

THE ROLE OF INFORMAL SAFETY NETS: LESSONS FROM THE 2014 CHANGES TO THE DISABILITY SUPPORT PENSION

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The 2014 reforms to the Disability Support Pension (DSP) resulted in the removal of younger recipients with some work capacity from the DSP. What was the effect on household income and health outcomes for those removed from the DSP?

Outcomes differed significantly depending on living arrangements. Former recipients living with a parent or a spouse were able to maintain household income. This is because both the recipient and their family member began to work, or work more paid hours. In contrast, individuals living alone were far less able to adjust. They primarily shifted to the lower-rate unemployment benefit and experienced a drop in total income.

In addition, people removed from the DSP saw a sharp rise in the use of antipsychotic medication, with this effect concentrated among men living alone. This outcome underscores the potential mental health costs of income support payment changes when there are insufficient support mechanisms in place.

Taken together, these findings highlight the importance of informal safety nets and household self-insurance in shaping outcomes, with important implications for the design of income support payments.

Introduction

Between 2000 and 2020, Australia followed an international trend in tightening eligibility for disability pensions due to a concern about costs and adverse work incentives. Little has been known about the effects of these policies at the individual level. But linked administrative data now provides a clearer picture of the impacts on work, consumption, health outcomes and use of anti-depressants and anti-psychotic medication by individuals, as well as the overall fiscal impact. This provides policymakers with new important insights into the overall effects of these policies.

The Disability Support Pension (DSP) is the Federal Government's primary means-tested income support payment for people with disability who have reduced capacity to work. Currently, the DSP supports more than [800,000 people](#) (or about 4 per cent of the working age population). Amid growing concerns about the long-term sustainability of the DSP, and with a goal to increase labor market participation among people with disability, the Federal Government implemented a series of reforms to the DSP, including:

- In 2012, [new impairment tables](#) were introduced to tighten eligibility on assessed work capacity; and
- In 2014, [these revised standards](#) were applied to existing recipients under the age of 35 with some work capacity through the form of a medical review. This resulted in the removal of some individuals from the DSP who did not meet the new standard.

This note examines the effects of the 2014 reform. Specifically, what was the effect of the 2014 changes on income and health care use among those removed from the DSP? And how did these impacts vary depending on access to family support?

In sum, we find that those removed from the DSP who lived alone experienced a drop in household income and a large increase in the use of antipsychotic medication. In contrast, former DSP recipients who were living with a family member - a parent or spouse - experienced no drop in household income and only a small increase in the use of mental health drugs.

Box 1: Data and Methodology

Using administrative data to link DSP recipients to their family members, we estimate the effect of the 2014 medical review changes on both household income and individual health care use. To do so causally, we exploit the policy design that lends itself to a regression discontinuity based on DSP start date and recipients' birth date. Specifically, the 2014 changes applied to those DSP recipients who had:

- **Start date:** Entered DSP after 1 January 2008; and
- **Birth date:** Their 35th birthday was after 1 July 2014.

Since the reform was announced and implemented long after these individuals had entered the DSP and long after they were born, recipients could not manipulate eligibility status to avoid being subjected to the new medical review. This strengthens the validity of the identification strategy used. For more information on data and methodology, please read the working paper (Attachment A).

What was the effect on income?

Recipients removed from the DSP experienced, on average, a \$21,400 reduction in annual DSP payments from 2016 to 2018. However, this did not lead to a corresponding decrease in total household income. This is because those removed from the DSP offset their lost income by accessing other income support programs, or by working more. Specifically,

- **55 per cent** of lost income was replaced by other government payments, primarily the then unemployment benefit Newstart Allowance (now JobSeeker Payment); and
- **35 per cent** of lost income was replaced by former DSP recipients increasing their labour market earnings, primarily in low-skilled jobs.

However, this masks significant differences depending on one's family structure and access to household support (Figure 1). Nearly 1 in 3 DSP recipients affected by the 2014 reforms lived with a parent, around 15 per cent with a spouse and 57 per cent lived alone. Those recipients removed from the DSP and living with a parent or spouse had access to additional support - their family members living with them. These family members changed their own behaviour in response, allowing household income to be maintained despite the loss in DSP income. This is because DSP income was replaced by a combination of:

- **Parent earnings:** Parents, particularly younger parents, living with a recipient removed from the DSP were more likely to enter or remain in the labour market;
- **Spouse earnings:** Spouses of those removed from the DSP increased their work hours; and
- **Individual earnings:** Some former recipients increased their own employment.

