9%
	$21.03	425	+2%	-0%	-1%	-2%	+2%	-0%	-1%	-3%
Mainstream	$2.90	210	+58%	-10%	-26%	-63%	+77%	-13%	-32%	-64%
	$3.43	210	+51%	-9%	-23%	-55%	+65%	-11%	-27%	-58%
	$4.49	420	+40%	-7%	-18%	-44%	+49%	-8%	-21%	-48%
	$5.02	420	+36%	-7%	-16%	-39%	+43%	-7%	-18%	-43%
	$6.28	630	+28%	-5%	-13%	-31%	+32%	-6%	-14%	-33%
	$8.79	630	+18%	-3%	-9%	-21%	+19%	-4%	-9%	-21%
	$10.05	630	+15%	-3%	-7%	-17%	+16%	-3%	-7%	-18%
	$12.25	420	+11%	-2%	-5%	-13%	+11%	-2%	-5%	-13%
	$16.64	420	+5%	-1%	-3%	-6%	+5%	-1%	-3%	-6%
	$21.03	210	+2%	-0%	-1%	-2%	+2%	-0%	-1%	-2%
ADE		17,000	31%	-6%	-15%	-36%	65%	-11%	-25%	-46%
Open w/ SWS		4,200	24%	-4%	-11%	-26%	28%	-5%	-12%	-28%
Total		21,200	30%	-6%	-14%	-34%	58%	-10%	-22%	-42%

- The changes in employment costs are material. **If employers are asked to meet these costs without support**, there will be employment viability concerns. Estimating the impact on employment is uncertain, but we can again use elasticity estimates to calculation potential impacts.
- Using elasticity of -0.5 (i.e. a 1% increase in cost decreases employment by 0.5%), we see that the +65% increase in employer costs for ADEs translates into a 25% reduction in employment – about 4,200 positions. Without top-up the impact is 15%.
- Impacts are more severe at lower wage bands.
- High/low estimates for elasticity are also shown. Using an elasticity assumption of -1.2, the results suggest the $2.90 wage band becomes completely unviable.
- Results are shown for with and without top-up. In the case of without top-up, these apply equally to the wage offset example in the previous section.

Total cost over time

- Total extra cost to ADEs related to employment costs are estimated at $81.2m for 2024/25, and decreasing slowly thereafter.
  - About half the increase relates to top-up wages, and the remainder relates to superannuation and workers' compensation costs.
  - Given the large potential impact on employers, this may represent an upper bound of support needed to ensure ongoing viability.
- Impact on individuals (top-up plus changed income test) and government welfare spend (income test) are also shown in the table.

Annual employment costs with social wage arrangements (assuming static ADE/Open population)

