Deloitte.

Opportunities for reform to improve workforce participation of Disability Support Pension recipients

A concept paper

Disability Employment Investments

June 2025

Deloitte Access Economics

Informing the work

Overview to this work

A 'landscape view' of the DSP and its likely issues and impacts on Australians with disability seeking more hours of paid work, and the implications of this for employment and government finances.

Underpinning framework

The economic framework for understanding DSP recipient employment decisions draws on:
(1) economic theory and empirical evidence presented by the Productivity Commission on tax and transfers and incentives in relation to the DSP
(2) Ingles and Plunkett of the Tax and Transfer Policy Institute, and Callis and Flatau of the Centre for Social Impact, on effective marginal tax rates (EMTRs) in DSP
(3) Dockery et al. on econometric methods.

Understanding key issues

Synthesis of notable reports including: (1) the Senate Inquiry into the purpose, intent and adequacy of the DSP (2022); and (2) the Disability Royal Commission (2023), including over 70 submissions to these studies; accompanied by (3) engagement with four disability peaks - Inclusion Australia, Disability Advocacy Network Australia, Down Syndrome Australia and Children and Young People with Disability Australia - to understand the findings from their research and advocacy efforts.

Hypothesis setting

Bringing those elements together with the available data, this work respects and extends current understanding and estimates. Recognising the number of DSP settings in which complexity and burden lies, three key areas are considered here relating to impacts and potential reforms:
(1) The impacts of tapering rates on the decision of *if* to work
(2) The impacts of tapering rates on the decision of *how much* to work
(3) The impacts of the fear of potential loss of eligibility across all work-related decisions

Extensions to the evidence base

Empirical extensions

The economic framework was applied in the DSP context using the Household, Income and Labour Dynamics in Australia (HILDA) Survey (and other publicly available datasets). Both descriptive analysis and regression analysis have been performed, contributing extensions to the literature and publicly available empirical evidence base.

Illustrating adjusted settings

Focusing on a subset of key settings with a bearing on financial incentives, the work illustrates potential reform options. Sizing potential financial benefits for Australians with disability and government finances helps to articulate the case for refining the DSP not just being the right thing to do, but an economical thing to do.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

What does this work seek to achieve?

Disability Employment Investments (DEInvestments) *has been established to support people with disabilities to have better access to higher-quality job opportunities and, ultimately, employment outcomes. DEInvestments have commissioned Deloitte Access Economics to conduct this work in pursuit of a system that minimises risks associated with employment for those furthest from the labour market.*

This document forms a concept paper comprising ideas and evidence for reform to the Disability Support Pension (DSP), in order to reduce the risks associated with increased paid employment for DSP recipients.

It is centred around an economic framework for understanding employment choices for benefit recipients, applied in the DSP context. It draws on domestic literature on economic theory and empirical evidence, with additional conceptual grounding in the DSP context. It articulates many factors – both financial and non-financial – that may contribute to an employment decision, both internal and external to the DSP.

It is ultimately a hypothesis-led illustration of what actionable changes could do to unlock improved labour force participation. At the same time, it makes some first principles reflections/suggestions for what an optimised DSP might involve and how it might be administered.

Reforms to DSP are one aspect of a broader set of system level changes required to better the employment circumstances for people with disability. The potential DSP reforms considered in this paper should be considered in the context of other disability employment ecosystem changes, particularly as it relates to employer willingness and ability.

Overview

Reducing financial disincentives via a tapering rate of 30 cents could increase the number of recipients in employment by up to14,700 each year. An increased suspension period should also increase DSP recipients in employment.

Australians with disability experience systematically poorer employment outcomes than other Australians.

53% People with a work-limiting disability were employed in 2022

82% Broader population employed in 2022.[1]

For those who are employed:

25% of full-time workers with a disability will have left employment one year later.

10% of the broader population will have left.[1]

Further, **28% of unemployed people with disability were still looking for work at 104 weeks or more** (compared to 10% for those with no disability).

Employment plays a critical role in wellbeing and broader life satisfaction for people with disability.

HILDA analysis reveals a **statistically significant and positive effect of employment on life satisfaction** for individuals with restrictions on everyday activities.

29% of people aged 15 to 64 with a disability were DSP recipients in 2022. But DSP recipients do not achieve the same economic outcomes as those in potentially similar circumstances.

Employed	*Average earnings*	
14%	**$17,000**	*DSP recipients*
46%	**$46,000**	*Past DSP recipients, with ongoing long-term health conditions*
40%	**$46,000**	*Non-recipients, with **moderate-to-severe** work-limiting conditions*

An examination of current issues identified three key areas in which financial disincentive lies.

01 | High financial disincentives associated with paid work, resulting from benefit tapering beyond income free areas.

02 | Loss of DSP eligibility at two years of suspended benefit payments. Alongside high barriers to re-entry to DSP and challenges relating to sustainable employment conditions, these factors contribute to an even higher aversion to the risks of losing the DSP safety net.

03 | Administrative burden associated with reporting and other arrangements increases the true costs of paid work.

This work examines the impacts of financial disincentives associated with the tapering of DSP benefits.

DSP recipients face **higher effective tax rates** than non-DSP recipients when **entering paid work** or increasing the **amount of paid work,** largely driven by tapering of benefits beyond the income free area.

Reducing the tapering rate to 30 cents could generate the following benefits from 2026 to 2035:

$419 million *Net fiscal benefits, due to additional income earnings, changes in taxation revenue and benefit payments*

3,200 to 14,700 *Additional DSP recipients in employment, on average each year*

At least 121,000 *Additional hours worked by DSP recipients already in employment, per year*

Evidence also indicates that uncertainty around loss of DSP eligibility in a future period can further impact real marginal tax rates in the current period.

Illustrative modelling by the Productivity Commission (2011) demonstrates that "marginal tax rates on current labour income can be much higher when people take account of the risk of the withdrawal of future welfare entitlements".[2]

The data required to demonstrate this empirically is limited. Instead, the potential impacts of a 10-year suspension period are illustrated for three groups nearing two-year suspension of DSP benefits. Among those three groups of particular note is:

1. **Individuals may reduce paid work, or cease altogether, to exit suspension and avoid cancellation at two years.** Per individual maintaining employment for eight additional years could add over $100,000 to the individual's financial position and over $280,000 for Government (in higher taxation and lower DSP benefits),

2. **Individuals may maintain employment beyond two years and lose DSP eligibility.** Under current settings, if these individuals subsequently leave work (e.g., due to symptom recurrence), they can no longer return to DSP without reapplication. An extended suspension period would smooth the return to DSP, generating a net benefit of $15,000 to an individual no longer needing to reapply and participate in the Program of Support (a cost to Government in the form of benefits). Both benefit from lower administrative costs.

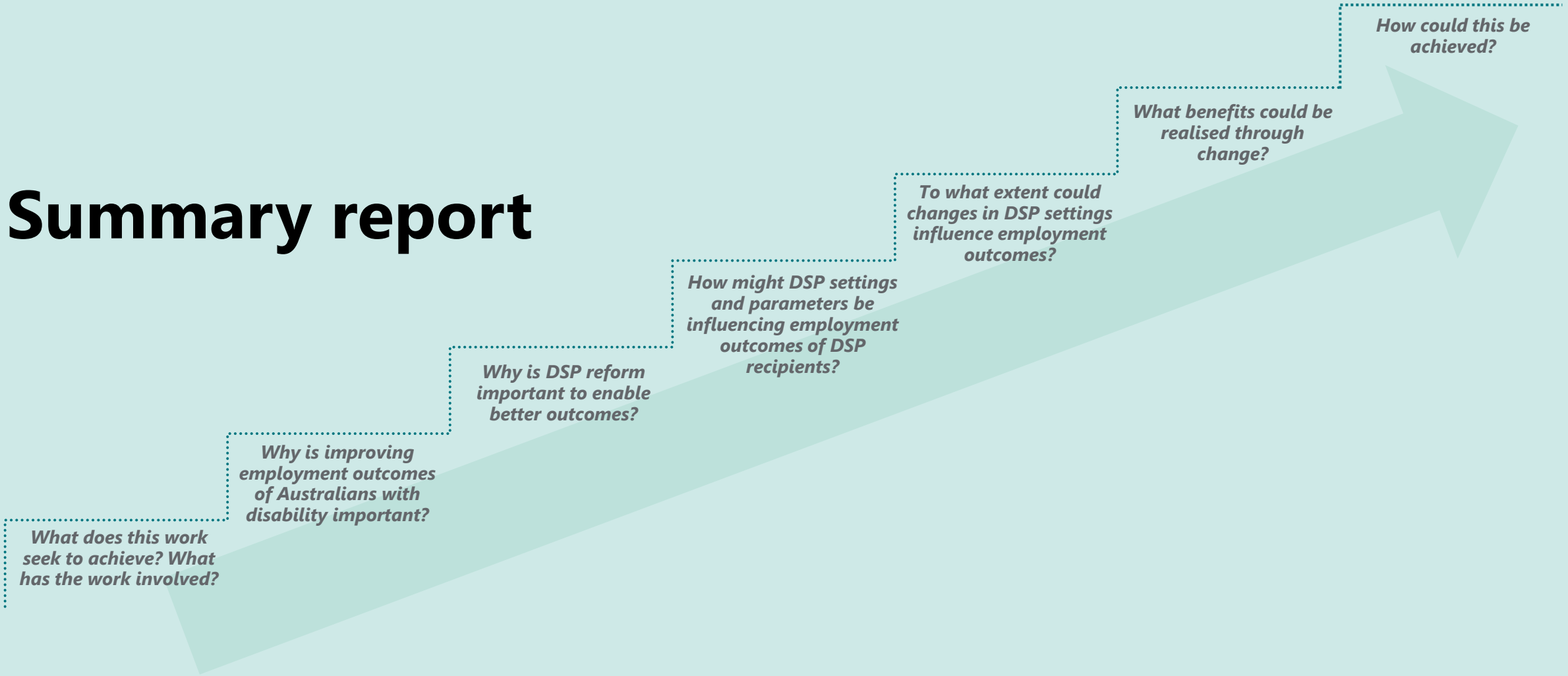
Deloitte Access Economics.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

Contents

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

Summary report



© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

Summary

Leading economic and disability research has been brought together to build an evidence base on work decisions for Disability Support Pension recipients, in a way that can readily support policy making.

What does this work seek to achieve?

This is part of a wider workplan of ideas and evidence for a system that minimises the risks associated with employment for those furthest from the labour market.

DEInvestments has been established to support people with disabilities to have better access to higher-quality job opportunities and, ultimately, employment outcomes.

This document forms a concept paper comprising ideas and evidence for reform to the Disability Support Pension (DSP), in order to reduce the risks associated with increased paid employment for DSP recipients.

It represents a hypothesis-led illustration of what actionable changes to key DSP settings could look like, in order to unlock improved labour force participation. At the same time, it makes some first principles reflections/suggestions for what an optimised DSP might involve and how it might be administered, to guide future research and policy work.

It focuses on reforms to the DSP, as one aspect of a broader set of system level changes required to better the employment circumstances for people with disability. The potential DSP reforms considered in this paper should be considered in the context of other system changes.

What has the work involved?

At its core, this work is centred around an economic framework for understanding employment choices for benefit recipients, applied to recipients of the DSP.

At the highest level, the report provides a 'landscape' view of the DSP and its potential issues and impacts on Australians with disability seeking more hours of paid work. It achieves this through a combination of conceptual framing, synthesis of key reviews and research in an Australian context, empirical work drawing on key national datasets and engagement with some disability peak bodies:

- Among others, the economic framework applied in this context draws on the economic theory and empirical evidence presented by the Productivity Commission on tax and transfers[3] and incentives in the DSP[2]. It draws on the conceptual framing and detailed calculations of effective marginal tax rates (EMTRs) presented by both: Ingles and Plunkett of the Tax and Transfer Policy Institute at the Australian National University[4]; and Callis and Flatau of the Centre for Social Impact[5].
- The key Inquiries synthesised include the Senate Inquiry into the purpose, intent and adequacy of the DSP (2022)[6] and the Disability Royal Commission (2023)[7], including over 70 submissions to these studies.
- The data underpinning the empirical work includes the Household, Income and Labour Dynamics in Australia (HILDA) Survey[8], Australian Bureau of Statistics (ABS) Survey of Disability, Ageing and Carers (SDAC)[9] and Department of Social Services administrative data.
- Both descriptive and regression analysis have been performed, applying and extending on the methods utilised within Dockery et al. on work disincentives in Australia to add to the evidence base on DSP recipients specifically.[10]
- Disability peaks engaged in the work include Inclusion Australia, Disability Advocacy Network Australia (DANA), Down Syndrome Australia and Children and Young People with Disability Australia (CYDA).

Bringing those elements together to form and test some key hypotheses of impact and potential reform is how this work extends and respects past work, and seeks to arrive at practical suggestions for co-designing and delivering with Government, peaks, philanthropic organisations and employers alike.

'Sizing the prize' for Australians with disability and Government (with a focus on income on transfers and government finances) helps support the case for refining the DSP not just being the right thing to do, but an economical thing to do.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

Summary

Higher unemployment rates and a higher rate of churn in the labour market, signal the need for an adequate safety net for people with disability who are seeking to increase their participation in employment.

Why is improving employment outcomes of Australians with disability important?

Australians with disability experience systematically poorer employment outcomes compared to the broader population, with this differential persisting over time.

53% of people with a work-limiting disability were employed in 2022, compared to 82% of the broader population. This 'labour market penalty' has been evidenced over the past 20 years, where people with a disability are 25% to 30% less likely to be employed than those without a disability.[1]

This reflects, at least in part, limited access to sustainable employment outcomes, compared to those without a disability. For example, in 2022:

- the unemployment rate of people with a disability was 10% compared to 5% for those with no reported disability
- 28% of unemployed people with disability (or 36% of those with employment restrictions) still looking for work at 104 weeks or more, compared to 10% for those with no disability
- for those who were employed, 10% of those with a reported disability were experiencing underemployment, compared to 7% for those with no reported disability.[9]

Those who are employed may also experience lower employment stability and security compared to the broader population. For full-time workers with a disability, an average of 25% will have left employment one year later (compared to 10% for the broader population).[1]

Combined, these factors highlight the risks associated with the lack of an adequate safety net.

What's more, there is a growing body of evidence that employment plays a critical role in achieving wellbeing and broader life satisfaction, and that the effects may be particularly pronounced for people with a disability.

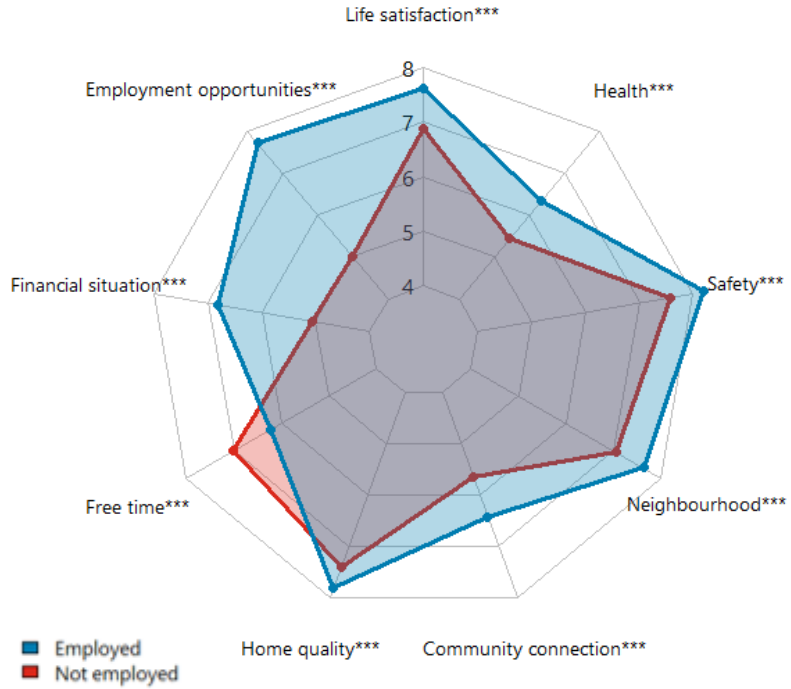
The importance of work in achieving financial security and wellbeing is well-accepted, both in the academic literature, and by policy-makers and broader audiences.

Deloitte Access Economics analysis of HILDA suggests a statistically significant and positive effect of employment on satisfaction across a range of measures (Chart i).[i]

Further, the Centre of Research Excellence in Disability and Health found work to improve mental health, compared to unemployment, with these effects more pronounced for people with a disability than without. For example, working 1 to 14 hours per week was estimated to increase average mental health scores by 2.6 for people with disability, compared to 1.0 for those with no disability. This effect, and the differential between those with a disability and those without, increases with hours worked.[11]

i. BCEC modelling (utilising HILDA) similarly establishes: (1) people with a disability generally have a lower sense of wellbeing; and (2) there is evidence of a positive and causal effect of employment on the sense of wellbeing for people with a disability. (Bankwest Curtin Economic Centre, 2024).[1]

Chart i: Satisfaction among individuals with a long-term work-limiting health condition, impairment or disability (2022)



Source: Deloitte Access Economics analysis of HILDA (2025).[8] Note: Significance codes represent the t-test for differences in means: *** $p<1\%$ ** $p<5\%$ * $p<10\%$

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

Summary

While almost a third of people aged 15 to 64 living with a disability are DSP recipients, current settings limit the extent to which this cohort can participate in the workforce without risking the loss of their DSP safety net.

Why is DSP reform important to enable better employment outcomes?

Of approximately 2.7 million people aged 15 to 64 living with a disability in 2022, about 765,000 or 29% were recipients of the DSP (noting this has grown to approximately 800,000 in 2024).

The DSP serves as the primary income support mechanism for individuals experiencing longer-term moderate-to-severe disabilities. It is designed as a critical financial support mechanism to working age individuals with longer-term disabilities that affect their capacity to work.

It is distinct from Jobseeker with lower participation requirements, nothing both DSP and Jobseeker recipients can access employment supports via Disability Employment Services. It is complemented by, though distinct to, the National Disability Insurance Scheme (NDIS), which provides a range of financial and non-financial supports to help meet the needs of people with disability, and in recognition of the additional costs and barriers for those living with a disability.

In combination with Australia's tax system, DSP settings may influence work incentives, and employment outcomes as a result, for many people with disability. The economic (and welfare) opportunity of refined settings is significant. Further, the current calibration of the system may mean that there are more people living with long-term disabilities that are not as well supported by the system as they should be.

DSP recipients have poorer employment outcomes than other individuals with moderate-to-severe long-term health conditions that are not on the DSP.

To examine the potential ways in which DSP settings - in aggregate - may be impacting employment outcomes of recipients, descriptive cohort analysis is conducted against two groups with similar characteristics in the HILDA:

1) individuals with moderate-to-severe work-limiting health conditions, not currently in receipt of the DSP
2) previous recipients of the DSP who still report being impacted by ongoing moderate-to-severe work limiting health conditions.

Deloitte Access Economics HILDA analysis estimates about 14% of DSP recipients as employed. Of those who are employed, these individuals earned an average of about $17,000 in 2021-22. This compares to:

- 40% of those with similar work-limiting health conditions not in receipt of DSP in employment, who earned an average of $46,000 in 2021-22
- 46% of past DSP recipients with ongoing long-term health conditions in employment, similarly earning an average wage of $46,000 in 2021-22.[ii]

ii. If the sample of past DSP recipients is restricted to those with moderate-to-severe work-limiting health conditions, the share in employment decreases to 21%. However, while this cohort share highly similar average characteristics to current DSP recipients, it is a small sample size requiring caution in use and interpretation.

How might DSP settings and parameters be influencing employment outcomes of DSP recipients?

Evidence from sector submissions and reviews/inquiries, alongside what was heard in engagement with sector peaks, provided direction to the issues focused on within this study.

Challenges identified within this study	DSP settings
Significant financial disincentives against paid work. Loss of 50 cents per $1 earned above the income free area results in high effective tax rates.	Tapering rates and income thresholds
Eligibility settings and processes. Barriers (and costs) to entry to the DSP that increase loss aversion for recipients considering work.	
Fear of loss of eligibility and risks associated with reapplication. Combined with ambiguity around work limits, a concern of short-term work capacity inhibiting future DSP eligibility for those with recurring and/or fluctuating conditions.	Suspension period of two years prior to loss of DSP eligibility
Fragile nature of work for people with disability. A two-year suspension period may not adequately recognise employment conditions for people living with disability.	
Reporting arrangements are difficult to navigate for both Australians with disabilities and their carers. Increasing the costs associated with work, particularly where income is not constant.	Reporting arrangements & administration

The presence of other issues – relating to both the DSP specifically and to system settings more broadly – are acknowledged, though were not explicitly identified nor explored within the scope of this work.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

Summary

Analysis of employment outcomes for current DSP recipients shows 28% of employed DSP recipients earn less than the income threshold, compared to 21% of others with ongoing work-limiting health conditions.