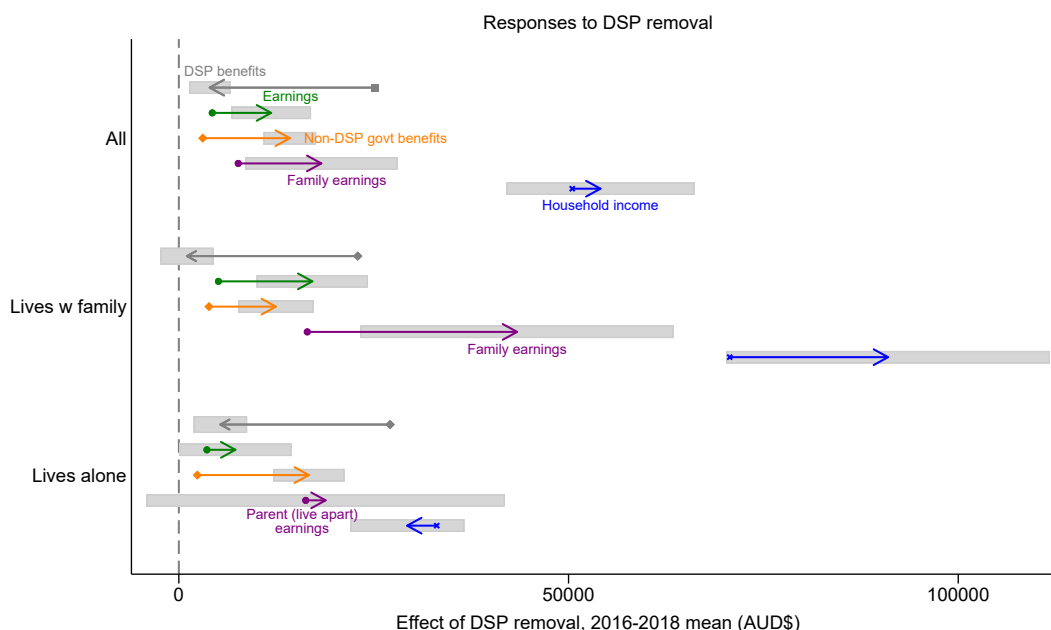
In contrast, for those living alone they were not able to compensate for their lost DSP income. They did not increase their own earnings in response to being removed from the DSP and could not rely on family members to offset their income shortfall. Their primary fallback was other government income support programs - mainly the lower payment Newstart Allowance - which did not fully offset the DSP income loss. As a result, unlike individuals living with a family member, individuals living alone experienced a decline in total household income following their removal from the DSP.

What was the effect on health care use?

Those removed from the DSP as a result of the 2014 experienced a permanent increase in their use of mental health medications, particularly antipsychotics prescribed for bipolar disorder, schizophrenia and severe depression. The likelihood of receiving any mental health medication increased by 23 percentage points, with a similar increase for antipsychotic medications specifically. This came at both a personal and fiscal cost. Annual spending on antipsychotic medication increased by \$900, which was primarily covered by the Government funded Pharmaceutical Benefits Scheme (PBS).

The increase in mental health prescription use were driven by men entirely, with no increase experienced by women. In addition, like the income results, the impact of being removed from the DSP on mental health varied by living arrangements. Among men living alone, the probability of using antipsychotic medication increased by 32 percentage points, compared to 8 percentage points for those living with a parent or spouse.

Figure 1: DSP removal reduces household income for those who live alone, but not for those who live with family



Notes: Figure plots IV estimates of the effect of DSP loss on income in AUD by subgroup. The marker indicates the RD control mean, and the distance of the arrow represents the IV estimate, so that the arrowhead represents the mean for those who are removed. Gray bars indicate 95% confidence intervals around the point estimate. “DSP benefits” are the individual’s DSP benefits from 2016-18. “Earnings” are the DSP recipient’s individual earnings from 2016-18. “Non-DSP govt benefits” are the DSP recipient’s non-DSP benefits from 2016-18. “Total household income” is the sum of earnings and government (DSP and non-DSP) benefits from 2016-18 for the individual, spouse, and parent. Combined sample stacks the Start Date RD and Birth Date RD samples.

These patterns are consistent with recipients that were removed from the DSP, particularly those without access to in-house family support, experiencing increased stress. The increase in mental health prescription use were among those whose both own earnings and family incomes increased the least. Those who were least able to offset their lost income as a result of being removed from the DSP through work or family support were most likely to increase their use of mental health drugs.

Policy implications

Did the 2014 change improve social welfare? On face value, it’s not clear. At one level, the 2014 changes achieved the policy goal of reducing the fiscal cost of the DSP. But they did so by removing people from payment eligibility, with varying effects on work participation, disposable income, consumption and health. Economists often try to weigh up these competing costs and benefits to determine the overall impact on social welfare. Welfare analysis indicates that the removal of those living with a parent or spouse was welfare-improving for society as a whole, but the removal of those living alone was not.

Policy tends to be set at a broad level and cannot always reflect these welfare implications at the individual level. But these findings highlight three key insights for policymakers.

1. **Informal safety nets matter:** The ability to manage the income and mental health impacts of being removed from the DSP were highly dependent on living arrangements and access to family support. For those living with a parent or spouse, they could draw on household behavioural changes as a form of self-insurance to maintain their income. But for those living alone they had no such fallback. This suggests policymakers may need to rethink how the income support system assists those with limited informal safety nets.
2. **Unintended health consequences:** Among men, primarily those living alone, removal from the DSP increased their use of antipsychotic medication as they sought to cope with their loss in income. This has both a fiscal cost and a human cost. This outcome was not an intended goal of the 2014 reform, but it underscores the potential mental health costs of income support payment changes when there are insufficient support mechanisms in place.
3. **Unemployment benefit:** The unemployment benefit increasingly has come to include people with a broader range of work capacities. For those removed from the DSP and without in-house family support, the unemployment benefit became their main financial fallback, despite offering a lower payment level.

Disclaimers and acknowledgements

1. ABS data use disclaimer

The results of these studies are based, in part, on data supplied to the ABS under the Taxation Administration Act 1953, A New Tax System (Australian Business Number) Act 1999, Australian Border Force Act 2015, Social Security (Administration) Act 1999, A New Tax System (Family Assistance) (Administration) Act 1999, Paid Parental Leave Act 2010 and/or the Student Assistance Act 1973. Such data may only be used for the purpose of administering the Census and Statistics Act 1905 or performance of functions of the ABS as set out in section 6 of the Australian Bureau of Statistics Act 1975. No individual information collected under the Census and Statistics Act 1905 is provided back to custodians for administrative or regulatory purposes.

Any discussion of data limitations or weaknesses is in the context of using the data for statistical purposes and is not related to the ability of the data to support the Australian Taxation Office, Australian Business Register, Department of Social Services and/or Department of Home Affairs' core operational requirements.

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