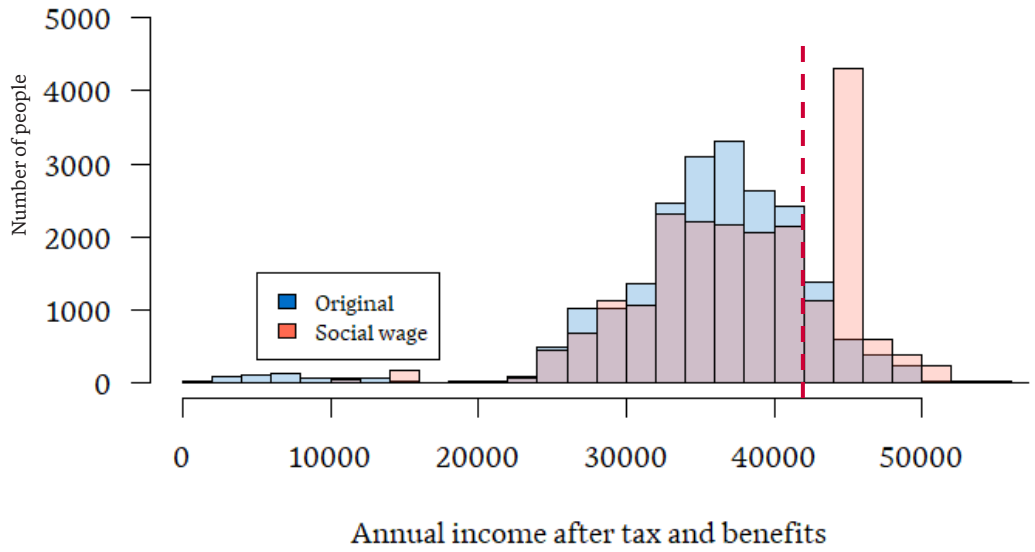
		2024/25	2025/26	2026/27	2027/28	2028/29
ADE	*Super. + WC*	*41.0*	*41.9*	*40.9*	*40.4*	*40.3*
	Top up wages ($m)	*40.8*	*38.6*	*36.6*	*35.1*	*34.3*
	Total employment costs ($m)	81.8	80.5	77.5	75.4	74.6
	Extra employee income (after tax & benefits, $m)	57.3	56.3	55.0	54.2	53.7
	Welfare income support increase ($m)	16.5	17.6	18.4	19.1	19.4
Mainstream	*Super. + WC*	*6.2*	*6.8*	*7.1*	*7.4*	*7.7*
	Top up wages ($m)	*0.8*	*0.8*	*0.8*	*0.9*	*0.9*
	Total employment costs ($m)	7.0	7.6	7.9	8.3	8.6
	Extra employee income (after tax & benefits, $m)	3.9	4.0	4.2	4.4	4.6
	Welfare income support increase ($m)	3.0	3.2	3.4	3.5	3.7
Total	*Super. + WC*	*47.2*	*48.7*	*48.0*	*47.7*	*48.0*
	Top up wages ($m)	*41.6*	*39.5*	*37.4*	*35.9*	*35.2*
	Total employment costs ($m)	88.8	88.2	85.4	83.7	83.2
	Extra employee income (after tax & benefits, $m)	61.2	60.3	59.3	58.6	58.3
	Welfare income support increase ($m)	19.6	20.8	21.8	22.7	23.1

The three shaded rows correspond to impact for employers, individuals and government respectively, on the assumption that employers pay additional employment costs. However, we would expect this shared with government in reality

Distributional impacts

- A significant upward shift in the income distribution is visible, with many people pushing above $40,000 after tax and benefits.
- The proportion receiving above the $42,500 level goes from 11% to 28% under the policy. Top-ups perhaps make the largest difference, with a material contribution from the change to the income test.
- Plenty of people do not go above minimum wage level – primarily due to the relatively small number of hours worked.

Change in distribution of after-tax and benefit income for supported employees under social wage model



Social wage proposal – key results

All existing workers who retain employment are better off

Small amount of increased wages for about a third of ADE cohort (receiving a top-up), plus moderate gains that scale with wage rate and hours from revised income test.

Individuals also benefit from higher superannuation balances (eventually).

Overall costs to government and employers is less than a full wage offset

Total cost for social wage policy across government & employers in 2024/25 for existing ADE cohort estimated at $107m. This compares to $163m for the wage offset approach.

Reflects a more targeted approach to augmenting wages.

The social wage policy is cost-effective for new employees

The per-person gains to government would be higher than those estimated under the wage offset model, since government support is lower.

However, it is likely to generate limited jobs growth.

As with the wage offset, there are material employer viability concerns without government help

While very uncertain, a 25% reduction of the ADE workforce is plausible if employers had to shoulder the full cost.

This is higher than the 15% implied under the wage offset (equivalent to the no top-up scenario).

04

Net economic benefit estimation

Review of the existing Net Economic Benefit Tool

The BuyAbility Impact tool is a cost-benefit analysis (CBA) calculation that quantifies benefits associated with Supported Employment and carries the ability to convert it to a return on investment. This is related, but not exactly the same, to the financial modelling of previous sections.