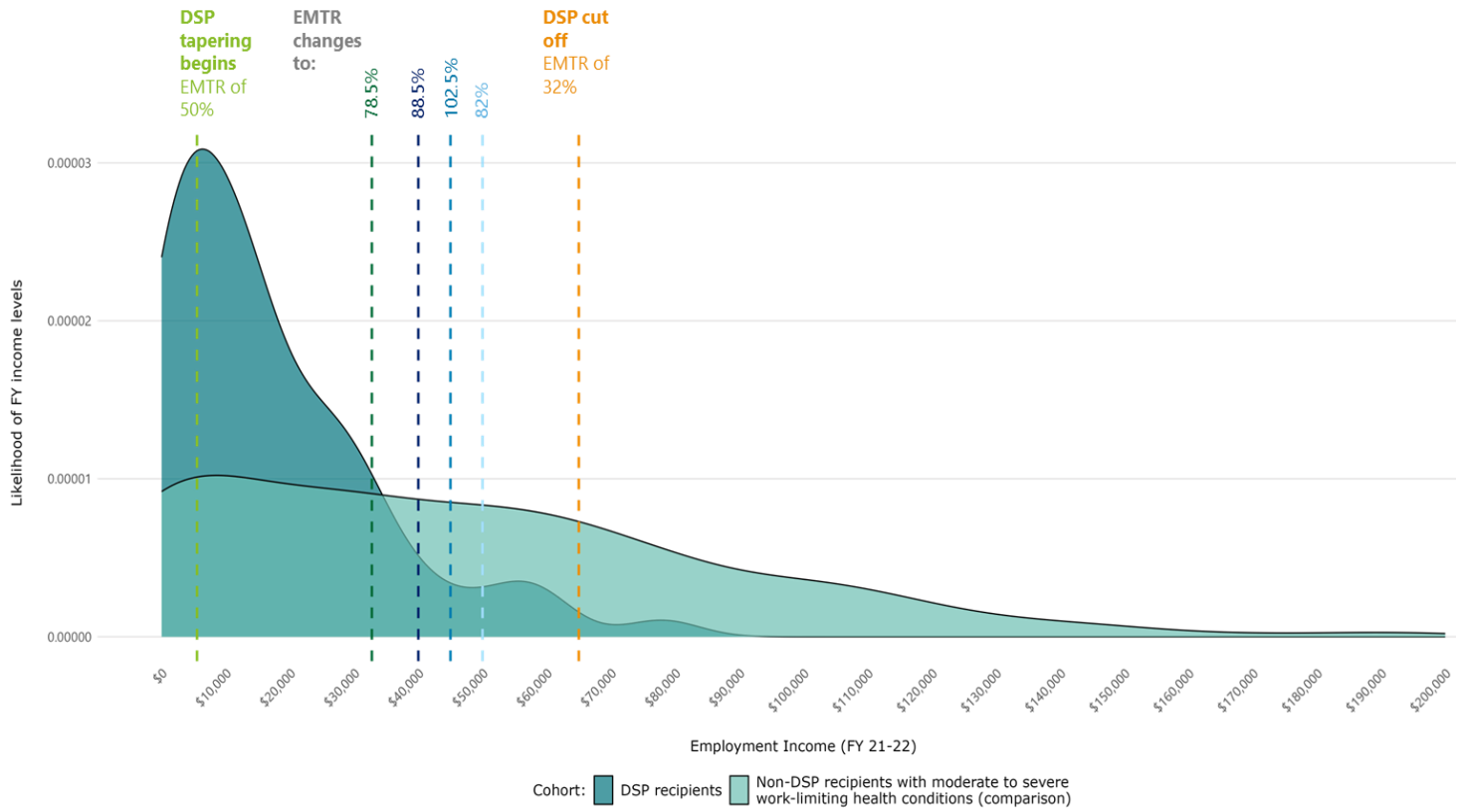
Academic literature, economic theory and empirical evidence demonstrate the financial disincentives relating to paid work for benefit recipients. Analysis of employment outcomes indicates that these relationships hold for DSP recipients.

Prior work by the Productivity Commission; Ingles and Plunkett; and Callis and Flatau demonstrate the high effective marginal tax rates (EMTRs) experienced by DSP recipients. EMTRs are a measure of the loss of each additional dollar earned to taxes or transfers – in this case relating to benefit tapering (of 50 cents) beyond the income free area (of $212 per fortnight in standard cases).[2,3,4,5]

In programs aimed at supporting those with lower capacity to work, benefit tapering typically occurs to moderate overall program costs while continuing to provide some level of support. However, analysis on employment outcomes and labour market behaviour of DSP recipients indicates that the current calibration of tapering rates may be affecting work decisions – and leading to suboptimal employment outcomes.

About 28% of employed DSP recipients earn less than $5,500 annually, the threshold where income tapering begins (compared to 21% of individuals with moderate to severe work-limiting conditions, not in receipt of the DSP). Further, 87% of DSP recipients earn under $32,760, the point where the EMTR increases from 50% to 78.5%, compared to 44% of this group not on the DSP. This is shown in Chart ii.

Chart ii: Density plot of employment income for current DSP recipients and non-DSP recipients with moderate to severe work-limiting health conditions (FY22)



Source: Deloitte Access Economics analysis of HILDA (2025).[8] Note: The x-axis range has been restricted to $0-$200,000. The EMTRs are based on 2024 rates, informed by Callis et al (2024).[5] Rates from the 2021-22 FY may have been lower.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

Summary

The loss of overall earnings to 'effective taxes' – combining benefit tapering and income tax – has a statistically significant and negative effect on the decision to work, and how much to work, for DSP recipients.

To what extent are financial disincentives likely to influence employment outcomes for DSP recipients?

A combination of factors likely impact employment. For now, this work focuses on those where available data can contribute towards a more robust evidence base.

The combination of factors relating to administrative burden and the risks associated with loss of DSP with those external to the DSP are acknowledged. Parameters that bear the highest relationship to financial incentives are the focus of this work.

Several Australian studies recognise that the combined tax and benefit system can impose high financial disincentives that impact work decisions of benefit recipients.

Few studies have specifically examined impacts on labour market participation, with no evidence specifically testing benefit tapering settings within the DSP context identified in the literature. This work extends the evidence by applying these methods to measure the potential role of financial disincentives for the DSP recipient employment.

The approach to estimating the influence of benefit tapering has been informed by the widely cited Dockery et al. (2007) empirical evidence on work disincentives in Australia.[10] It achieves this by measuring:

- **Participation Tax Rates (PTRs)**, a measure of the financial disincentives associated with loss of benefits and increased taxation when entering employment.
- **Effective Marginal Tax Rates (EMTRs)**, a calculation that shows the loss of income to lower benefits and/or taxes for each additional dollar earned (where employed).

Deloitte Access Economics utilised HILDA to test impacts of tapering on the decision to work for DSP recipients.

Across HILDA waves 15-22, over half of DSP recipients faced a PTR above 25%, losing 25 cents of each additional dollar earned when moving into employment. This is higher than other non-employed individuals in the same income group.

There are conflicting views in the literature on the most suitable econometric specification to estimate the impacts of a change in PTR on individual decision-making. This approach utilises the most cited specifications to estimate the potential impact of a change in PTR on DSP recipient employment:

- for a 10 percentage point decrease in the PTR, the probability of employment for DSP recipients is estimated to increase by 0.5% to 2.1%
- for a 20 percentage point decrease, the estimated increase in the probability of employment ranges from 1.0% to 4.1%
- for a 30 percentage point decrease (bringing the average PTR for DSP recipients below 5%), employment likelihood may increase by 1.6% to 5.8%.

Before this study, evidence on DSP recipients specifically was limited. These findings have been tested and validated against a range of domestic and international studies, though differing barriers to work and starting points across cohorts may impact comparisons between these studies.[12,13,14] Importantly, it is noted that changes in tapering rates and PTRs are not equal.

Similarly, Deloitte Access Economics extends the empirical evidence base by examining the effects of EMTRs on the decision of how much to work for DSP recipients.

Analysis of HILDA waves 15-22 indicates that DSP recipients face higher average EMTRs (43%) compared to the average Australian worker (33%).

It is estimated that a change in EMTRs could lead to the following outcomes:

- a 10 percentage point decrease in EMTR could increase average hours worked by DSP recipients up to 0.90 hours per week
- a 20 percentage point decrease could increase hours by up to 1.00 hours per week
- a 30 percentage point decrease could increase hours by up to 1.02 hours per week.

This analysis has focused on effective tax rates associated with current employment income and benefit receipts. However, there is evidence that uncertainty around loss of DSP eligibility in a future period can impact real marginal tax rates.

Illustrative modelling by the Productivity Commission (2011) demonstrates that "marginal tax rates on current labour income can be much higher when people take account of the risk of the withdrawal of future welfare entitlements".[2] This reiterates the importance of reducing the risks associated with cancellation for DSP recipients.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

Summary

A decrease in the tapering rate to 30 cents has the potential to deliver additional employment of 3,200 to 14,700 DSP recipients each year, from 2026 to 2035, and at least $419 million in net fiscal benefits over this time.

What benefits could be realised through a recalibration of tapering settings?

Reducing the tapering of benefits from 50 to 30 cents per $1 (over the income threshold) would increase (i) DSP recipient employment, and (ii) hours worked by those employed.

A reduction in the tapering rate to 30 cents is estimated to increase employment probability for DSP recipients by between 0.4% and 1.9%. This is estimated to result in additional employment for DSP recipients of between 3,200 and 14,700, on average, from 2026 to 2035.

DSP recipients already in work are estimated to increase their hours worked. On a base of 13 hours (for DSP recipients not exceeding the 30 hour activity test), individuals are estimated to increase hours worked by up to one hour per week. This could lead to an additional 121,000 to 3 million hours worked across the cohort each year.

This equates to a net benefit of between $419 million and $2.3 billion between 2026 and 2035 (in Net Present Value (NPV) terms), capturing direct financial benefits to recipients and Government only (employment income, taxation revenue and benefit payments).

Beyond these direct financial estimates are the significant economic and social returns to both individuals and society from improved employment outcomes.

Beyond additional earnings, there is considerable evidence pointing towards the health and welfare benefits to individuals of improved employment outcomes, and to the communities in which they live from improved social cohesion and community participation. This translates to reduced use of healthcare services, improvements in housing security and lower reliance on other social services and benefits – generating financial benefits to government and society.

Further are the economic benefits generated from productivity spillovers and additional output, and additional private consumption associated with additional earnings for individuals.

Upper estimates generate significant returns to both individuals and government. The realisation of such change would require the highest level of responsiveness to reduced disincentives. Reducing the risks associated with long-term paid work, alongside broader systems change (employment opportunities and labour market conditions) will be critical.

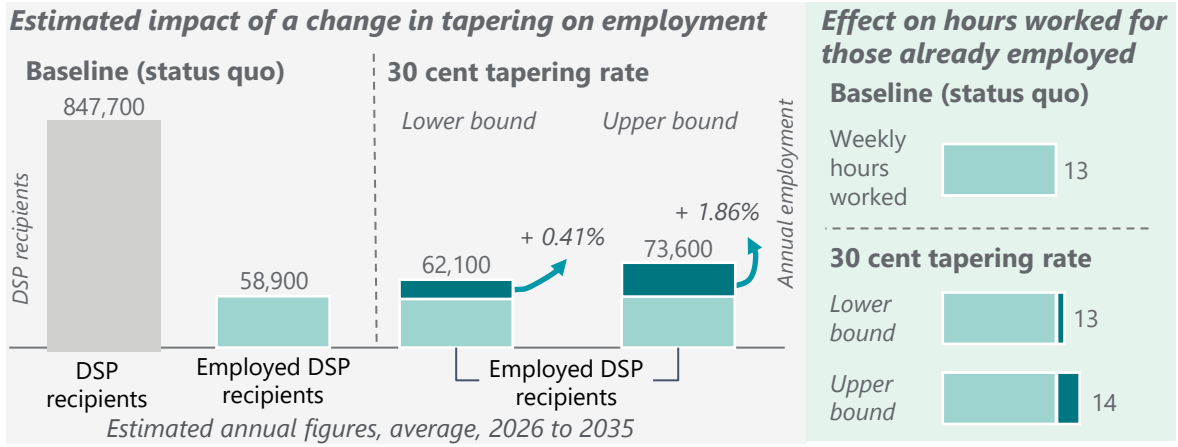


Table i: Reduction in tapering rate from 50 cents to 30 cents, NPV, 2026-35

	Lower	Upper
Scenario results		
Change in likelihood of employment	0.41%	1.86%
Average change in employment (annual)	3,200	14,700
Additional hours worked by those employed (average, annual)	121,500	3,055,000
Analysis of direct costs and benefits, relative to status quo	**(over 10 years)**	
Individuals		
Income earned ($ millions)	419	2,323
Benefits received from Government ($ millions)	402	63
Less taxes paid to Government ($ millions)	-6	-82
Net benefit (income and benefits less taxes) ($ millions)	814	2,304
Government		
Taxation received ($ millions)	6	82
Less Benefits paid to DSP recipients ($ millions)	402	63
Net benefit (taxation less benefits) ($ millions)	-395	19
Net benefit ($ millions)	**419**	**2,323**

Note: Aligned with those utilised by the Australian Government Office of Best Practice Regulation, the net present value is calculated with a discount rate of 7%, where 2025 is year 0. Dollars are stated in real terms.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

Summary

Potential loss of eligibility in a future period increases the financial disincentives associated with work in the current period. Combined with intensive reapplication processes, the resulting fear of loss limits work outcomes.

In what ways could the suspension period be impacting decisions to work for DSP recipients?

The cancellation of eligibility following two years of suspension (as a result of earning above the upper income threshold or exceeding 30 hours of work per week) increases the risks associated with increased work.

The two-year suspension period was intended as a grace period while DSP recipients explore work options. However, anecdotal evidence suggests this is not enough. This is particularly the case given the vulnerability of employment for many recipients. For example, engagement with peak bodies undertaken as part of this study highlighted:

- *People need the confidence that DSP will be there if it doesn't work out.*
- *It can take 3-4 years to secure jobs in the open market, so only maintaining DSP eligibility for two years is a concern.*
- *A person with a disability who can work in some capacity may be hired by someone who makes a purposeful decision. But what if that person moves on after two years and they lose that job or no longer receive the necessary supports?*

Submissions to the DSP inquiry provide direct examples of how a short suspension period can affect work decisions:

*"Currently, the disabled person is only "**not living in fear**" if they do nothing" –* (name withheld, sub. DR623, p.1)

*"Although Bree wants to support herself independently, she is **terrified of the insecurity that losing her DSP eligibility would cause** and the **threat of losing her eligibility** feels like a punishment for trying to support herself without the DSP." –* Australian Federation of Disability Organisations

Heightened risk aversion can result in a fear of loss that exceeds the benefit of additional income impacting all work decisions. The vulnerability of working arrangements for people with disability only increases aversion to risk.

Illustrative modelling by the Productivity Commission – discussed on page 10 - highlights the impact of uncertainty relating to future payments on effective tax rates in the current period. – and, ultimately, financial disincentives to work.[2]

Further, DSP recipients (and people with disability more broadly) are at higher risk of labour market churn and lower job security. BCEC analysis shows that for full-time workers with a disability, 25% will have left employment one year later (compared to 10% for the broader population). Further, analysis of work transitions over eight years (2015-22) shows the substantial movement between not in the labour force and part-time work (17%) or unemployment (13%) for this cohort.[1]

And, if people with disability do need to leave work for a period of time (either relating to their condition or job loss), it is harder to find suitable employment. In 2022, 28% of unemployed people with disability were still looking for work at 104 weeks or more (10% for those with no disability). This increases to 36% for those with employment restrictions.[9]

In the DSP context, this may be combined with fluctuating and recurring conditions that may limit work capacity at a future date (and unexpectedly). Alternatively (or additionally), a change in work circumstances may reduce job suitability at any time (with subsequent challenges finding alternative work).

This evidence highlights the risks associated with the loss of DSP eligibility premptively, and the case for an increased suspension period. This could support work by:

- lowering the risks associated with work, with a reduction in the uncertainty related to loss of welfare benefits lowering effective marginal taxes for recipients
- better enabling workers to establish confidence in the workplace, maintained over the longer-term, prior to risk of cancellation
- providing individuals greater license to increase employment and explore options, with knowledge they can return to the DSP if this is required.

While these points stand, there is limited consensus on the point at which employment becomes stable, for long-term jobseekers generally and people with disability specifically. Deloitte Access Economics HILDA analysis indicates average job tenure of five years for DSP recipients (compared to seven years for non-recipients).

The potential benefits of lowering risks associated with loss of DSP eligibility extend beyond those in a suspension period. The additional security – and lower risk of employment – may both: (1) encourage people not currently working to enter work; and (2) support those already working to increase hours or earnings with this additional security.

Further to the additional security of maintaining DSP eligibility, are the Health Care Card (HCC) benefits maintained over the suspension period. These lower costs for people already at risk of facing higher everyday costs associated with living with a disability – at a relatively low cost to Government.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

Summary

Extending the suspension period could reduce the risk of individuals exiting/reducing work, generating $105,000 in net benefit to the individual and $282,000 net fiscal benefits to Government (per person, over eight years).

What benefits could be realised through an extended suspension period?

An extended suspension period could better support people looking to increase, or maintain, their employment by reducing the risks associated with work.

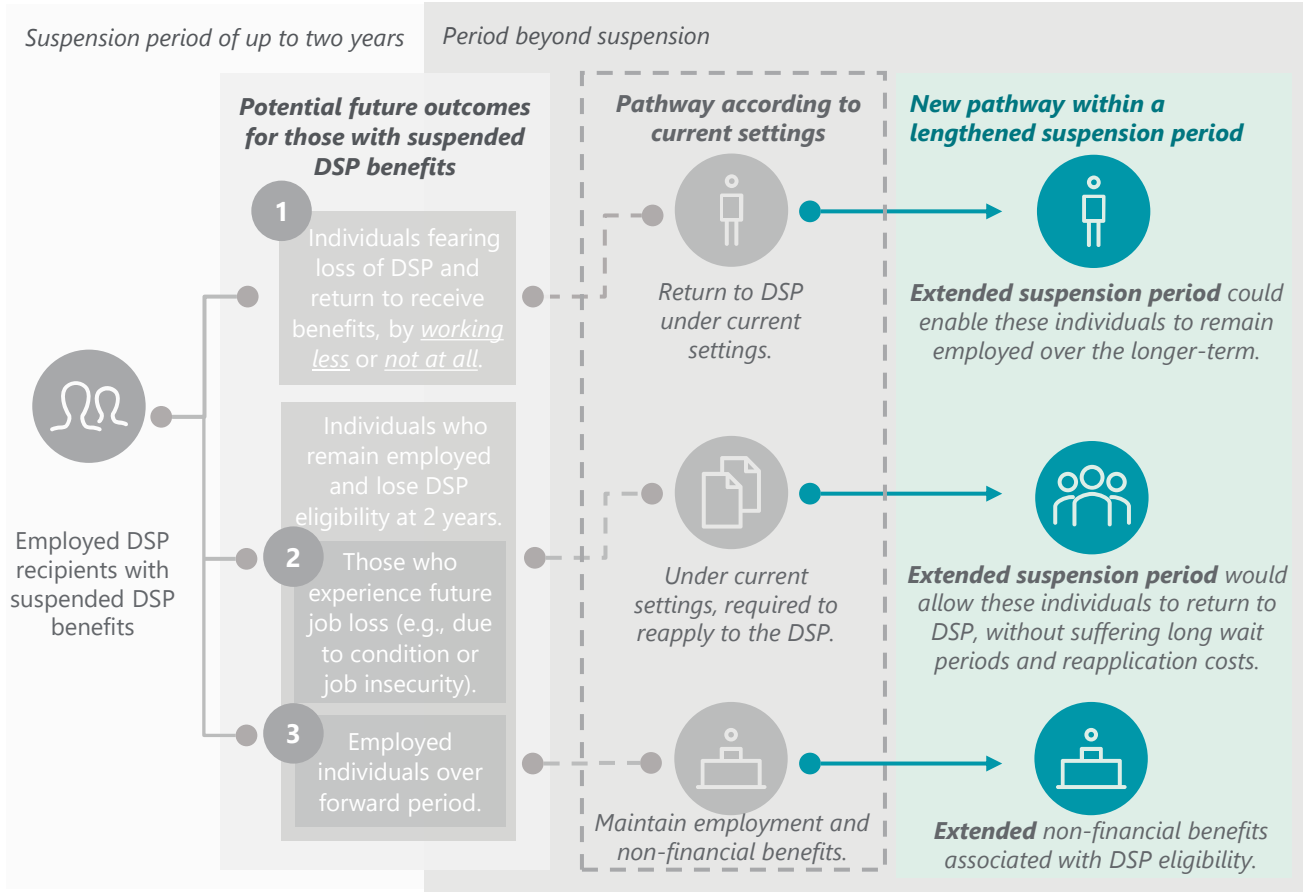
Higher risks associated with increased employment for DSP recipients include: (1) the loss of DSP itself, including impacts on financial disincentives in the current period; (2) higher job instability and challenges attaining suitable work for people with disability; and (3) compounded risks associated with recurring and fluctuating conditions.

