Taylor Fry Project: Modelling of the supported employment population May 2024

Endeavour Foundation and National Disability Services jointly commissioned Taylor Fry to conduct economic modelling of the supported employment population.

The modelling project examined four elements:

- **Modelling the current supported employment workforce** – assumptions and approach.
- **A wage offset policy** – subsidising the gap between current and minimum award wages for employees with disability in open and supported employment.
- **A "social wage" policy** – welfare benefit income is "deemed" part of an employee with disability's wage income.
- **A net economic benefit estimation** – a calculation of the net economic benefits delivered by supported employment (an update of the economic benefit formula used in the BuyAbility economic and social impact tool).

Summary of the project's most important findings:

The starting workforce population includes 17,000 supported employees and 4,200 employees with disability paid under the SWS in open employment (21,200 in total).

Overall employee incomes (wages, pensions and other benefits) are approaching minimum wage, albeit with variability arising from wage levels and hours worked.

The average supported employee receives $35,500 after tax and including benefits, corresponding to about 32 hours per week at the minimum wage.

Existing policy settings may lead to a reduction in the supported employee workforce.

Wage rates for Grades A and B in the SES award will increase 47 per cent over the next three years. Over five years, wage increases could cost employers $48.7 million.

Over five years, this could result in a 10 per cent to 30 per cent reduction in the supported employee workforce, mainly employees currently in the $3.00 to $10.05 hourly wage levels. The workforce reduction varies from 17,000 to 15,300 (best case) or 11,900 (worst case).

Currently, supported employment delivers considerable value to employees, government and families/ carers, including $7,000pa per individual ($119 million aggregate), $6,600pa for carers ($112.2 million aggregate) and $13,200pa to government ($224.4 million aggregate)

The equivalent values for open employment are $5,400pa for individuals, $4,300pa for carers and $8,400pa to government (population, 4,200).

These figures exclude other benefits, e.g. health and wellbeing benefits, human capital development and more leisure time for some carers.

Government gains include reduced welfare benefit payments, increased income tax and GST and reduced NDIS and housing costs.

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

Costing the wage offset option

Headline results:

- All existing employees who retain their jobs are better off.

- Overall costs for government for existing employees are substantial.
- The wage offset is cost effective for new employees with disability.
- Without government support for additional employer costs, there are significant adverse implications for employees and employer viability concerns.

A wage offset that brings supported employees to the minimum award wage through government subsidy delivers significant benefits to employees. The cost to government is material, but 60 per cent would be recovered from the existing workforce through lower welfare spend and higher tax take.

Cost to government: $19,000 pa per employee ($323m aggregate), with 60 per cent recovered, i.e. $11,400 pa per employee ($193.8m aggregate).

Average gain per employee is $8,500pa and net government cost of $7,600pa per employee ($129.2m aggregate).

This model is estimated to lead to an additional 2,500 employees accessing supported employment (offsetting predicted declines) and 7,500 in open employment. These increases would also result in additional NDIS and carer benefits and collective gains for individuals, government and carers.

However, supported employment services' viability concerns would be heightened.

Supported employment services would incur extra superannuation and workers compensation costs totaling $41m pa. These are substantial increases, particularly for those on very low wages (up to a 70 per cent increase in employee costs). The workforce would contract by up to 27 per cent when wage increases are included.

A government subsidy or superannuation exemptions would reduce these cost impacts on employers.

The social wage policy option

Headline results:

- All existing employees who retain their jobs are better off.
- Overall costs to government and employers are less than a full wage offset.
- The deeming approach is cost effective for new employees with disability.
- There are significant employer viability concerns without government support.

The social wage model recognises that if welfare benefits are included, many supported employees receive close to the minimum award wage. In the social wage model, the following assumptions are made:

- Welfare benefits are deemed as the gap between current wages and the minimum award wage. The deemed component would not be counted in the pension income test or as taxable income.
- The income test threshold is raised by $75 per week (half the current age pensioner work bonus) to $177 per week.
- If welfare is not sufficient to cover the gap, employers 'top up' the remainder to ensure the minimum award rate is reached (estimated at between $41m pa to $34m pa decreasing over five years).
- If employers also cover higher superannuation and workers compensation obligations the estimated cost is around $41m pa constant over five years.
- There is no cost to government, but some benefits such as higher income tax.

Income for individuals is slightly higher, related to top-ups and increased welfare payments. About a third of supported employees would receive a top-up under the social wage approach.

Increases in employer costs are large, especially for employees on lower wages. The social wage model would lead to an initial additional annual cost of $82m to employers for top-up wages, superannuation and workers compensation, decreasing to $75m pa over five years.

These increases are likely to cause viability issues for employers without government support. A 25 per cent reduction in the supported employment workforce is estimated without support for the increases, concentrated on employees in the lowest wage bands.

A government subsidy or superannuation exemptions is needed to reduce these cost impacts on employers

The social wage approach still delivers net gains across government and individuals. However, growth in new employment could be limited, as the changes to incentives to work are smaller.

Conclusion

Required government assistance is far less than the current benefits of supported employment to government.
If all employer costs were provided by government, then additional annual cost to government under the two options are:

- wage subsidy – $165m, including $41m superannuation and workers compensation
- social wage model – $82m, reduced by $41m if superannuation and workers compensation are not included in employer costs

This is less than the current annual benefit to government of $225m from the supported employment sector.

Government assistance and/or superannuation exemptions would be required for both policy options to prevent widespread job losses and supported employment service closures.

Both models would have sensitivities for employees with the most significant disabilities as they would require the largest subsidy.

Additional component – Review of the existing BuyAbility Impact Tool

The BuyAbility Impact tool is a cost-benefit analysis (CBA) calculation that quantifies net economic benefits (NEB) arising from Supported Employment and can be expressed as either a net dollar amount or a net return on investment (i.e. cost) per dollar – in this case government employment support funded through the NDIS.

The updated cost benefit formula:

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

Benefits:

- Net economic contribution of the disability social enterprise/ADE (revenue – costs)
- Welfare savings (income test recoveries of DSP)

- NDIS benefits (reduced expenditure on non vocational day programs)
- Increase taxation revenue (supported employees and carers)
- Supported employee net income (total wages less the reduction in DSP)
- Additional employee superannuation (contributions pa – not included in the formula)
- Increased informal carer income (carers could increase work hours)

Cost:

- Government outlays via NDIS supports in employment funding (for ongoing employment)