The existing formula for net economic benefits is:

NEB = (NDIS savings) + (DSP reductions) + (Carer in work)
+ (Sales – (capital costs + other operating costs - Government funding))
- (Government funding)

Using the example right, this works out as 1+2+1+(10 – (1+4-2))-2 = $9m. The benefits are then compared to government funding ($2m) to obtain a ratio (9÷2)

We think there are a couple of changes needed:

- DSP Reductions are ultimately a transfer and should only be recognised if we count the **net** increase in supported wages. The separation is helpful in attributing benefit to government and individuals. Including DSP reductions and gross supported wages would double count.
- The capital costs adds some complexity to the formula. While a reasonable approach, it may also be reasonable to adopt capital costs/depreciation as they appear in an organisation's income statement.

Our modified formula, with some rearrangement, is (and also unpacked on next slide):

NEB = (NDIS savings) + (Carer in work) + (Supported employee wages - DSP reductions) + (DSP reductions) + (Sales – all costs[= capital+supp wages+other])

For the example, this becomes 1+1+ (3-2)+2 + (10-8) = $7m, with a corresponding ratio of (7÷2).

Toy example for an ADE to calculate net economic benefits

Item	$m
ADE figures	
Sales revenue	10
Capital costs	1
Supported employee wages	3
Other operating costs	4
Government funding to ADE	2
Outside impacts	
NDIS savings	1
DSP reductions	2
More carers in work	1

Revised formula schematic

- Government benefits & costs
- Organisation benefits
- Individual benefits

BENEFITS	ADE net economic contribution	ADE (or site) Revenue minus costs	Revenue should be production revenue, as it current is used. Costs should include depreciation and amortisation of capital – as it would typically appear on an income statement.
+	Welfare savings	Reduction in DSP and related benefit receipts	Calculated based on employee characteristics and existing rules around abatement.
+	NDIS Benefits	Savings related to reduced support hours, less ADE supervision & support costs	Assume that 67% of worked hours would otherwise require NDIS day supports, as per earlier assumptions. Saving is the $35 per hour under an assumed 1:2 ratio of care. Actual support costs are recognised under ADE costs.
+	Increased income tax collection	For both supported employees and carers	Applying tax tables for supported employees, and a simplified 12% assumption for carers.
+	Supported employee net income	Net increase in income for supported employees	Calculated as total wages less the reduction in DSP (item above). Recognises that the benefit to the individual is the increase in income, not the full wage amount.
+	Additional employee superannuation	Amount received in year	Although a non-immediate benefit, it is funds that should provide for a more comfortable retirement. One issue is that higher mortality for employees with disability may reduce the effective value to those that do not reach retirement age.
+	Informal carer increased income	Increased net income for carers working more hours	For the fraction of supported employees where carers pick up hours of work, does not recognise leisure time for carers who do not pick up extra work.
COST	VS	Government funding	Total government funding now mediated through NDIS supports	Sum of supports in employment in individual plans of supported employees at ADEs.

Other considerations for the formula

Potential additions to economic benefits

- **Other benefits calculated in previous sections.** Earlier sections include Housing and GST benefits. Given these are smaller and less certain, they can be reasonably omitted from the NEB calculation
- **The deadweight loss of taxation**. Some cost-benefit work recognises the 'deadweight' associated with government spending. Specifically, the collection of taxes related to welfare spending leads to an economic 'cost' that could also be incorporated into benefits as welfare spending drops. We have not included this for simplicity.
- **Recognition of carers benefit savings.** This is an attribution issue (some carer income could be split out as government welfare savings), rather than an additional benefit. We have not estimated, consistent with other sections.
- **Recognition of the value of leisure time**. Some cost-benefit work would recognise value in leisure time:
  - Employment benefits for carers and supported employees would be lower, since they lose leisure time
  - Benefits for carers not working more would be higher.

  We have not recognised leisure time benefits, in part for convenience. For supported employees, we would also argue that enjoyment in employment is similar (or greater) compared to not working, so a low value for leisure time is appropriate.
- **Superannuation benefits.** We have not recognised these in the calculation, given their non-immediacy, but they improve future living standards in retirement.

Other presentations of the formula

We note our presentation splits the components by beneficiary, which feels natural. But it would be possible to simplify. For instance, welfare savings plus net income increases for supported employees, plus income tax paid by supported employees equals gross wages, and we could present with fewer line items. We have taken the view the allocation is helpful and consistent with other parts of the modelling work we've presented.