This work proposes (and illustrates) a 10-year suspension period, an extension that would reduce the likelihood of these risks occurring with no DSP safety net in place.

While an extended suspension period could reduce work-related risks for all DSP recipients able to work, this analysis focuses on the benefits to those nearing two years of suspended benefits. Three potential pathways are considered and illustrated:

- **Group 1** no longer risk losing DSP eligibility at two years. Under current settings, this group reduce (or exit) employment and return to receive DSP benefits. An extended suspension period could lead to eight years of additional income (less taxation paid to government and DSP benefits). For an individual, this equates to **$105,300 in net benefit to the individual**, and **$282,400 to government**, over eight years. Under current settings, **group 1** exit or reduce work to return to DSP.
- **Group 2** remain employed and lose DSP eligibility at two years. This group then experience job loss (e.g., due to their condition or job insecurity). Under current settings, they would need to reapply to DSP (receiving Jobseeker in the interim). An extended suspension period would allow these individuals to return to DSP benefits, generating **net benefits of up to $15,600** (if the Program of Support is required). This equates to a net cost of up to $15,600 for government.
- There are no substantive changes to employment for **group 3.** These individuals maintain HCC benefits – and the non-financial benefits associated with a DSP safety net – for eight additional years. While limited data are available on the HCC specifically, prior work estimated pensioner card value at $60 per fortnight.[15]

Figure i: Potential impacts of an extended suspension period for DSP recipients with suspended DSP benefits



© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

Summary

Taking these suggestions forward effectively would be underpinned by co-design and delivery of a place-based approach with governments, peaks, philanthropic organisations, employers and community leaders alike.

How could recalibration of DSP settings achieve this extent of change?

For a cohort of DSP recipients who will simultaneously receive supports to access job opportunities in their region, the ask is to (1) reduce DSP benefit tapering to 30 cents, while (2) extending the suspension period to 10 years.

This research suggests that a change in tapering would support additional DSP recipients into employment, while potentially increasing the hours worked by those who are already employed. **To achieve the highest level of impact, it is critical that other barriers to work – including the risks associated with the loss of DSP – are minimised.**

This work therefore advocates for an extension of the DSP benefits suspension period to 10 years. Anecdotal evidence suggests that the two-year grace period (intended to support exploration of work options) is not enough. The data of the heightened risk to DSP recipients – arising lower employment security, challenges obtaining suitable employment and of lengthy eligibility processes if reapplication to DSP is required – is evident.

Some manifest and intellectual disabilities are lifelong. There is ongoing potential for barriers in maintaining sustainable employment for these individuals; underscoring the importance of lifelong DSP eligibility being maintained for these individuals.

This work has focused on the reduction of the barriers and risks associated with financial disincentives and loss of DSP eligibility. However, DSP reforms should be considered in the context of broader systems change required to optimise employment outcomes of people with disability.

Three key DSP settings were identified as a potential focus as part of this work: (1) financial disincentives relating to benefit tapering; (2) suspension periods and cancellation risk; and (3) burden of reporting arrangements. The final scope of work was guided by available data – measuring and modelling changes in financial disincentives, while illustrating potential changes to the suspension period.

There is limited data to measure (or estimate) the potential impacts of the risk of cancellation, complexity around reporting and other administrative processes, and risks associated with reapplication to the DSP. To understand the contribution of these factors, a survey would help to reveal the stated preferences of DSP participants, which could be combined with the findings captured within this study.

Further, while the methods utilised in this analysis control for the factors impacting decision-making to the degree possible, there may be additional factors (both internal and external to the DSP) impacting employment outcomes. For example, evidence indicates that the effectiveness of employment-focused social enterprises in transitioning individuals with disabilities into open employment can be hindered by external factors – including prevailing norms and the lack of proactive disability employment measures.[16]

Improvements in the ongoing availability, quality and flexibility of work opportunities for people with a disability is key to success. Local employers and the broader labour market environment therefore play a critical role in supporting better employment outcomes.

How could this change be implemented in practice?

A place-based pilot where there is a case for change could demonstrate the value of these changes to individuals and to government.

There may be opportunity to implement these changes in a focused way at first, in a region where there is evidence of potential to improve labour market outcomes for DSP recipients. In considering the potential scope of change in any time-limited pilot, and subsequent approaches to monitoring and assessing impacts, it should be acknowledged:

- In some cases, temporary and localised changes may not have the behavioural effect that a widespread and permanent change would. This may particularly be the case where there is higher risk aversion and/or anticipation of a return to the status quo.
- The impacts of such a change can take time. Potential lagging of effects should be considered when determining the appropriate approach and timing of future monitoring and evaluative efforts, alongside demographic and labour market context in that region.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

Summary

Key assumptions underpinning and explaining scenario results

Table ii: Key assumptions and caveats relating to tapering rate analysis and scenario results

Topic	Key considerations
Quantified costs and benefits	• Change in income earnings for DSP recipients, arising from (i) entering employment, and (ii) increasing hours worked. • Change in taxation revenue as a result of increased earnings. • Change in estimated DSP (and other) benefit payments.
Unquantified costs and benefits	• Health and welfare benefits accruing to the individual as a result of improved employment outcomes. • Social benefits (e.g., improved social and community cohesion). • Indirect impacts on government finances of improved health and social outcomes (e.g., lower health and justice-related costs). • Economic benefits associate with higher employment (e.g., productivity spillovers, higher output, increased private consumption).
Interpretation of the range in results	• Three model specifications, commonly cited in the literature, are utilised to present the range of impact of a change in tapering on employment likelihood. As debate remains over the superior model, all three are used. In this case, probit and logit present a slightly better fit to the data (compared to OLS). These models produce results at the lower range of the estimated uplift in employment. • The upper bound of these estimates generate significant returns to both individuals and government. Such change would require the highest level of responsiveness to changing incentives, with broader systems change (job opportunities and labour market conditions) likely critical to achieving this success. In absence, the lower range of these estimates may be realised, with implications on the relative accrual of benefits. • DSP settings, that cannot be isolated and measured with the available data, may play a further role in achieving the desired level of change.
Assumed wages	• The analysis of employment transitions is based on estimated wages individuals would earn entering work, using characteristics like age, education, work history. • The wage estimation includes a control for being a DSP recipient. This likely reflects both (i) characteristics specific to the DSP cohort, and (ii) current DSP settings. If changes to DSP settings systematically improve employment outcomes, actual wages and benefits may exceed current estimates.

Table iii: Key assumptions and caveats relating to suspension period analysis

Topic	Key considerations
Quantified costs and benefits	• Change in income earnings for DSP recipients. • Change in taxation revenue as a result of earnings, estimated using average marginal tax rates. • Change in estimated DSP benefit payments, assuming benefits for an individual DSP recipient over the age of 21 (single).
Unquantified costs and benefits	• Administrative costs associated with reapplication to the DSP, and application to Jobseeker (or other payments) • Health and welfare costs associated with either the risk of, or actual, loss of DSP (a key safety net mechanism). Similarly, health and wellbeing benefits of employment are not captured in the analysis. • Economic benefits associate with higher employment (e.g., productivity spillovers, higher output, increased private consumption).
Assumptions relating to group 1: lower likelihood of return to DSP prior to two years	• For those at suspension, weekly income equal to the income threshold of $1,255 per week is assumed. • For those who return to DSP, average financial year earnings for employed DSP recipients are assumed. This equates to $16,800 annually. • Together, these assumptions present a relatively conservative assumption relating to the income gained over this period. • It is assumed that once an individual lowers their work to return to receiving DSP benefits, they do not return to employment beyond the income threshold over the remaining three years.
Assumptions relating to group 2: loss of DSP eligibility and employment	• While the average claim processing time for DSP was 93 days in 2024, some are required to participate in the 18 month Program of Support.[17] The Program of Support waiting period is assumed in this analysis. • Jobseeker payments are assumed in the claim period for reapplication to DSP, noting a 22 day processing claim time is assumed.[17]
Assumptions relating to group 3: maintained employment	• While data on current HCC costs at an individual level is limited, the estimated value of a Pensioner Concession Card is utilised as a proxy in this instance, equating to about $60 a fortnight (2010).[15]

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

01 Context

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

1.1 Context

Australians with disability face systematically poorer financial and social outcomes, compared to the broader Australian population.

Australia's system of supports for people living with a disability is multifaceted. The highest order Commonwealth programs with specific disability support agendas include:

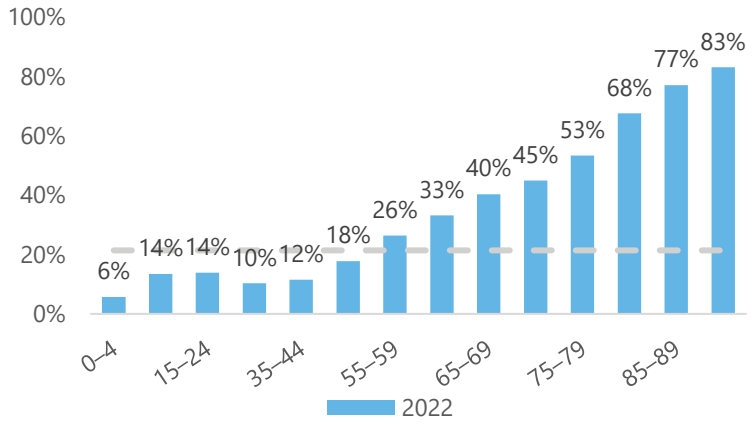
- The **Disability Support Pension** (DSP), designed to provide financial supports to people with longer-term disabilities that affect their capacity to work. The DSP is a significant income support program, servicing approximately 800,000 people in 2024.
- The **National Disability Insurance Scheme** (NDIS), providing a range of financial and non-financial supports to help meet the needs of people with disability, recognising both additional barriers and the additional financial costs associated with living with a disability.

In addition to these programs, the Jobseeker payment and Age Pension provide financial support to people with disability in their supports to the broader Australian population. While the Jobseeker payment supports those actively seeking work and/or participating in approved employment activities, the Age Pension is the basic income for older Australians who have reached retirement age (including those who transition from the DSP at retirement age). This report focuses on the DSP as a form of income support for people of working age with a disability, and the conditions relating to work.

Additional employment and other supports, typically smaller in nature, provide more targeted supports to people with a disability in pursuit of key financial and employment outcomes (e.g., Disability Employment Services to support people with a disability to gain employment). The availability of these programs differs across age groups and individual characteristics (e.g., via means-testing), with varying eligibility criteria by program.

Despite the prevalence of disability across Australia (directly impacting approximately 20% of the population), those living with disability face systematically poorer outcomes. For example, there is an overrepresentation of people living with a disability in poverty - while one in six people with disability were living in poverty in 2018, this equates to just over one in 10 for Australians without disability.[18]

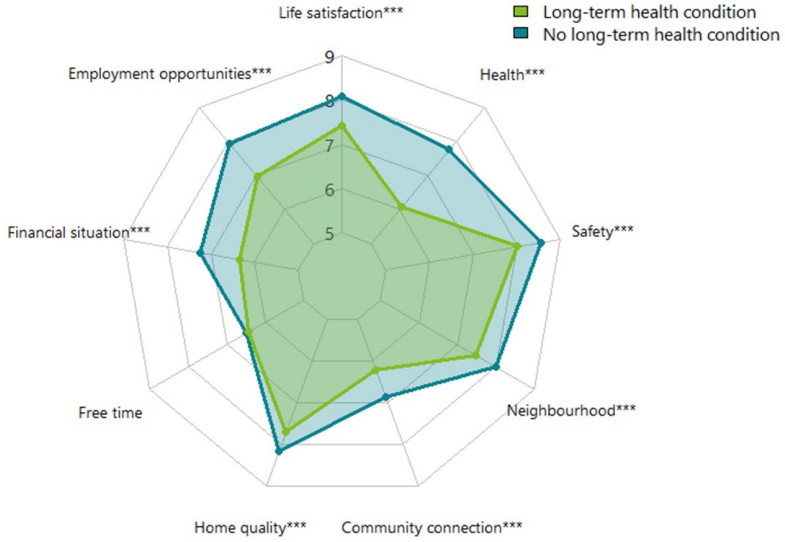
Chart 1.1: Disability prevalence by age group in Australia, 2022



Source: Deloitte Access Economics analysis of ABS, *Survey of Disability, Ageing and Carers* (2022).[9]

Deloitte Access Economics analysis of life satisfaction identifies the statistically significant difference in levels of satisfaction across a range of key financial and social metrics for those living with and without a long-term health condition (see Chart 1.2).

Chart 1.2: Satisfaction among Australians by long-term health condition status (2022)



Source: Deloitte Access Economics analysis of HILDA (2025).[8] Note: Significance codes represent the t-test for differences in means: *** $p<1\%$ ** $p<5\%$ * $p<10\%$

1.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

1.1 Context

Improving employment opportunities and outcomes for people with a disability can be expected to contribute to higher life satisfaction and improvements in both economic and social outcomes.

The role of employment in improving financial and social outcomes is well-evidenced, for those living with a disability and for the broader population. However, there is significant room for improvement in employment outcomes for Australians living with a disability.

In 2022, 53% of people with a work-limiting disability were employed, compared to 82% of the broader population. This 'labour market penalty' has been evidenced over the past 20 years, where people with a disability are 25% to 30% less likely to be employed than those without a disability.[1] Further, those who are employed may experience lower employment stability and security compared to the broader population. For full-time workers with a disability, an average of 25% will have left employment one year later (compared to 10% for the broader population).[1]

Employment generates broader welfare outcomes for both individuals and the communities in which they reside, for example through the generation of improvements in social inclusion or health outcomes. Deloitte Access Economics analysis of HILDA suggests a statistically significant and positive effect of employment on satisfaction across a range of measures (see Chart 1.3). This is supported by research by Bankwest Curtin Economic Centre, indicating a positive and causal effect of employment on the sense of wellbeing for people with a disability.[1]

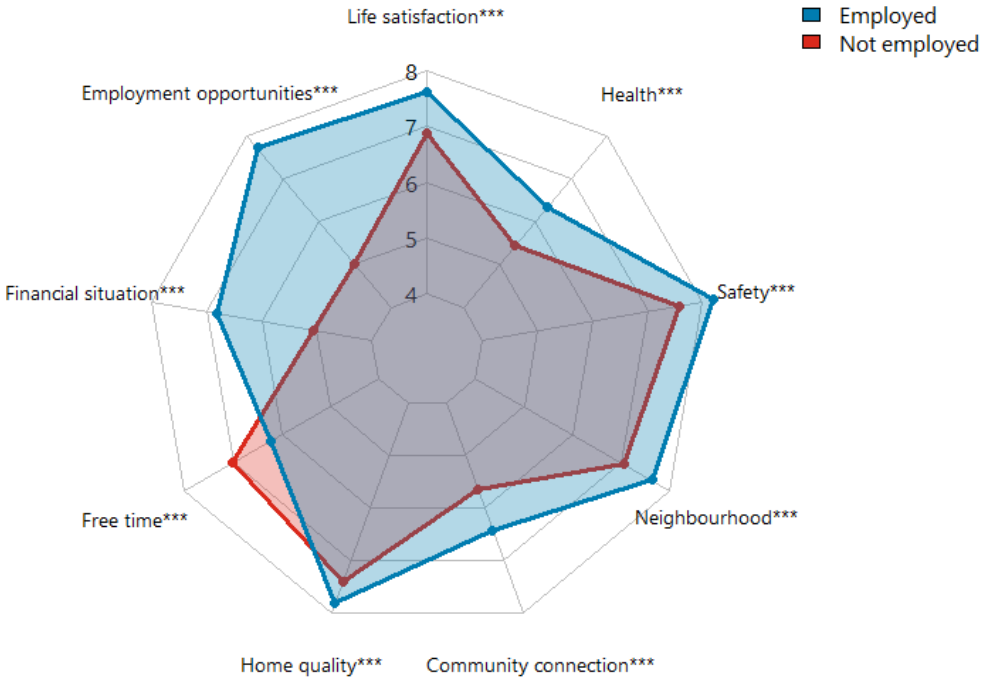
Further, the Centre of Research Excellence in Disability and Health found work to improve mental health, compared to unemployment, with these effects more pronounced for people with a disability. For example, working 1 to 14 hours per week was estimated to increase average mental health scores by 2.6 for people with disability, compared to 1.0 for those without. These effects, and the gap in effect for those with a disability compared to those without, were estimated to increase with hours worked.[11]

Improving employment outcomes for Australians with disability stands to generate significant financial benefits to government. The South Australian Centre for Economic Studies estimated that an additional 1,000 people with disability in employment could save $8.9 to $9.5 million in annual income support payments and boost GDP by $69.7 to $72.6 million per year (in 2020 dollars).[19] In addition to earnings, improved health outcomes from employment result in avoided costs for governments.

"I just think a job is one of those things everyone does and it's something they can do with their passions. … [I]t's a way to not only, I guess, earn money, but also to find enjoyment and purpose and helping other people"

– Children and Young People with Disability Australia.

Chart 1.3: Satisfaction among individuals with a long-term health condition, impairment or disability which restricts their everyday activities by employment status (2022)



Source: Deloitte Access Economics analysis of HILDA (2025).[8] Note: Significance codes represent the t-test for differences in means: *** $p<1\%$ ** $p<5\%$ * $p<10\%$

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

1.2 Purpose of this work

By building a better understanding of incentives and decision-making, this work suggests options for actionable change to reduce the risks associated with working while in receipt of the Disability Support Pension.

1.2.1 Purpose and scope of this assignment

Disability Employment Investments (DEInvestments) has been established to support people with disabilities to have better access to higher-quality job opportunities and, ultimately, employment outcomes. This work is being undertaken in pursuit of a system that limits the contribution of DSP settings to the barriers associated with workforce participation.

It is centred around an economic framework for understanding employment choices for benefit recipients, applied in the DSP context. This draws on domestic literature on economic theory and empirical evidence, with additional conceptual grounding in the DSP context. This articulates many factors – both financial and non-financial – that may contribute to an employment decision, both internal and external to the DSP. In this regard, this conceptual underpinning will support the work of DEInvestments in improving employment conditions for people with disability, extending beyond that relating to this exercise alone.

The benefits of employment have been well-established in the literature. While the financial and non-financial benefits of employment are considered (and calculated) in this work, its purpose is not to reestablish these benefits nor duplicate existing work in this space. Instead, it builds on that work by synthesising key issues and extending the literature and evidence base using available income and labour market data. In doing so, it provides an evidence base and practical solutions for change that can be used for decision-making.

The practical suggestions arrived at within this work are intended to support further co-design and delivery with Government, peaks, philanthropic organisations and employers alike – such as through place-based policy interventions (relaxing of key DSP settings evidenced within this work) and supports in a local context.

1.2.2 Analytical approach to this work

At the highest level, the report provides a 'landscape' view of the DSP and its potential issues and impacts on Australians with disability seeking more hours of paid work. It achieves this through a combination of conceptual framing, synthesis of key reviews and research in an Australian context, empirical work drawing on key national datasets and engagement with some disability peak bodies:

- Among others, the economic framework applied in this context draws on the economic theory and empirical evidence presented by the Productivity Commission on tax and transfers[3] and incentives in the DSP[2]. It draws on the conceptual framing and detailed calculations of effective marginal tax rates (EMTRs) presented by both: Ingles and Plunkett of the Tax and Transfer Policy Institute at the Australian National University[4]; and Callis and Flatau of the Centre for Social Impact[5].
- The key Inquiries synthesised include the Senate Inquiry into the purpose, intent and adequacy of the DSP (2022)[6] and the Disability Royal Commission (2023)[7], including over 70 submissions to these studies.
- The data underpinning the empirical work includes the Household, Income and Labour Dynamics in Australia (HILDA) Survey[8], Australian Bureau of Statistics (ABS) Survey of Disability, Ageing and Carers (SDAC)[9] and publicly available Department of Social Services administrative data.
- Both descriptive analysis and regression analysis have been performed, drawing in particular the methods utilised within Dockery et al. on work disincentives in Australia.[10] This work has extended both the literature and current empirical evidence base.
- Disability peaks engaged in the work include Inclusion Australia, Disability Advocacy Network Australia (DANA), Down Syndrome Australia and Children and Young People with Disability Australia (CYDA).

'Sizing the prize' for Australians with disability and Australian society (including direct effects on Government finances) helps support the case for refining the DSP not just being the right thing to do, but an economical thing to do.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

02 Recipients of the DSP

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

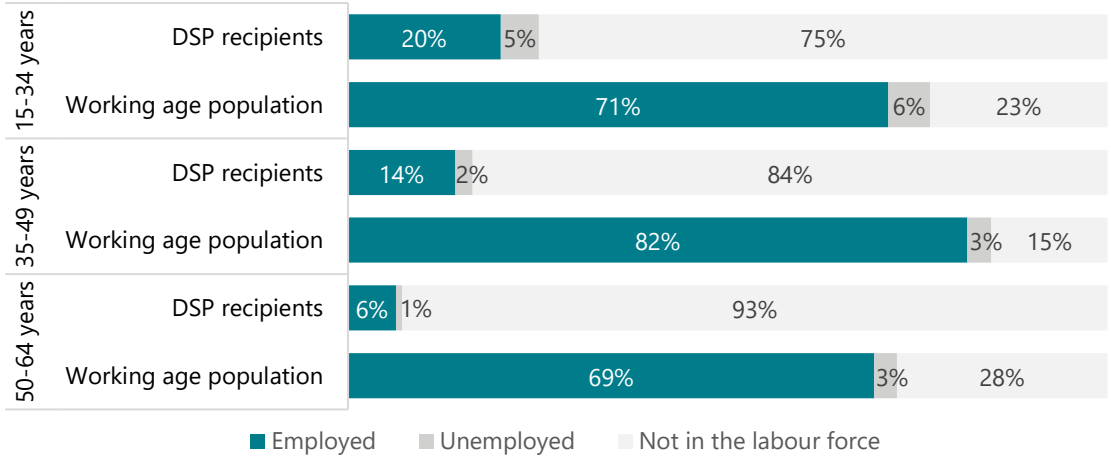
2.1 Importance of improving employment outcomes

The DSP is the primary income support for individuals experiencing moderate-to-severe disabilities, with almost a third (29%) of all people living with a disability aged 16 to 64 in receipt of the payment (in 2022).

The DSP provides income support to Australians living with a disability (under the age of 65) assessed to significantly impact their longer-term work capacity. About 800,000 people were in receipt of the DSP in 2024, while the payment supported 29% of Australians aged 15 to 64 living with a disability in 2022.[9,20] Understanding the extent to which the DSP increases the barriers (and risks) of workforce participation for these recipients is therefore critical to improving employment (and broader financial and social) outcomes for this cohort of the population. Doing so early in life has the potential to alter life trajectories, generating greater returns for individuals and government over working lives.

Lower employment outcomes are consistently observed for DSP recipients compared to the broader population. For example, a 68 percentage point difference exists in employment outcomes for those aged 35 to 49 years (see Chart 2.1).

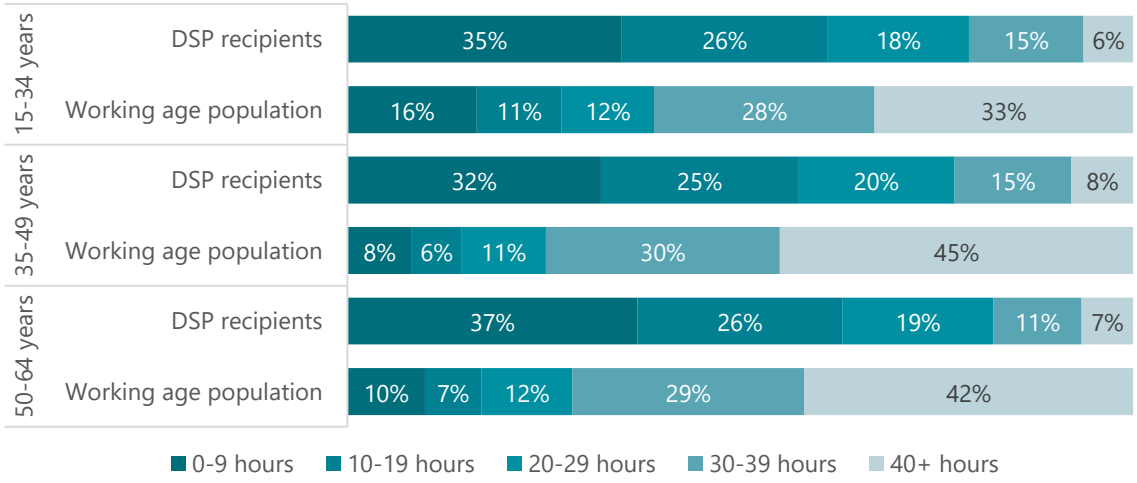
Chart 2.1: Distribution of labour force status of DSP recipients compared to the working age population by age group (2021)



Source: Deloitte Access Economics analysis of ABS, *Census of Population and Housing* (2021).[21] Note: DSP recipients are defined as individuals whose primary government benefit payment is the DSP.

Further, for those who do work, DSP recipients typically work less hours than the broader population. While 8 in 10 DSP recipients work less than 30 hours per week, this equates to about 3 in 10 of the general working age population (see Chart 2.2).

Chart 2.2: Distribution of hours worked by employed DSP recipients compared to the working-age population by age group (2021)



Source: Deloitte Access Economics analysis of ABS, *Census of Population and Housing* (2021).[21] Note: DSP recipients are defined as individuals whose primary government benefit payment is the DSP.

The identification of these labour market penalties within the HILDA dataset align to observations in the literature, and other publicly available data on people living with a disability. While poorer employment outcomes are indicative of system settings and a labour market that does not support employment for individuals with disability, a range of factors may be driving these outcomes. A more focused analysis of DSP recipients compared to cohorts with similar characteristics indicates the potential ways in which current settings may limit work optimisation for DSP recipients.

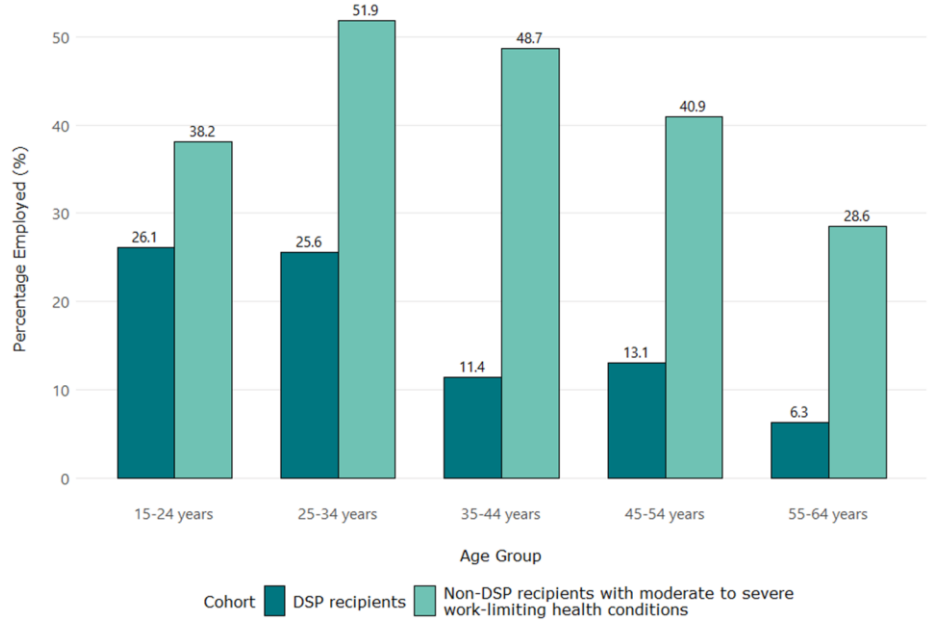
© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

2.1 Importance of improving employment outcomes

On average, DSP recipients are less likely to be employed than individuals with similar work-limiting health conditions who are not on the DSP; while those who do work tend to work fewer hours.

DSP recipients typically have poorer employment outcomes than other individuals with moderate-to-severe work-limiting health conditions that are not on DSP. Descriptive cohort analysis demonstrates the potential ways in which DSP settings – in aggregate – may be impacting employment outcomes of recipients. Deloitte Access Economics HILDA analysis estimates that 14% of DSP recipients were employed in 2022, compared to 40% of those with moderate to severe work limiting health conditions in the same period. This employment gap generally increases with age, with a substantive drop in employment outcomes for DSP recipients aged 35 and above. Employment rates by the two cohorts with moderate to severe work limiting conditions, on and off the DSP, are shown in Chart 2.3.

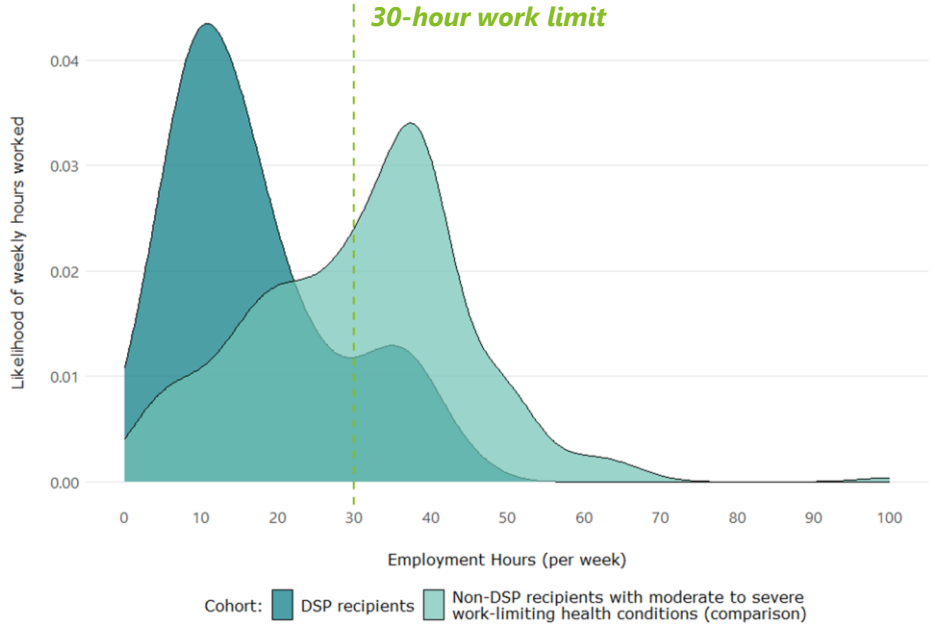
Chart 2.3: Employment rates by age and cohort (2022)



Source: Deloitte Access Economics analysis of HILDA (2025).[8]

DSP recipients tend to work fewer hours than others with moderate to severe work-limiting health conditions. Chart 2.4 shows that DSP recipients commonly work around 10 hours per week, while those not on DSP peak closer to full-time hours. The DSP activity test suspends payments for recipients working 30 hours or more per week, and eligibility criteria limit DSP applications to those unable to work at least 15 hours per week.

Chart 2.4: Density plot of weekly employment hours for employed individuals by cohort (2022)



Source: Deloitte Access Economics analysis of HILDA (2025).[8] Note: The x-axis range has been restricted to 0-100.

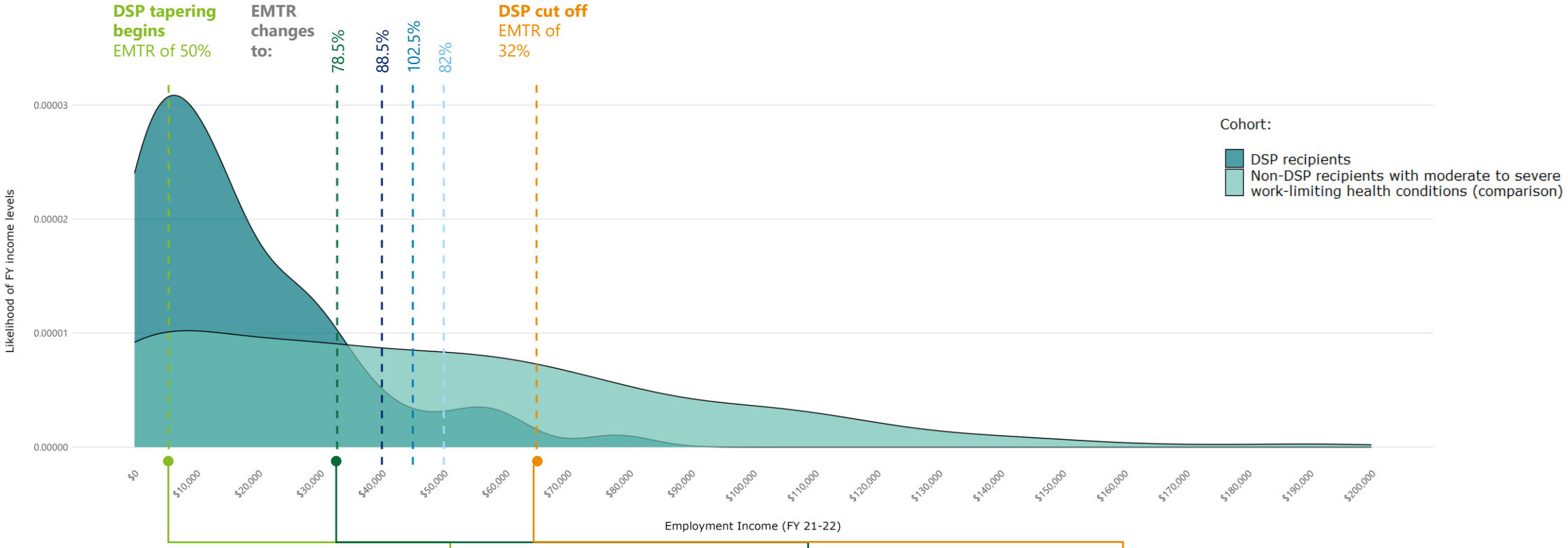
Similar observations can be made in relation to income. Chart 2.5 (over page) shows peak activity at or before the income threshold where tapering rates commence for the average DSP recipient, equivalent to $212 of income earnings per fortnight, compared to a smoother distribution of income earnings for those not in receipt of the payment.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

2.1 Importance of improving employment outcomes

Employed DSP recipients typically earn at lower income thresholds compared to those with moderate to severe work-limiting health conditions who do not receive the DSP.

Chart 2.5: Density plot of employment income for current DSP recipients and non-DSP recipients with moderate to severe work-limiting health conditions (FY22)



Employed DSP recipients earned an average of $16,800 in FY21-22, compared to $46,300 for the comparison group.

28% of employed DSP recipients earn less than $5,500 annually, the threshold **where income tapering begins** (an EMTR of 50%), compared to 21% of the comparison cohort

87% of DSP recipients earn under $32,760, the point **where the EMTR increases from 50% to 78.5%,** compared to 44% of the comparison cohort.

99% of DSP recipients earn below $65,000, the annual **income cut-off for DSP payments**, compared to 71% of the comparison cohort.

Source: Deloitte Access Economics analysis of HILDA (2025).[8] Note: The x-axis range has been restricted to $0-$200,000. The EMTRs are based on 2024 rates, informed by Callis et al (2024).[5] Rates from the 2021-22 FY may have been lower.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

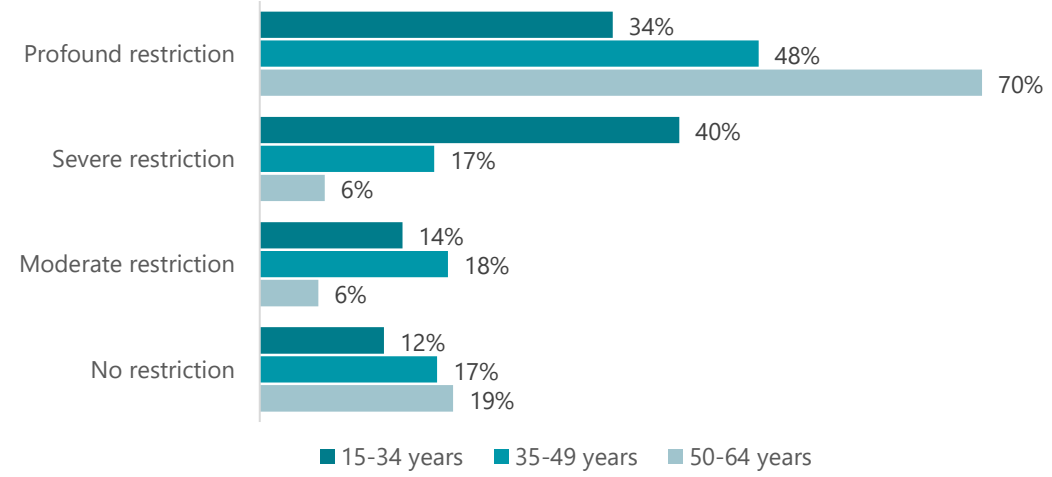
2.1 Importance of improving employment outcomes

The nature and severity of restrictions to work vary across DSP recipients, reinforcing the importance of a system that does not prohibit paid work opportunities and promotes supportive open employment.

The severity and impact of limitations to work varies across DSP recipients, with the prevalence of profound restrictions increasing with age. However, this trend is not consistent across all levels of severity, with 74% of recipients aged 15 to 34 having a severe to profound restriction (for example, compared to 65% of those aged 35 to 49 years). Further, 14% of those aged 15 to 34 years have a moderate restriction (limiting the types of jobs and hours they can work and making it difficult to change jobs).

It is acknowledged that between 12% and 19% of DSP recipients across these three age cohorts indicated no employment restriction in 2022. The Australian Institute of Health and Welfare (AIHW) note that employment restrictions may differ from the level of an individual's limitation in other areas of life. For example, 10% of people aged 15 to 64 with severe or profound disability have no employment restriction (in 2019).[22]

Chart 2.6: Distribution of DSP recipients by the experience of employment restrictions (2022)

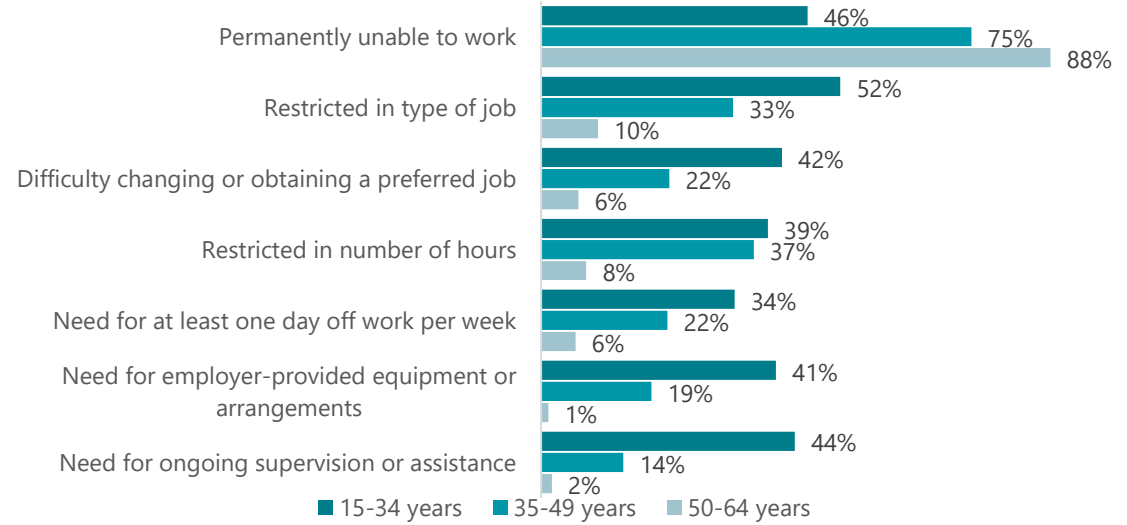


Source: Deloitte Access Economics analysis of ABS, *Survey of Disability, Ageing and Carers* (2022).[9]

The impact of restrictions on capacity to work differ by age group, with older recipients often unable to work on a more permanent basis. However, importantly, Chart 2.8 shows that over half of DSP recipients aged 15 to 34 years have some capacity to work. For younger cohorts, it is more often the case that restrictions relate to the *type of job* held or the *need for employment supports or specific arrangements* to support employment. This reiterates the importance of a labour market with supporting employment conditions for this cohort of the Australian population.

Further, among those aged 15 to 34 not currently in the labour force, 10% plan to work or look for work within the next 12 months. An additional third are unsure about their intentions. This points towards the opportunity to improve workforce engagement for this cohort of individuals, noting the importance of reducing risks relating to increased work.