Updating the formula

In most cases, updating the formula for specific components needs to be completed in a straightforward way and consistent with the earlier assumption work.

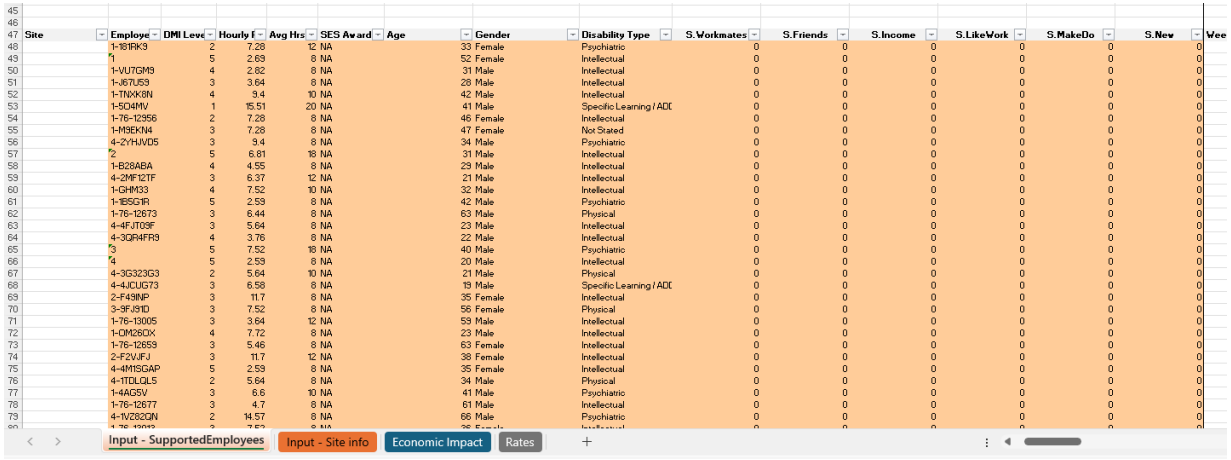
We have added a financial year input that will scale up values according expected growth in wages and benefits over time.

The NEB calculator spreadsheet

Maintained existing structure

The structure of the calculator spreadsheet has been maintained. There are:

- Two data input tabs: ***Input - Supported Employees*** and ***Input - Site Info***. Key data input cells for organisations are highlighted in orange.
  - Organisations are expected to continue to input individual employee level data in ***Input - Supported Employees***.
  - Aggregate level data for the organisations such as total revenue, operation costs and depreciation on capital expenditure is captured in ***Input – Site Info***.
- **Economic Impact** tab contains the economic benefit calculator. The economic return is split between the various components, as per the revised formula schematic



Economic Impact		
Production Revenue	$167,498,372	
Capital Costs	$14,043,816	
Operating Costs	$201,313,145	
Disability Support pension savings	$4,826,268	*Welfare savings*
Non-vocational day support savings	$98,502,241	*NDIS benefits*
Increased tax collection (supported employees)	$56,413	*Increased income tax collection*
Increased tax collection (carers)	$3,308,516	*Increased income tax collection*
Supported Employee Wages (net increase to their wages)	$20,983,696	*Supported employee benefits*
Supported Employee Wages (super)	$3,802,439	*Supported employee benefits*
Increased participation of informal carers	$24,262,450	*Carer benefits*
Direct economic benefit to society	**$107,883,434**	
Government Funding	$75,174,781	
Economic Return on Investment (per $1 of funding received)	1.44	
Economic Benefit Accruing to...		
Organisation	-$47,858,589	
Government	$106,693,438	
Employee	$24,786,135	
Carer	$24,262,450	

- ***Rates*** tab contains the key underlying assumptions, such as on tax rates, superannuation, DSP rates, income thresholds, NDIS day support costs and informal carers.
  - We have set these assumptions for the 2024/25 financial year and have aligned them with the analysis conducted for Phases 1-3.
  - We expect that the DSP rates, superannuation, tax and hourly wage related assumptions are updated every financial year.

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