Chart 2.7: Distribution of DSP recipients by type of employment restriction (multiple choice) (2022)



Source: Deloitte Access Economics analysis of ABS, *Survey of Disability, Ageing and Carers* (2022).[9] Note the percentages do not sum to 100%, as respondents can select more than one reason. Some response options have been excluded for clarity.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

Notes: The analysis on the slide focuses on DSP recipients of working age, defined as individuals aged 15 to 64 years. 1. A profound limitation refers to individuals who are unable to perform an activity or require significant help. A severe limitation applies to individuals who sometimes need help or experience difficulty with an activity. A moderate limitation refers to individuals who face difficulty but do not need assistance. A mild limitation describes individuals who experience no difficulty but may use aids or have some limitations (AIHW, 2023).

03 Opportunities to improve DSP settings

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

3.1 Understanding policy-induced barriers to work for DSP recipients

A synthesis of key reviews, inquiries and related submissions (combined with engagement with disability peaks) revealed five central issues in which the financial challenge and additional burden of current settings lands.

Despite aspiration and capacity to work, empirical evidence suggests (see Section 2) that employment outcomes of DSP recipients are systematically worse than the working-age population, and groups that share similar personal characteristics. This work aims to identify the policy settings and/or conditions faced by DSP recipients that have the most significant bearing on their incentives to participate in work.

A systematic review of sector submissions, Inquiry reports and engagement with sector peaks provided the direction on the issues focused on in this study, revealing five challenges that may be contributing to the disincentives faced by recipients related to labour force participation. These are mapped to three DSP settings, as shown in Table 3.1, which are explored further within the remainder of this section of the report.

The presence of other issues – relating to both the DSP specifically and to employment system settings more broadly – are acknowledged, though were not explicitly identified nor explored within the scope of this work.

Table 3.1: Challenges relating to DSP settings

Challenges focused on within this study	DSP settings
Significant financial disincentives towards paid work. Loss of 50 cents per dollar earned above the threshold, where DSP payments are incrementally reduced with additional earnings, results in high effective tax rates.	Tapering rates and income thresholds
Eligibility settings and processes. Barriers (and costs) to entry to the DSP that increase (safety net) loss aversion for recipients considering work.	Suspension period of two years prior to loss of DSP eligibility
Fear of loss of eligibility and risks associated with reapplication. Combined with ambiguity around work limits, a concern of short-term work capacity inhibiting future DSP eligibility for those with recurring and/or fluctuating conditions.	
Fragile nature of work for people with disability. A two-year suspension period may not adequately recognise the fragility of employment conditions (including reasonable adjustments by employers) for people living with disability.	
Reporting arrangements are difficult to navigate for both Australians with disabilities and their carers. Increasing the costs associated with work, particularly where income is not constant.	Reporting arrangements & administration

*"Although Bree wants to support herself independently, she is terrified of the insecurity that losing her DSP eligibility would cause and the **threat of losing her eligibility** feels like a **punishment for trying to support herself** without the DSP."*

– Australian Federation of Disability Organisations

*"One fortnight I would work 60 hours and lose all my DSP. Then I would take 4 weeks to recover, and that **almost $650 of wasted threshold**. Someone working 60 hours across 6 weeks might lose about 20% off their DSP. I lose 33.3% across 6 weeks. **How is that fair?**"*

– ME/CFS Australia Ltd

*"**Let people keep more of what they earn**. It is a hard struggle to actually work when you are severely disabled. Make it worth their while. But also don't cut them off when they are able to occasionally have a burst of energy and do some extra hours. **They will still need the security of the DSP long term**."*

– Purple Orange

*"Allie now faces the conundrum of **weighing up whether she should be resigning or asking for fewer hours** – even though she is employed in a role she enjoys and perceives as being good for her mental health – because **longer term she would be financially more secure with the DSP payments** and its related health care benefits."*

– Australian Federation of Disability Organisations

*"**Reporting hours for work when working was so difficult** and always got fines for doing it wrong, but **workplace never paid by the day Centrelink wanted reporting** so it was very hard to add up exact amounts and then the fines caused financial stress and got behind in rent and it was really really hard to do. **Then lost jobs cos of stress on reporting issues**."*

– People with Disability Australia

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

3.1 Understanding policy-induced barriers to work for DSP recipients

Combining evidence presented in the literature and by the sector, analysis conducted within this study indicates the roles that financial disincentives have on employment decisions, including how much individuals work.

Understanding financial incentives

Prior work by the Productivity Commission; Ingles and Plunkett; and Callis and Flatau demonstrate the high effective marginal tax rates (EMTRs) experienced by DSP recipients. EMTRs are a measure of the loss of each additional dollar earned to taxes or transfers – in this case relating to benefit tapering (of 50 cents) beyond the income free area (of $212 per fortnight in standard cases).[2,3,4,5]

In programs aimed at supporting those with lower capacity to work, benefit tapering typically occurs to moderate overall program costs while continuing to provide some level of support. However, analysis on employment outcomes and labour market behaviour of DSP recipients indicates that the current calibration of tapering rates may be overly affecting work decisions – and leading to suboptimal employment outcomes.

Financial settings of the DSP, in this context, refer to the incentives / disincentives imposed by the combined tax and benefit system for benefit recipients – largely relating to the clawback of benefits as income increases.

Comparing employment outcomes of DSP recipients to a group of individuals who share similar characteristics helps to illustrate the importance of the financial settings of the DSP as a driver of employment outcomes:

- About 28% of employed DSP recipients earn less than $5,500 annually, the threshold where income tapering begins (compared to 21% of individuals with moderate to severe work-limiting conditions, not in receipt of the DSP). Further, 87% of DSP recipients earn under $32,760, the point where the EMTR increases from 50% to 78.5%, compared to 44% of this group not on the DSP. Income outcomes of these two cohorts are shown in Chart 3.1.
- This pattern is maintained when compared to previous DSP recipients with ongoing work-limiting health conditions (Chart 3.2). While a smaller comparison group, this cohort have highly similar characteristics to current DSP recipients, yet have higher employment earnings that do not reflect particular threshold behaviours.

A combination of factors likely impact employment. The analysis on subsequent pages within this section focus on the financial disincentives relating to the tapering of benefits beyond the income threshold. Other factors (e.g., administrative burden, risks associated with loss of DSP, external factors) are acknowledged though not explicitly explored (due to data availability) within the scope of this quantitative analysis.

Chart 3.1: Density plot of employment income for current DSP recipients and non-DSP recipients with moderate to severe work-limiting health conditions (FY22)

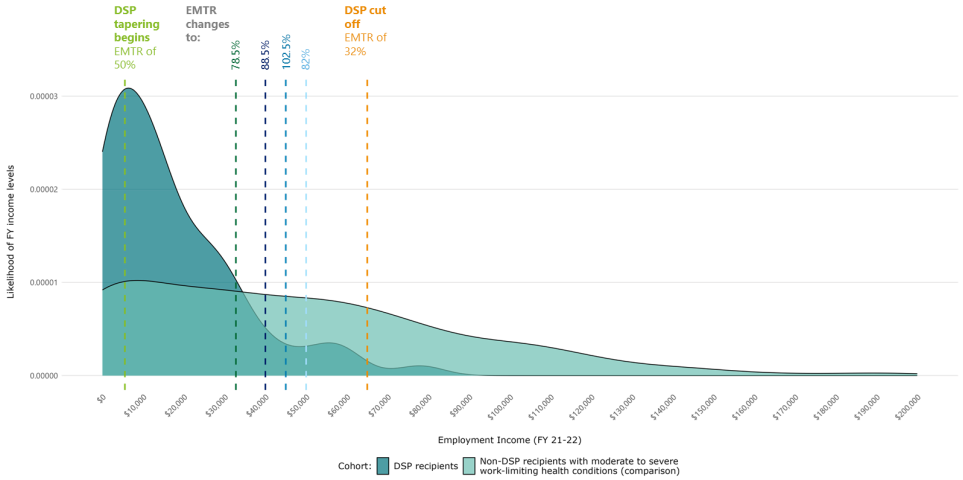
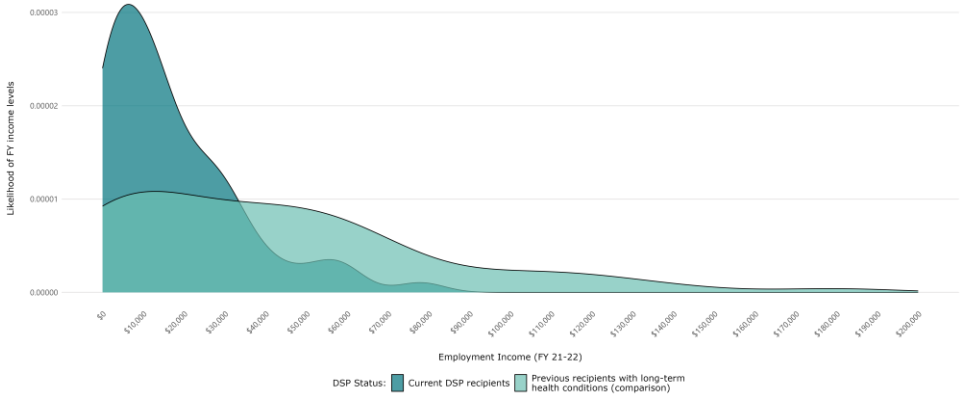


Chart 3.2: Density plot of employment income for current and previous DSP recipients with a long-term health condition (FY22)



© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

3.2 Estimating how financial disincentives, including benefit tapering, impact work decisions

DSP recipients face significant financial disincentives when entering the labour market. Reducing these disincentives by 20 percentage points could increase average employment probability by between 1% and 4%.

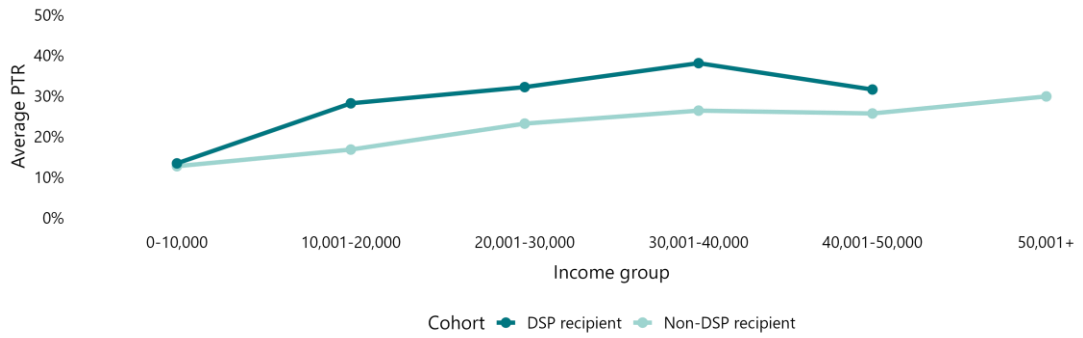
Estimating the financial disincentives facing DSP recipients out of work

Several Australian studies acknowledge the financial disincentives imposed by the combined tax and benefit system for benefit recipients, such as the loss of 50 cents for every dollar earned above the income threshold ($212 per fortnight in standard cases), where DSP payments are gradually reduced. While a number of these studies focus on the intensive margin – i.e. the decision on how much to work, few studies have examined benefit recipients at the extensive margin – the decision to work or not. No studies were identified that specifically assess *how* DSP recipients respond to changes in these disincentives by combining economic theory with data available on labour market outcomes.

The disincentives contributing to the decision to work are commonly measured by participation tax rates (PTRs), which show the portion of earnings lost to taxes and benefit reductions when starting work. High PTRs reduce the incentive to work, as much of the additional income is offset by taxes and reduced benefits.

DSP recipients face particularly high disincentives to work. Using HILDA, estimates show that from FY 2015–16 to FY 2021–22, DSP recipients consistently faced higher PTRs than other non-employed individuals within the same income groups (Chart 3.3).

Chart 3.3: Average PTR by DSP recipient status across FY earnings (FY16 to FY22)



Source: Deloitte Access Economics analysis of HILDA (2025).[8]

The impact of reducing disincentives on the decision to work

The literature identifies several approaches that could be deployed to estimate the impact of PTR changes on individual decision making. This analysis reflects this by presenting a range of outcomes, derived from three established specifications.*

Deloitte Access Economics has assessed the impact of financial disincentives, as measured by PTRs, on the likelihood of DSP recipients entering employment. The findings indicate that while DSP recipients respond similarly to other non-employed individuals, their lower initial employment probability means that PTR changes can lead to relatively large increases in numbers of individuals with disability employed.

The modelling reveals that financial disincentives have a moderate, yet significant, effect on the employment probability of non-working DSP recipients. Table 3.2 illustrates the estimated change in employment probability for DSP recipients across varying PTR reductions. While the absolute impact is modest, it is significant in relation to their baseline probability. However, it suggests that a substantial reduction in PTR may be necessary to generate a material impact on employment probability.

These findings have been validated against a range of domestic and international studies, though differing barriers to work and starting points across cohorts may impact comparabillity.[12,13,14]

Table 3.2: Impact of PTR changes on employment probability for DSP recipients (FY16 to FY22)

Decrease in PTR	Lower bound	Point estimate	Upper bound
10 percentage points	0.45%	0.55%	2.13%
20 percentage points	0.98%	1.20%	4.12%
30 percentage points	1.57%	1.91%	5.84%

Source: Deloitte Access Economics analysis of HILDA (2025).[8]

** This analysis incorporates estimates derived from OLS, Probit, and Logistic model specifications. The estimates from all three model specifications are presented to illustrate the potential range of benefits under a change. Whilst there is a case for each model, logit and probit models were assessed to provide a more representative fit for the data. As a result, more weight should be placed on impacts yielded from these specifications, which represent the lower bound and point estimates, despite the validity of OLS more broadly.*

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

3.2 Estimating how financial disincentives, including benefit tapering, impact work decisions

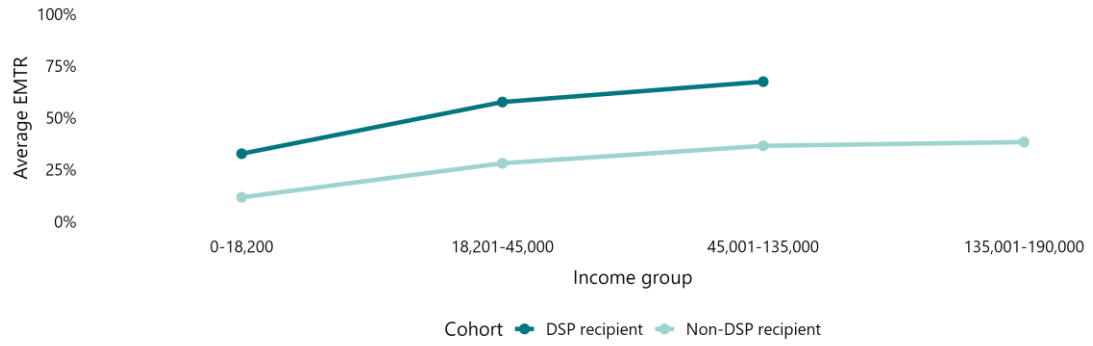
DSP settings can discourage recipients already in work from increasing their hours. Reducing these disincentives by 20 percentage points could raise hours worked by up to one hour per week per employed DSP recipient.

Estimating the financial disincentives facing DSP recipients in work

For DSP recipients in the labour market, the interaction of the tax and benefits system can create disincentives to increasing participation, particularly due to the withdrawal of benefit payments. These disincentives are captured by effective marginal tax rates (EMTRs), which show the proportion of additional earnings lost to taxes and benefit reductions as incomes rise. High EMTRs discourage individuals from working more hours.

Deloitte Access Economics' research extends this literature, showing that employed DSP recipients face particularly high disincentives to increasing their work hours, compared to non-DSP recipient workers. DSP recipients consistently experience EMTRs above the national average, which increase as they enter higher income brackets and approach thresholds where DSP benefits are withdrawn more rapidly (Chart 3.4).[i]

Chart 3.4: Average EMTR by DSP recipient status across FY earnings (FY16 to FY22)



Source: Deloitte Access Economics analysis of HILDA (2025).[8]

Notes: i. This includes all Australians, including those receiving benefits such as the Disability Support Pension, JobSeeker, and Parenting Payment, as well as other welfare and tax supports like the Family Tax Benefit (FTB) or Low-Income Tax Offset (LITO). The loss of these supports contributes to a significantly higher EMTR compared to the standard marginal tax rate.

The impact of reducing disincentives on the decision of how much to work

While Australian studies acknowledge that the tax and benefit system can impose high EMTRs, particularly for benefit recipients, few have specifically examined their impact on labour force participation, and none have focused directly on DSP recipients.

Deloitte Access Economics has assessed how financial disincentives affect DSP recipients' likelihood of increasing their work hours. The analysis shows that DSP recipients respond differently from the general population. At very high EMTRs, DSP recipients are more likely to reduce their hours, while the general population is less sensitive (likely due to these higher rates affecting individuals in higher income tax brackets).

The modelling reveals that financial disincentives have a moderate, yet significant, impact on the likelihood that employed DSP recipients increase their hours. Table 3.3 illustrates the estimated change in weekly hours worked for DSP recipients across varying EMTR reductions. Similar to the PTR analysis, the findings suggest that a significant reduction in EMTRs may be required to produce a meaningful impact on weekly hours worked.

Table 3.3: Impact of EMTR changes on weekly hours worked for DSP Recipients (FY6 to FY22)

Decrease in EMTR	Lower estimate for the change in hours	Average change in hours	Upper estimate for the change in hours
10 percentage points	0.00	0.34	0.90
20 percentage points	0.15	0.58	1.00
30 percentage points	0.42	0.72	1.02

Source: Deloitte Access Economics analysis of HILDA (2025).[8] Notes: The lower and upper estimates are based on the 95% confidence interval for the coefficient estimate of the effect of EMTRs on the change in hours, with the minimum bound of the confidence interval set to 0.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

3.3 Potential benefits of a change in the tapering rate

Reducing the tapering rate to 30 cents could increase employment by 3,200 to 14,700 individuals, generating between $419 million and $2.3 billion in direct benefits to society (from 2026 to 2035).

This analysis models three scenarios for reducing the taper rate beyond the income-free area, from 50 cents to 40, 30, or 20 cents for each dollar earned over the income threshold. The scenario with a taper rate reduction to 30 cents is discussed below, with the other scenarios detailed in Appendix B.

A reduction in the tapering rate to 30 cents is estimated to increase employment probability for DSP recipients by between 0.4% and 1.9%. This is estimated to result in additional employment for DSP recipients of between 3,200 and 14,700, on average, from 2026 to 2035.

DSP recipients already in work are estimated to increase their hours worked. On a base of 13 hours (for DSP recipients not exceeding the 30 hour activity test), individuals are estimated to increase hours worked by two hours per fortnight. This could lead to an additional 121,000 to 3 million hours worked across the cohort each year.

This equates to a net benefit of between $419 million and $2.3 billion between 2026 and 2035 (in Net Present Value (NPV) terms), capturing direct financial benefits to recipients and Government only (employment income, taxation revenue and benefit payments).

The upper bound of these estimates suggest significant returns for both individuals and Government. The realisation of such change would require the highest level of responsiveness to a change in incentives. Broader systems change (employment opportunities and labour market conditions) may be critical to achieving this level of success.

On the other hand, the lower bound of the taper reduction scenario results in a net cost to the Government, primarily due to additional benefit payments to employed individuals who do not significantly increase their hours. However, if these individuals increase their weekly hours by 1.5 hours, all parties would stand to be at least as well off under the change.

In addition to these direct effects, there are significant indirect benefits for individuals and society (including Government), such as enhanced productivity, higher private consumption, improved health outcomes, and greater social inclusion.

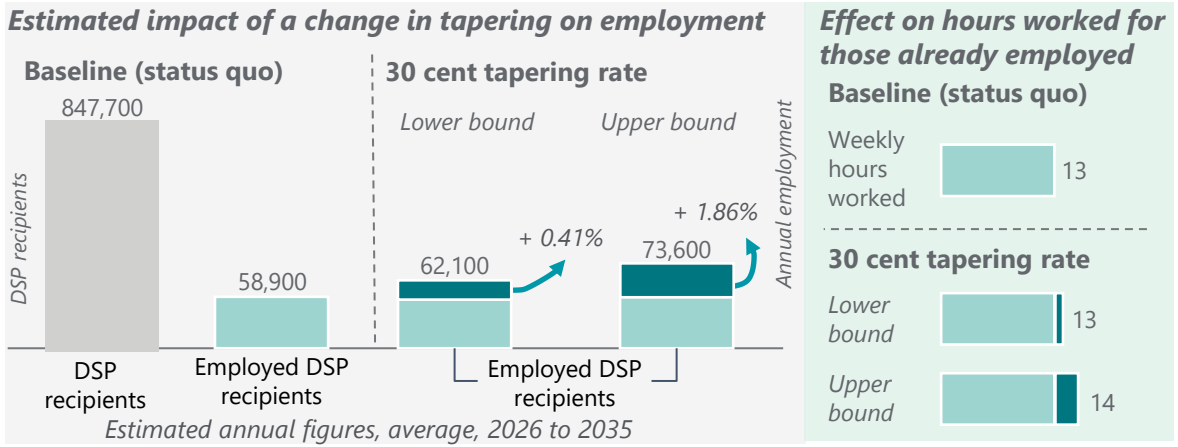


Table 3.4: Impact of reducing the tapering rate from 50 cents to 30 cents, NPV, 2026-35

	Lower	Upper
Scenario results		
Change in likelihood of employment	0.41%	1.86%
Average change in employment (annual)	3,200	14,700
Additional hours worked by those employed (average, annual)	121,500	3,055,000
Analysis of direct costs and benefits, relative to status quo	**(over 10 years)**	
Individuals		
Income earned ($ millions)	419	2,323
Benefits received from Government ($ millions)	402	63
Less taxes paid to Government ($ millions)	-6	-82
Net benefit (income and benefits less taxes) ($ millions)	814	2,304
Government		
Taxation received ($ millions)	6	82
Less Benefits paid to DSP recipients ($ millions)	402	63
Net benefit (taxation less benefits) ($ millions)	-395	19
Net benefit ($ millions)	**419**	**2,323**

Note: Net present value is calculated with a discount rate of 7%, where 2025 is year 0, consistent with the guidelines from the Australian Government Office of Impact Analysis. All financial figures are presented in real terms, adjusted to 2024 dollars using the Wage Price Index and Consumer Price Index.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

3.4 Suspension periods and cancellation risk

Potential loss of DSP eligibility in a future period increases the financial disincentives associated with work in the current period.

Purpose and current calibration of the suspension period

The suspension period was designed to serve as a grace period while DSP recipients explore work options. The decision to suspend rather than cancel benefits if a recipient exceeds activity or income tests was intended to resolve the uncertainty about requalification for DSP after a period of employment.

Th current suspension period of two years results in cancellation of benefits after two continuous years in 'suspension' – that is, as a result of earning above the upper income threshold or exceeding 30 hours of work per week.

Anecdotal evidence suggests that two years is not enough for individuals to establish sustainable employment. This is particularly the case given the uncertainty surrounding employment for many recipients. For example, engagement with peak bodies undertaken as part of this study highlighted:

- *People need the confidence that DSP will be there if employment doesn't work out.*
- *It can take 3-4 years to get to secure jobs in the open market, so only maintaining that eligibility for two years is a concern.*
- *A person with a disability who can work in some capacity may be hired by someone who makes a purposeful decision. But what if that person moves on after two years and they lose that job?*

Further, submissions to the DSP inquiry support these conclusions, and provide direct examples of how a short suspension period can affect work-related decisions:

> *Currently, the disabled person is only "**not living in fear**" if they do nothing" –* (name withheld, sub. DR623, p.1)

> *"Although Bree wants to support herself independently, she is **terrified of the insecurity that losing her DSP eligibility would cause** and the **threat of losing her eligibility** feels like a punishment for trying to support herself without the DSP." –* Australian Federation of Disability Organisations

Potential consequences of an insufficient suspension period

Heightened risk aversion can result in a fear of loss that exceeds the perception of benefits of additional income from work, for some individuals. As a result, the fear of loss has the potential to impact all work-related decisions for DSP recipients. Crucially, the vulnerability of working arrangements for people with a disability increases aversion to risk, meaning many individuals respond to the fear of loss by reducing the amount they work, or by not working at all.

Illustrative modelling by the Productivity Commission (2011) provides a quantitative basis in support of suggestions that uncertainty around loss of eligibility can impact work-related decisions. This work highlights that uncertainty relating to future payments increases marginal tax rates in the current period, once the risk of losing future payments is accounted for.[2] As a result, the fear of losing eligibility leads to risk aversion when it comes to participating in work, creating disincentives for recipients who may want to work more.

Further, DSP recipients' risk aversion is heightened due to the vulnerability of their employment. **DSP recipients (and people with a disability more broadly) are at high risk of labour market churn and lower job security**.

- BCEC analysis shows that for full-time workers with a disability, an average of 25% will have left employment one year later (compared to 10% for the broader population). Further analysis of work transitions over eight years (2015-22) shows the substantial movement between not in the labour force and part-time work (17%) or unemployment (13%).[1]
- And, if people with disability do need to leave work for a period of time (either relating to their condition or job loss), it is harder to find suitable employment. In 2022, 28% of unemployed people with disability were still looking for work at 104 weeks or more (10% for those with no disability). This increases to 36% for those with employment restrictions.[9]

In the DSP context, this may be combined with fluctuating and recurring conditions that may limit work capacity at a future data (and unexpectedly). Alternatively (or additionally), a change in work circumstances may reduce job suitability at any time, with subsequent challenges findings alternative work.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

3.4 Suspension periods and cancellation risk

An extended suspension period could better support people looking to increase or maintain their employment, by reducing the risks associated with work.

The case for an extended suspension period

The evidence and logic established in this report highlights the risks associated with the loss of DSP eligibility pre-emptively, and supports the case for a longer suspension period. Lengthening the suspension period could generate the following benefits for individuals:

- **lowering the risks associated with work**, with a reduction in the uncertainty related to loss of welfare benefits lowering effective marginal taxes for recipients
- better enabling workers to **establish confidence in the workplace**, and that employment can be maintained over the longer-term, prior to risk of cancellation
- providing individuals **greater license to increase employment and explore options**, with the knowledge they can return to the DSP as a safety net if this is required.

An extended suspension period could better support people looking to increase or maintain their employment in the following ways:

- DSP recipients with suspended benefits – especially those approaching two years of suspension – are likely to feel the largest impact, with an extension mitigating the risk of imminently losing eligibility and enabling individuals to maintain work. For these individuals, further to the additional security of maintaining DSP eligibility, are the Health Care Card (HCC) benefits maintained over the suspension period. These lower costs for people already at risk of facing higher everyday costs associated with living with a disability – at a relatively low cost to Government.
- The potential benefits of lowering risks associated with loss of DSP eligibility also extend beyond those in a suspension period. The additional security – and lower risk of employment – may both: (1) encourage people not currently working to enter work; and (2) support those already working to increase hours or earnings with the additional security provided by a longer safety net.

To mitigate the risks associated with the loss of DSP at two years of work (considered within the sector as insufficient to demonstrate long-term capacity), the suspension period could be extended to accommodate for the time required for individuals to establish stable employment. This would provide individuals with additional security for a longer period, encouraging individuals to explore their options to increase their employment and establish confidence in the work, without the risk of losing DSP eligibility.

There is limited consensus on the point at which employment becomes stable, for long-term jobseekers generally and people with disability specifically. Deloitte Access Economics analysis of job tenure within HILDA indicates average job tenure of five years for DSP recipients compared to seven years for non-recipients. This work proposes (and illustrates) an extension of the suspension period to 10 years.

However, the lifetime nature of some manifest and intellectual disabilities points to the potential for ongoing barriers in maintaining sustainable employment over time. This underscores the importance of DSP eligibility being maintained over the long-term for these individuals – that is, lifetime eligibility beyond 10 years consistent with the nature of their condition(s).

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

3.4 Suspension periods and cancellation risk

An extended suspension period could better support people looking to increase or maintain their employment, by reducing the risks associated with work.

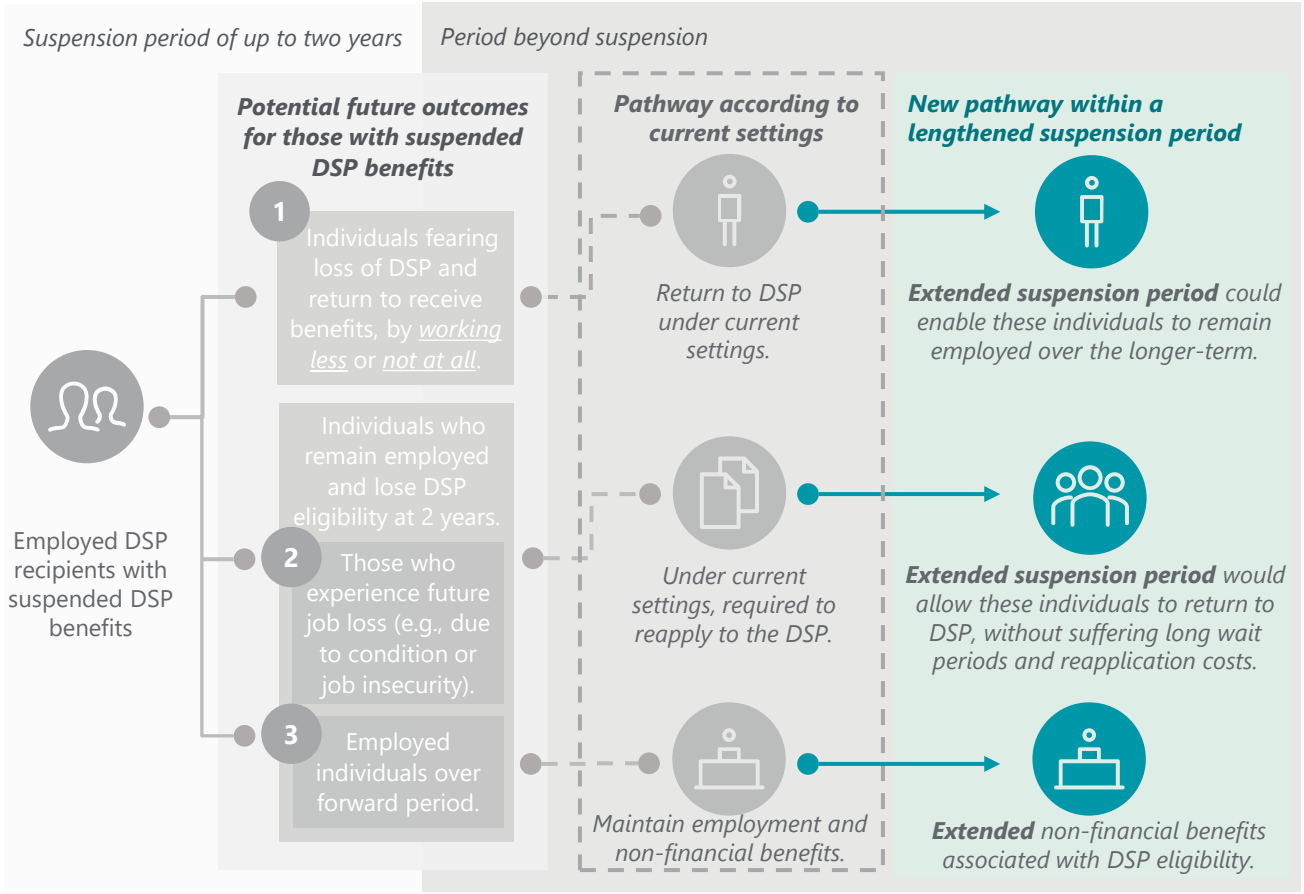
Potential benefits resulting from an extended suspension period

Higher risks associated with increased employment for DSP recipients include: (1) the loss of DSP itself, creating financial disincentives in the current period; (2) higher job instability and challenges attaining suitable work; and (3) compounded risks associated with recurring and fluctuating conditions.

While an extended suspension period could reduce work-related risks for all DSP recipients able to work, this analysis focuses on the benefits to the group nearing two years of suspended benefits. Three potential **pathways** for this group are considered:

- **Group 1:** Under current settings, this group risk losing DSP eligibility and non-financial HCC benefits at two years. To mitigate this risk, this group may reduce (or exit) employment and return to receive DSP benefits, resulting in lost potential income from employment.
  An extended suspension period could allow this group to continue working without the risk of losing their benefits at two years. This could lead to eight years of additional income (less taxation paid to government and DSP benefits).
- **Group 2:** Some recipients with suspended benefits may remain employed and lose DSP eligibility at two years. These individuals may then subsequently experience job loss (e.g., due to their condition or job insecurity) after DSP eligibility is lost. Under current settings, they would need to reapply to DSP (receiving Jobseeker in the interim). An extended suspension period would extend the safety net for recipients to explore employment and allow these individuals to return to DSP benefits if they are unable to find sustainable employment.
- **Group 3:** Under current settings, this group lose DSP eligibility and the associated non-financial benefits at two years. Extending the suspension period maintains HCC benefits – and the non-financial benefits associated with a DSP safety net – for eight additional years.

Figure 3.1: Potential impacts of an extended suspension period for DSP recipients with suspended DSP benefits



© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

3.3 Suspension periods and cancellation risk

Extending the suspension period could generate $105,000 in net benefit to the individual and $282,000 net fiscal benefits to Government (per person, over eight years).

Table 3.5 outlines how the pathway for different groups could change if the suspension period was extended from two to ten years. This includes a description of the illustrative costs and benefits for individuals and government, as well as some of the assumptions underlying these calculations.

Table 3.5: Impact of extending the suspension period to 10 years

Pathway	Current DSP settings	Extended suspension period of ten years	Illustrative costs and benefits
1. Group 1	Faced with the risk of losing DSP eligibility and the associated non-financial benefits, reduce or exit employment and return to receive DSP benefits, forgoing potential income from employment.	Extending the suspension period reduces the risk of losing DSP and non-financial benefits of DSP eligibility, encouraging individuals who are able to work to explore employment.	An individual would benefit from eight additional years of income from employment, without having to reduce or exit employment to retain DSP eligibility. The additional income (less taxation paid to government and receipt of DSP benefits), equates to **$105,300** in net benefit over eight years. In this case, government would benefit from the additional tax revenue from the individual sustaining higher income employment and not paying fortnightly DSP benefits to the individual. Over eight years this represents a net benefit of **$282,400** for government.
2. Group 2	After losing DSP eligibility and associated non-financial benefits following 2-years of suspended benefits, these individuals experience job loss due to their condition or job insecurity. This group would be required to reapply to DSP (receiving JobSeeker in the interim).	Extends the safety net for individuals whose employment is more vulnerable and less secure and are more likely to experience sporadic periods out-of-work than others. In doing so, this supports individuals gaining sustainable employment.	An extended suspension period would allow individuals who leave employment after more than 2-years of suspended benefits to return to DSP benefits, rather than receiving Jobseeker benefits for a given period until they regain DSP eligibility. Enabling someone to return to DSP benefits rather than claim Jobseeker for a period of 18 months - adjusting for Jobseeker claim processing time - generates net benefits of up to **$15,600** (if the Program of Support is required). This equates to a net cost of up to $15,600 for government. [17]
3. Group 3	Maintain sustainable employment but lose non-financial benefits after 2-years.	Extends access to non-financial benefits associated with DSP eligibility for eight additional years.	An individual would benefit from eight additional years of eligibility to the non-financial benefits associated with DSP, such as Health Care Card benefits. While limited data are available on the HCC specifically, prior work estimated pensioner card value at $60 per fortnight.[15]

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

04 Implementation and next steps

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

Summary

Taking these suggestions forward should involve co-design and delivery of a place-based approach with governments, peaks, philanthropic organisations, employers and community leaders alike.

For a cohort of DSP recipients who will simultaneously receive supports to access job opportunities in their region, the ask is to (1) reduce DSP benefit tapering to 30 cents, while (2) extending the suspension period to 10 years.

This research suggests that a change in tapering would support additional DSP recipients into employment, while potentially increasing the hours worked by those who are already employed. **To achieve the highest level of impact, it is critical that other barriers to work – including the risks associated with the loss of DSP – are minimised.**

This work therefore starts to advocate for an extension of the DSP benefits suspension period towards 10 years. Anecdotal evidence suggests that the two-year grace period (intended to support exploration of work options) is not enough. The heightened risk to DSP recipients – arising from lower employment security, challenges obtaining suitable employment and of lengthy eligibility processes if reapplication to DSP is required – is evident.

Some manifest and intellectual disabilities are lifelong. There is ongoing potential for barriers in maintaining sustainable employment for these individuals; underscoring the importance of considering lifelong DSP eligibility for these individuals.

This work has focused on the reduction of barriers and risks that manifest as financial disincentives and loss of DSP eligibility. However, DSP reforms should be considered in the context of broader systems change required to optimise employment outcomes of people with disability.

Three key DSP settings were identified as a potential focus as part of this work: (1) financial disincentives relating to benefit tapering; (2) suspension periods and cancellation risk; and (3) burden of reporting arrangements. The final scope of work was guided by available data – measuring and modelling changes in financial disincentives, while illustrating potential changes to the suspension period.

There is limited data to measure (or estimate) the potential impacts of the risk of cancellation, complexity around reporting and other administrative processes, and risks associated with reapplication to the DSP. To understand the contribution of these factors, a (carefully designed) survey would help to reveal the stated preferences of DSP participants, which could be combined with the logic and anecdotal findings captured within this study.

Further, while the methods utilised in this analysis control for the factors impacting decision-making to the degree possible, there may be additional factors (both internal and external to the DSP) impacting employment outcomes. For example, evidence indicates that the effectiveness of employment-focused social enterprises in transitioning individuals with disabilities into open employment can be hindered by external factors – including prevailing norms and the lack of proactive disability employment measures.[26]

Improvements in the ongoing availability, quality and flexibility of work opportunities for people with a disability is key to success. Local employers and the broader labour market environment therefore play a critical role in supporting better employment outcomes.

A place-based pilot where there is a strong case for change could demonstrate the value of these changes to individuals, enterprise and to government.

There may be opportunity to implement these changes in a focused way at first, in a region(s) where there is evidence of potential to improve labour market outcomes for DSP recipients – such as where the labour market is tight and skill shortages are most acute, and community cohesion is high. In considering the potential scope of change in any time-limited pilot, and subsequent approaches to monitoring and assessing impacts, it should be acknowledged:

- In some cases, temporary and localised changes may not have the behavioural effect that a widespread and permanent change would. This may particularly be the case where there is higher risk aversion and/or anticipation of a return to the status quo.
- The impacts of such a change can take time. Potential lagging of effects should be considered when determining the appropriate approach and timing of future monitoring and evaluative efforts, alongside demographic and labour market context in that region.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

Reference list (1)

1. Bankwest Curtin Economic Centre, *Employment and Disability in Australia – Improving employment outcomes of people with disability* (Focus on the States Series No 10/24, March 2024) <https://bcec.edu.au/assets/2024/03/BCEC-Employment-and-disability-in-Australia-2024-WEB.pdf>.

2. Productivity Commission, *Disability Care and Support* (Report no. 54, July 2011) <https://www.pc.gov.au/inquiries/completed/disability-support/report>.

3. Productivity Commission, *Tax and Transfer Incidence in Australia* (Commission Working Paper, October 2015) <https://www.pc.gov.au/research/completed/tax-and-transfer-incidence/tax-and-transfer-incidence.pdf>.

4. Ingles, D., & Plunket, D, 'Effective marginal tax rates' (2016) TTPI Policy Brief 1/2016 *Australian National University, Tax and Transfer Policy Unit* <https://crawford.anu.edu.au/sites/default/files/2025-03/Ingles%20Plunkett%20Policy%20Brief%201_2016%20LAST.pdf>.

5. Callis, Z., & Flatau, P, 'Effective marginal tax rates faced by those on Disability Support Pension' (2024) *Centre for Social Impact, University of Western Australia.*

6. Commonwealth of Australia, *Purpose, intent and adequacy of the Disability Support Pension* (February 2022) <https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Community_Affairs/DisabilitySupportPensio/Report>.

7. Commonwealth of Australia, *Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability* (July 2023) <https://disability.royalcommission.gov.au/>.

8. Department of Social Services & Melbourne Institute of Applied Economic & Social Research, *Household, Income and Labour Dynamics in Australia (HILDA) Survey, Waves 1-22* (2024).

9. Australian Bureau of Statistics, *Survey of Disability, Ageing and Carers, 2022* (released July 2024).

10. Dockery, A., Ong, R. & Wood, G, 'Welfare traps in Australia: Do they bite?' (2007) *Centre for Labour Market Research Discussion Paper* <https://melbourneinstitute.unimelb.edu.au/assets/documents/hilda-bibliography/hilda-conference-papers/2007/Dockery,-Mike_final-paper.pdf>.

11. Centre of Research Excellence in Disability and Health, *Impact of Part Time Work for People with Disability* (2022) <https://www.unsw.adfa.edu.au/sites/default/files/documents/RFQ07019_MSPGH_CRE_DH_Wise_Employment_Report.pdf>.

12. Nguyen, N, 'Empirical Insights into Australia's Labour Market: Examining the Impact of the Tax and Transfer Systems on Workforce Participation Across Two Decades' (2023) <https://researchsystem.canberra.edu.au/ws/portalfiles/portal/96138365/Nguyen_Nhung.pdf>.

13. Office for Budget Responsibility (United Kingdom), *The labour supply effects of the Autumn 2023 National Insurance Contributions cut* (February 2024) <https://obr.uk/docs/dlm_uploads/NICS-Cut-Impact-on-Labour-Supply-Note.pdf>.

14. Collado, D, 'Financial work incentives and the long-term unemployed: the case of Belgium' (2018) *Euromod Working Paper Series* <https://repository.uantwerpen.be/docman/irua/926aec/148219.pdf>.

15. Baker, D, 'Missing Out – Unclaimed government assistance and concession benefits' (2010) <https://melbourneinstitute.unimelb.edu.au/assets/documents/hilda-bibliography/other-publications/pre2010/Baker_Unclaimed_governernment_assistance_TAI_PB14.pdf>.

16. Chui, C, Chan, C. & Chandra, Y., 'The role of enterprises in facilitating labour market integration for people with disabilities: A convenient deflection from policy mainstreaming?' (2021) 42(1) *Journal of Social Policy.*

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

Reference list (2)

17. Department of Social Services, 'Services Australia delivers 900,000 claims, reduces call wait times' (2024) <https://ministers.dss.gov.au/media-releases/15451>.

18. Australian Federation of Disability Organisations, 'Poverty and Disability – Fast Facts' (20 September 2019) <https://afdo.org.au/wp-content/uploads/2019/10/Poverty-Disability-APW-2019.pdf>.

19. The South Australian Centre for Economic Studies, *Disability Employment Landscape Research Report* (June 2021, report commissioned by Disability and Carer Reform Branch Department of Social Services) <https://www.dss.gov.au/system/files/resources/disability-employment-landscape-research-report.pdf>.

20. Department of Social Services, *DSS Benefit and Payment Recipient Demographics - quarterly data* (2025) <https://data.gov.au/data/dataset/dss-payment-demographic-data>.

21. Australian Bureau of Statistics, *Census of Population and Housing* (2021).

22. Australian Institute of Health and Welfare, *People with disability in Australia* (2024) <https://www.aihw.gov.au/reports/disability/people-with-disability-in-australia/contents/employment/employment-participation-needs-and-challenges>.

23. Soldatic, K., Bowman, D., Mupanemunda, M,. & McGee, P, 'Dead Ends: How our social security system is failing people with partial capacity to work' (2021) *Brotherhood of St Laurence* <https://library.bsl.org.au/bsljspui/bitstream/1/12735/1/Soldatic_etal_Dead_ends_partial_capacity_to_work_2021.pdf>.

24. Dockery, M., & Wood, G, 'Measuring Work Disincentives: Taxes, Benefits and the Transition into Employment' (2011) 14(3) *The Australian Journal of Labour Economics* <https://ajle.org/index.php/ajle_home/article/view/230>.

Data acknowledgement

This paper uses unit record data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey. The HILDA Survey was initiated and is funded by the Australian Government Department of Social Services (DSS) and is managed by the Melbourne Institute of Applied Economic and Social Research (Melbourne Institute). The findings and views reported in this paper, however, are those of the author and should not be attributed to the Australian Government, DSS or the Melbourne Institute.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

Appendix A Social assistance for disability

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

A.1 Australia's disability support system

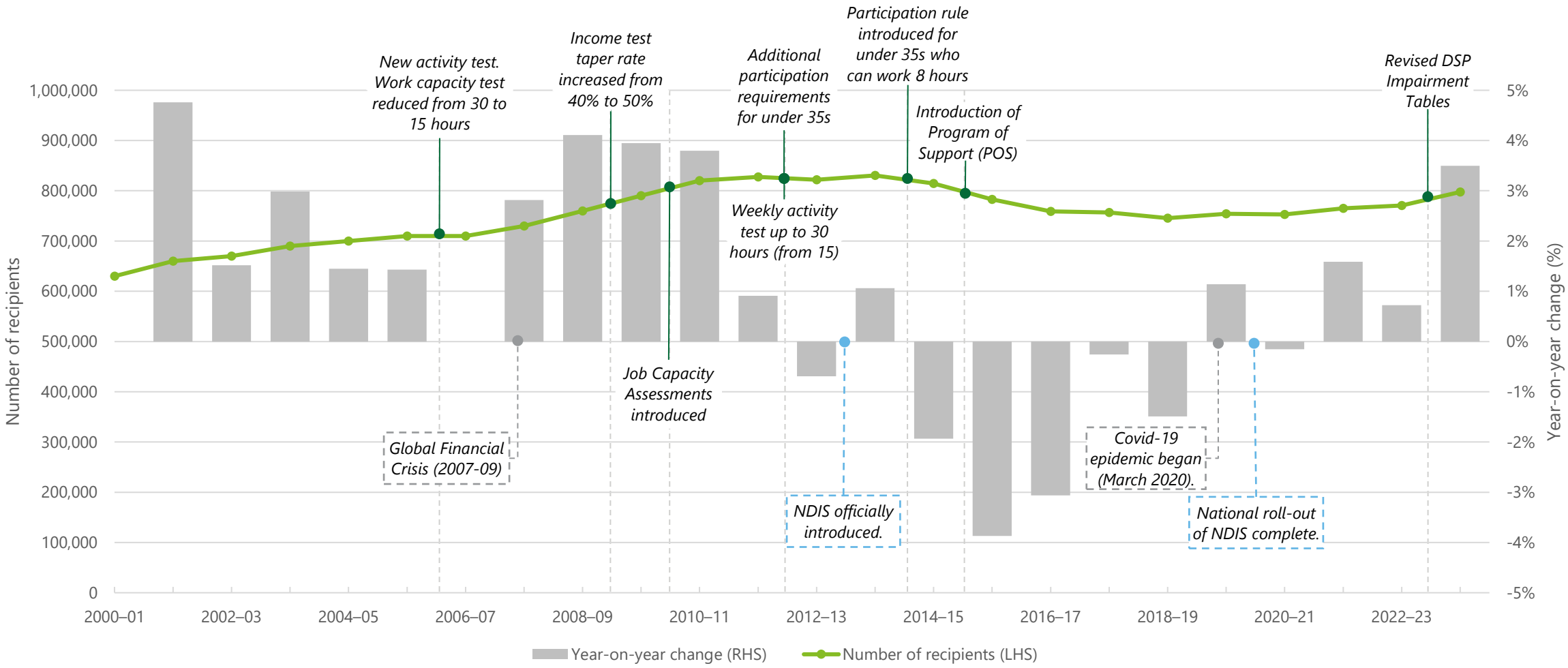
The Disability Support Pension operates between JobSeeker and the Aged Pension, with pension-aligned payments, but participation requirements and incentives more aligned to income support.

	Disability Support Pension	JobSeeker Payment	Aged Pension
Purpose	A **payment for individuals with a disability who are unable to work** for more than two years.	An **income support payment for individuals who are actively seeking work** and have the capacity to do so.	An **income support payment to assist older Australians** in maintaining basic living standards.
Primary eligibility rule	A medical condition that **prevents individuals from working 15 or more hours per week**.	**Unemployed and actively seeking work**, or sick or injured and unable to do usual work or study for a short period.	**67 years or older, regardless of work capacity.**
Primary benefit (For a single, with no children)	The maximum fortnightly payment is $1,144.40, **reducing by 50 cents for each dollar earned over $212, with a cut-off at $2,500.80.** The benefit is reduced by $3 per fortnight for every $1,000 in assets above $314,000 for homeowners or $566,000 for non-homeowners.	The maximum fortnightly payment is $778, **reducing by 50 cents for each dollar earned between $150 and $256, and by 60 cents for earnings above $256, cutting off at $1,479 per fortnight.** The benefit is also subject to asset tests, with a reduction of $3 per fortnight for every $1,000 in assets above $314,000 for homeowners or $566,000 for non-homeowners.	The maximum fortnightly payment is $1,144.40, **reducing by 40 cents for each dollar earned over $212, with a cut-off at $2,500.80.** The benefit is reduced by $3 per fortnight for every $1,000 in assets above $314,000 for homeowners or $566,000 for non-homeowners.
Participation requirements	**Varied.** <35 with work capacity of 8+ hours must complete activities aimed at preparing for and finding work. Those over 35 or assessed <8 hours have no ongoing participation requirements.	You must **meet mutual obligation requirements**, which are tasks and activities you agree to complete to help you find a job.	**No ongoing participation requirements or implicit obligation to work.**
Work activity while on benefits	**Less than 30 hours of paid work a week.** You must report your employment income, and if your total income exceeds the cut-off point, or hours exceed the limit for 12 consecutive fortnights, your payment will be suspended.	**No thresholds on weekly hours worked.** You must report your employment income, and if your total income exceeds the cut-off point for 12 consecutive fortnights, your payment will be cancelled.	**No thresholds on weekly hours worked.** You must report your employment income, and if your total income exceeds the cut-off point for 12 consecutive fortnights, your payment will be suspended.
Participation incentives	You **earn Working Credit when your income is under $48 per fortnight, with a maximum of 48 credits per fortnight and a total limit of 1,000 credits**. Each credit equals $1 of employment income.	You **earn Working Credit when your income is under $48 per fortnight, with a maximum of 48 credits per fortnight and a total limit of 1,000 credits.** Each credit equals $1 of employment income.	**If your income is less than $300, you'll accrue the difference** to your Work Bonus balance each fortnight, up to **a maximum of $11,800**. Each credit equals $1 of employment income. Individuals **receive an upfront $4,000 starting credit** in their Work Bonus income bank.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

A.1 Australia's disability support system

The number of DSP recipients has levelled out over the last 15 years, decreasing as a share of the population, likely driven by a progressive tightening of rules and requirements of participation.

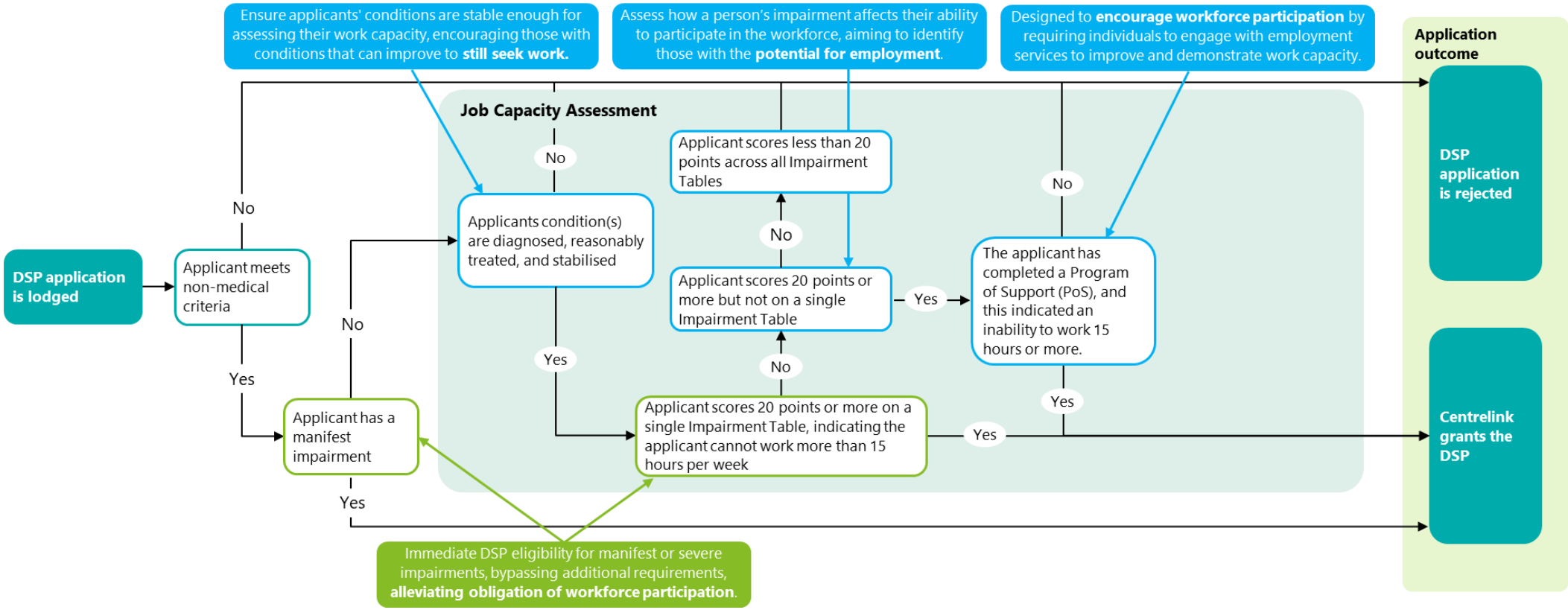


Source: Deloitte Access Economics (2025); Department of Social Services (2024); Parliamentary Budget Office (2018).

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

A.2 Eligibility settings of the DSP

The DSP is designed to support individuals with a physical, intellectual or psychiatric impairment, which is expected to persist for two or more years and to lead to substantial impairment to work.



To be eligible for a DSP, the applicant must:

- Be aged 16 to 65
- Be an Australian Citizen or a permanent resident for at least ten years, including five consecutive years of residency.
- If the disability occurred in Australia, a Qualifying Residency Exemption may apply.

An applicant has a **manifest impairment** if they:

- have an IQ under 70
- have category 4 HIV/AIDS
- have a terminal illness
- have permanent blindness or
- need nursing home level care.

A **Program of Support (PoS)** is a plan with a Disability Employment Service to help applicants prepare for, find, and keep employment. Applicants typically must participate in a PoS for 18 months within the three years before applying for the DSP.

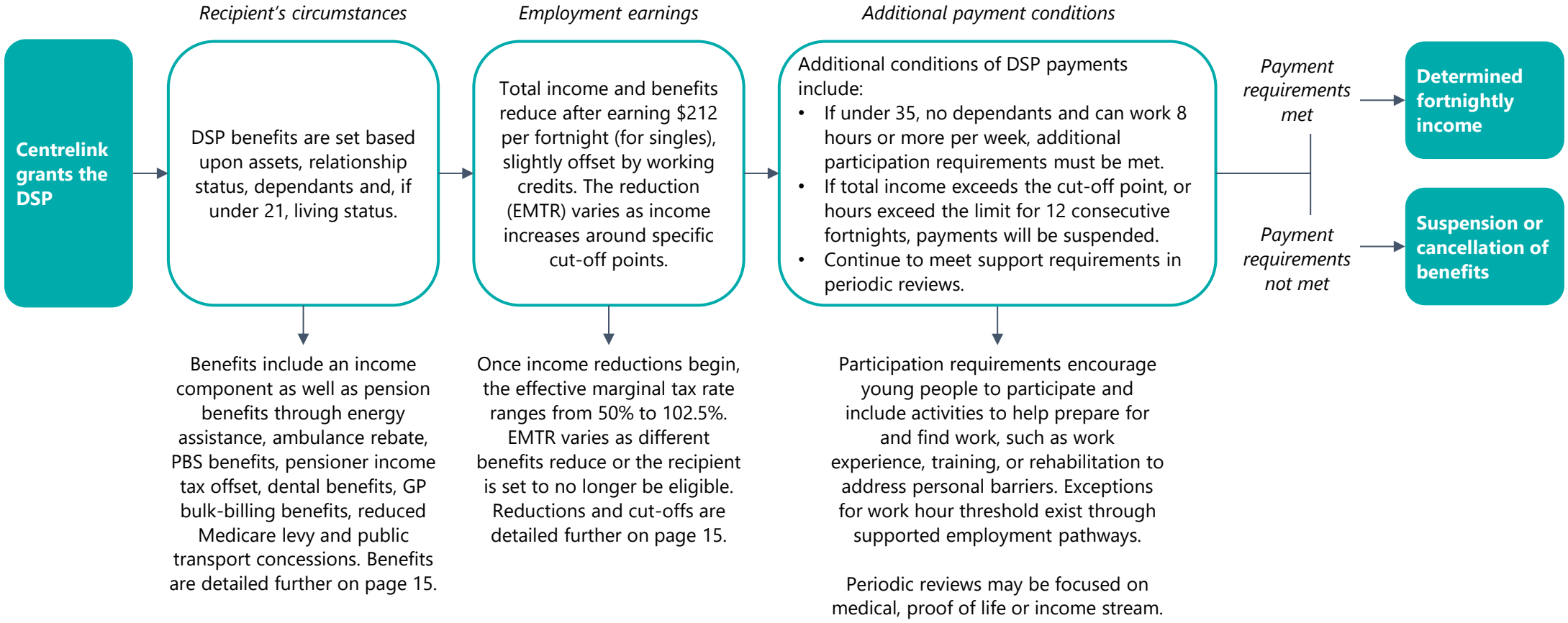
Approval timeframes for DSP applications over the age of 35 aim to take place within 1-2 months. Applicants under the age of 35 may be required to participate in a program of support for 18 months before becoming eligible for the program.

Source: Deloitte Access Economics (2025), updated and adapted from *Dead Ends: How our social security system is failing people with partial capacity to work (Research and Policy Centre, 2021).*[26]
Notes: Accounts for 2023 reforms to eligibility.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

A.3 Payment amounts for DSP recipients

For those granted DSP, fortnightly payment amounts are determined by factors such as relationship status, number of dependants, employment earnings and additional participation requirements.



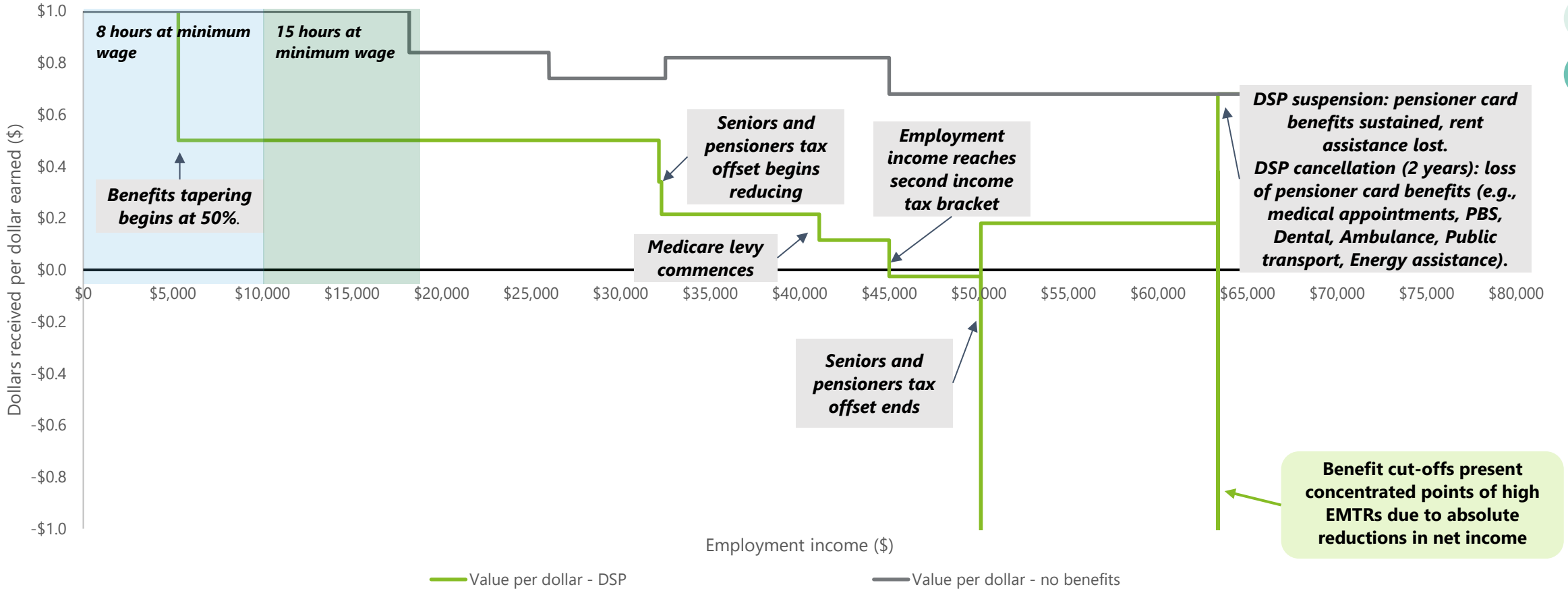
Source: Deloitte Access Economics (2025)

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

A.3 Payment amounts for DSP recipients

Benefits depend critically on employment earnings, with payments tapered at 50% per $ earned over the income threshold, and resulting variation in effective marginal tax rates (EMTRs) for recipients.

Chart A.1: Effective marginal employment earnings, DSP recipients (single income) compared to general population



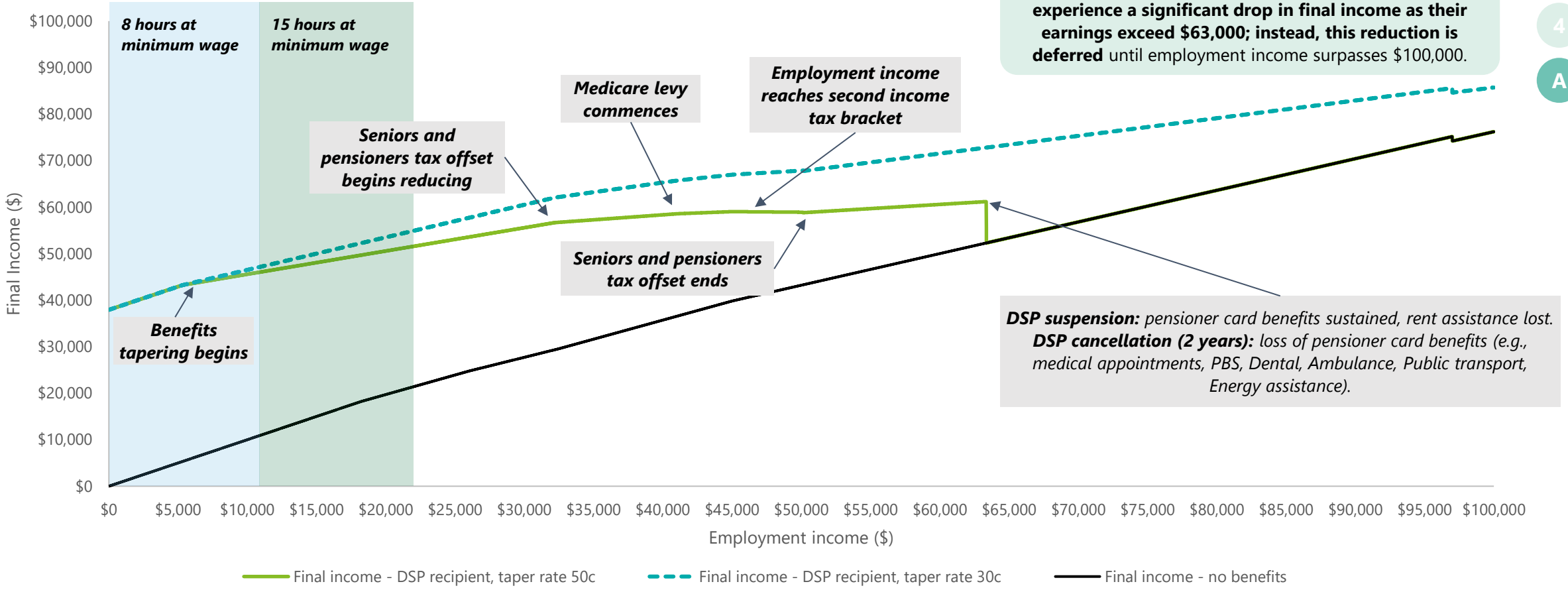
Source: Deloitte Access Economics (2025); Callis et al (2024); Department of Social Services (2024).
Note: Rates have adjusted slightly since analysis time-period. Rent assistance included as the median payment to DSP recipients of $210.75. Other benefits may be excluded from this analysis, such as youth disability supplement (up to $153.5 per fortnight for under 21s), **mobility allowance** ($162 per fortnight if participating in labour force for >15 hours per week), **remote area allowance** ($18.2 for singles per fortnight, $7.3 per fortnight per dependant), **approved program of work supplement** ($20.8 per fortnight), **once-off education entry payment**, supports provided through the **NDIS**.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

A.3 Payment amounts for DSP recipients

The implication of the 50-cent tapering rate is that DSP recipients face points at which they would be worse off financially as their employment income increases. Lowering it to 30 cents delays this effect.

Chart A.2: Effective employment earnings, DSP recipients (single income) compared to general population



Source: Deloitte Access Economics (2025); Callis et al (2024); Department of Social Services (2024).
Note: Rates have adjusted slightly since analysis time-period. Rent assistance included as the median payment to DSP recipients of $210.75. Other benefits may be excluded from this analysis, such as youth disability supplement (up to $153.5 per fortnight for under 21s), **mobility allowance** ($162 per fortnight if participating in labour force for >15 hours per week), **remote area allowance** ($18.2 for singles per fortnight, $7.3 per fortnight per dependant), **approved program of work supplement** ($20.8 per fortnight), **once-off education entry payment**, supports provided through the **NDIS**.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

Appendix B Analytical approach

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

B1. Key assumptions underpinning and explaining scenario results

Table B.1: Key assumptions and caveats relating to tapering rate analysis and scenario results

Topic	Key considerations
Quantified costs and benefits	• Change in income earnings for DSP recipients, arising from (i) entering employment, and (ii) increasing hours worked. • Change in taxation revenue as a result of increased earnings. • Change in estimated DSP (and other) benefit payments.
Unquantified costs and benefits	• Health and welfare benefits accruing to the individual as a result of improved employment outcomes. • Social benefits (e.g., improved social and community cohesion). • Indirect impacts on government finances of improved health and social outcomes (e.g., lower health and justice-related costs). • Economic benefits associate with higher employment (e.g., productivity spillovers, higher output, increased private consumption).
Interpretation of the range in results	• Three model specifications, commonly cited in the literature, are utilised to present the range of impact of a change in tapering on employment likelihood. As debate remains over the superior model, all three are used. In this case, probit and logit present a slightly better fit to the data (compared to OLS). These models produce results at the lower range of the estimated uplift in employment. • The upper bound of these estimates generate significant returns to both individuals and government. Such change would require the highest level of responsiveness to changing incentives, with broader systems change (job opportunities and labour market conditions) likely critical to achieving this success. In absence, the lower range of these estimates may be realised, with implications on the relative accrual of benefits. • DSP settings, that cannot be isolated and measured with the available data, may play a further role in achieving the desired level of change.
Assumed wages	• The analysis of employment transitions is based on estimated wages individuals would earn entering work, using characteristics like age, education, work history. • The wage estimation includes a control for being a DSP recipient. This likely reflects both (i) characteristics specific to the DSP cohort, and (ii) current DSP settings. If changes to DSP settings systematically improve employment outcomes, actual wages and benefits may exceed current estimates.

Table B.2: Key assumptions and caveats relating to suspension period analysis

Topic	Key considerations
Quantified costs and benefits	• Change in income earnings for DSP recipients. • Change in taxation revenue as a result of earnings, estimated using average marginal tax rates. • Change in estimated DSP benefit payments, assuming benefits for an individual DSP recipient over the age of 21 (single).
Unquantified costs and benefits	• Administrative costs associated with reapplication to the DSP, and application to Jobseeker (or other payments) • Health and welfare costs associated with either the risk of, or actual, loss of DSP (a key safety net mechanism). Similarly, health and wellbeing benefits of employment are not captured in the analysis. • Economic benefits associate with higher employment (e.g., productivity spillovers, higher output, increased private consumption).
Assumptions relating to group 1: lower likelihood of return to DSP prior to two years	• For those at suspension, weekly income equal to the income threshold of $1,255 per week is assumed. • For those who return to DSP, average financial year earnings for employed DSP recipients are assumed. This equates to $16,800 annually. • Together, these assumptions present a relatively conservative assumption relating to the income gained over this period. • It is assumed that once an individual lowers their work to return to receiving DSP benefits, they do not return to employment beyond the income threshold over the remaining three years.
Assumptions relating to group 2: loss of DSP eligibility and employment	• While the average claim processing time for DSP was 93 days in 2024, some are required to participate in the 18 month Program of Support.[17] The Program of Support waiting period is assumed in this analysis. • Jobseeker payments are assumed in the claim period for reapplication to DSP, noting a 22 day processing claim time is assumed.[17]
Assumptions relating to group 3: maintained employment	• While data on current HCC costs at an individual level is limited, the estimated value of a Pensioner Concession Card is utilised as a proxy in this instance, equating to about $60 a fortnight (2010).[15]

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

B2. Results from modelling three scenarios for reducing the taper rate

The analysis modelled three scenarios for reducing the taper rate beyond the income-free area, from 50 cents to 40, 30, or 20 cents for each dollar earned over the income threshold.

Reducing the taper rate has varying impacts. For example, reducing it to 30 cents could increase the probability of employment for DSP recipients by 0.4% to 1.9%, adding 3,400 to 14,700 employed individuals on average over 10 years. For those already employed, their hours could increase by up to two per fortnight.

This change is expected to yield a net benefit of between $419 million and $2.3 billion (in Net Present Value terms) from 2026 to 2035, capturing direct financial benefits only (employment income, taxation revenue and benefit payments). These benefits are primarily transfers between the government and individuals, with the distribution of benefits depending on the level of responsiveness to the new incentives.

While the upper bounds of these estimates suggest substantial returns, achieving them depends on strong responsiveness and favourable labour market conditions. Without these, benefits are more likely to align with the lower-end projections.

While individual benefits grow with larger taper reductions, government returns vary depending on how recipients respond:

- New entrants into employment reduce benefits and increase tax revenue, resulting in a gain.
- For existing workers, the result depends on whether they increase their hours:
  - If hours increase, the reduction in benefit payments and higher tax intake may offset the cost of a lower taper rate.
  - If hours remain unchanged, government spending on income supports rises.

Breakeven for Government: The lower bound of each taper reduction scenario results in a net cost to Government. This is largely due to additional benefit payments to employed individuals who do not significantly increase their hours. However, if employed individuals increase their weekly hours slightly, all parties would stand to be at least as well off under the change. Specifically:

- for a 10 cent reduction in the taper rate to 40 cents, a 1 hour increase per week is required
- for a 20 cent reduction to 30 cents, a 1.5 hour increase per week is needed
- for a 30 cent reduction to 20 cents, a 3 hour increase per week is necessary.

Table B.3: Impact of reducing tapering rate, NPV, 2026-35

	Reducing to 40 cents		Reducing to 30 cents		Reducing to 20 cents	
	Lower	**Upper**	**Lower**	**Upper**	**Lower**	**Upper**
Scenario results						
Change in likelihood of employment	0.16%	0.82%	0.41%	1.86%	0.77%	3.11%
Average change in employment (annual)	1,300	6,500	3,200	14,700	6,100	24,500
Average additional hours worked (annual) (millions)	0.0	2.7	0.12	3.1	0.89	3.2
Analysis of direct costs and benefits, relative to status quo						
Individuals						
Income earned ($ millions)	155	1,253	419	2,323	898	3,556
Less taxes paid to Government ($ millions)	-2	-64	-6	-82	-25	-97
Benefits received from Government ($ millions)	202	-47	402	63	606	17
Net benefit ($ millions)	356	1,141	814	2,303	1,478	3,476
Government						
Taxation received ($ millions)	2	64	6	82	25	97
Benefits paid to DSP recipients ($ millions)	202	-47	402	63	606	17
Net benefit ($ millions)	-200	112	-395	19	-580	81
Net benefit ($ millions)	**155**	**1,253**	**419**	**2,323**	**898**	**3,556**

Note: Net present value is calculated with a discount rate of 7%, where 2025 is year 0, consistent with the guidelines from the Australian Government Office of Best Practice Regulation. All financial figures are presented in real terms, adjusted to 2024 dollars using the Wage Price Index and Consumer Price Index.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

B3. Estimating the financial disincentives facing DSP recipients

The financial settings of the DSP, particularly the clawback of benefits as income rises, can create significant disincentives, impacting both the decision to work and the amount of work. This analysis estimates these disincentives, using two key measures:

- The participation tax rate (PTR), which measures the disincentive for DSP recipients deciding whether to take up work, and
- The effective marginal tax rate (EMTR), which captures the disincentive to increase work participation among those already employed.

Estimates of PTRs and EMTRs for DSP recipients, as well as for the broader Australian working-age population, are based on data from waves 15 to 22 of the Household, Income and Labour Dynamics in Australia (HILDA) survey. Conducted annually between August and December, the survey provides longitudinal data on labour market dynamics, family structures, and economic and subjective wellbeing. PTRs and EMTRs are calculated using annualised financial data and the HILDA Tax-Benefit model, which estimates taxes and benefits. The following section outlines the methodology used.

Estimates of EMTRs (FY16 to FY22)

For DSP recipients who are active in the labour market, EMTRs reflect the share of additional income lost due to increased tax liabilities and benefit reductions. High EMTRs discourage individuals from working more hours.

The EMTR of person i arising from a one-dollar increase in employment income (or $52 per annum) is defined as:

$$EMTR_i = \frac{\Delta T_i - \Delta G_i}{\Delta Y_i^e}$$

Where: $EMTR_i$ = EMTR of person i

ΔY_i^e = change in employment income of person i (i.e., $52 per year)
ΔG_i = change in government benefits payable to person i
ΔT_i = change in tax liabilities of person i

Benefits and taxes prior to the income increase are calculated at the income unit level, incorporating combined income (e.g., for the Family Tax Benefit). However, the calculations do not account for the indirect effects of income increases, such as an individual's higher earnings reducing their partner's benefits. As a result, the reported EMTRs may underestimate the financial disincentives faced by some households.

Estimates of PTRs (FY16 to FY22)

For DSP recipients deciding to work, financial disincentives are measured using PTRs, which reflect the share of potential earnings lost through taxes and benefit reductions when starting work. High PTRs reduce the incentive to take up employment, as much of the additional income is offset by benefit reductions and tax.

As outlined by Dockery et al. (2007)[10] PTRs, also referred to as 'average tax rates', are calculated similarly to EMTRs, with two key differences:

(1) Rather than measuring changes from a small increase in earnings, PTRs capture the shift in taxes and benefits when moving from zero income to an estimated level of employment income.

(2) Because the individual's employment earnings are not observed (as they are not currently working), these earnings must be estimated. This is described below.

Estimating employment income for non-employed individuals

To estimate PTRs, potential earnings for non-employed individuals must be approximated. This is done using data from employed individuals in waves 15–22 of the HILDA survey to model hourly wages based on characteristics like age, education, and work history. A control for DSP recipient status is included to reflect group-specific characteristics and the influence of current DSP policy settings. If future policy changes improve employment outcomes for DSP recipients, actual wages may exceed these estimates.

The resulting coefficients are then used to predict the hourly wage a non-employed individual might earn based on their personal characteristics if they entered employment. To estimate annual earnings, a separate equation is used to predict weekly hours worked. Both wage and hours equations are estimated using the two-stage Heckman procedure to account for sample selection bias. The results from these estimations are presented on the following slide.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

B3. Estimating the financial disincentives facing DSP recipients

Calculating PTRs requires an estimate of the potential annual earnings if a non-employed individual were to gain employment. Since this is not directly observable from HILDA data, this analysis follows a Heckman Two-Step procedure to (a) provide an estimate of hourly wages and weekly hours worked based on individual characteristics; and (b) account for the impact of selection bias of employment status on earnings.

The Heckman Two-Step procedure requires the construction of two separate regression equations for the hourly wage. A similar process is followed to estimate weekly hours worked.

1. Selection equation:
The first step models the probability of an individual participating in employment. The model is typically specified using a probit or logit model to estimate the likelihood of being employed based on observable characteristics.

This exercise uses a probit model and estimates sample selection with the following equation:

$$\boldsymbol{z}^* = \boldsymbol{w\gamma} + \boldsymbol{u}$$

Given,

$$z_i = 1 \text{ if } z_i^* > 0$$
$$z_i = 0 \text{ if } z_i^* \leq 0$$

Where **z*** represents the latent probability of employment, γ is a vector of observable characteristics that includes the number of dependent children aged between 0 and 14 and partner annual earning, and **u** represents an error term. The first step yields the Inverse Mills Ratio (IMR) to account for selection bias, represented by Φ.

2. Potential hourly wage equation:
The second step estimates potential hourly wage of non-employed individuals based on their characteristics, correcting for selection bias using the IMR from step one. The second step is estimated using OLS:

$$Y = X'\beta + \Phi'\lambda + \epsilon$$

Where Y represents log of the hourly wage, X represents a vector of personal characteristics, including sex, age, age-squared, country of birth, the presence and severity of long-term health conditions, english proficiency, marital status, highest level of education, years of experience and location. Φ represents the IMR to account for selection bias and ϵ represents the error term.

Table B.4: Selected regression coefficients for Heckman Two-Step equation for hourly wages

Parameter	First stage	Second stage
Intercept	0.692***	3.024
Female		-0.143***
Age		0.024***
Square of age		-
Country of birth:		
English speaking		-0.003
Other		-0.108***
Long-term health condition severely impacting work		-0.066***
Married		0.033***
Number of dependent children (0 to 14 yrs)	-0.042***	0.036***
Highest education level:		
Post graduate degree		0.404***
Bachelor or honours		0.269***
Advanced diploma or diploma		0.100***
Completed year 12		0.027***
Completed year 11 or below		0.075***
Years of experience		0.029***
Annual wage of partner[1]	0.020***	
Inverse Mills Ratio		-0.291***

Source: Deloitte Access Economics analysis of HILDA (2025).[8]
Notes: ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively. The reference category for highest education is Certificate III or IV, and for country of birth is Australia. Additional control variables, not shown in Table B.2, are also included to account for different survey waves and place of residence. 1. Coefficient multiplied by 10,000 for readability.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

B4. Assessing the effects of financial disincentives on the decision to work

Modelling approach

Once financial disincentives to work, measured by PTRs, are estimated for the working-age population, including DSP recipients, the key question is whether, and to what extent, these disincentives influence individual labour market behaviour.

To estimate this impact, each individual's PTR is regressed on their employment status one year later. Following the approach of Dockery et al. (2011), this method helps address endogeneity concerns by using future employment outcomes, though unobserved factors may still affect both current PTRs and future employment transitions.[24]

Given some debate in the literature about the most appropriate modelling approach, this analysis uses three commonly used specifications: OLS, probit, logistic regression models. While each offers useful insights, the probit and logit models better fit the data and are therefore emphasised in interpreting results.

The regression specification is:

$$P\left(Emp_{i(t+1)}\right) = \beta_0 + \beta_1 PTR_{it} + \beta_2 PTR_{it}^2 + \gamma X_{it} + \delta Wave_{it} + \alpha GCCSA_{it} + \varepsilon_{it}$$

where $Emp_{i(t+1)}$ is the employment status of individual i one year later and PTR_{it} captures the financial disincentives faced by individual i, with a squared term PTR_{it}^2 included to allow for potential non-linear effects. X_{it} is a vector of individual demographic characteristics including DSP recipient status, long-term health conditions, age, gender, education and work history. $Wave_{it}$ represents survey wave fixed effects and $GCCSA_{it}$ represents fixed effects for an individual's Greater Capital City Statistical Area (GCCSA) location. ε_{it} is the random error term, with errors clustered at the individual level.

An interaction term between DSP recipient status and PTR was also tested to examine whether the impact of financial disincentives differs for DSP recipients. However, the effect was found to be statistically insignificant and, therefore, was excluded from the final model.

Table B.5 presents regression results for selected coefficients.

Table B.5: Selected regression coefficients for the association between PTRs and employment status

Parameter	OLS	Probit	Logit
Constant	0.223***	-1.141***	-1.962***
Participation tax rate (PTR)	-0.434***	-1.554***	-2.709***
Square of PTR	0.411***	1.626***	2.850***
DSP recipient status	-0.081***	-0.603***	-1.164***
Long-term health condition impacting work	-0.096***	-0.445***	-0.809***
Age	0.014***	0.076***	0.138***
Square of age	0.000***	-0.002***	-0.03***
Female	-0.027***	-0.102***	-0.179***
Indigenous	-0.060***	-0.205***	-0.343***
Married	-0.026**	-0.054	-0.088
Number of dependent children (0 to 14 yrs)	-0.032***	-0.124***	-0.216***
Highest education level:			
Postgrad or grad diploma or certificate	0.144***	0.542***	0.962***
Bachelor or honours	0.117***	0.400***	0.703***
Advanced diploma or diploma	0.033*	0.148**	0.269**
Certificate III or IV	0.036***	0.155***	0.265***
Completed year 12	0.035***	0.159***	0.285***
Studying full-time	0.084***	0.188***	0.288***
Studying part-time	0.076***	0.236***	0.385***
Proportion of time in paid work	0.008***	0.051***	0.102***
Annual wage of partner[1]	0.001	-0.000	-0.001

Source: Deloitte Access Economics analysis of HILDA (2025).[8]
Notes: ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively. The reference category for highest education is less than year 12. As noted by Dockery (2011), the estimation of hypothetical wages to construct the PTR is from a separate regression model, and as such, the standard errors for the variables may be underestimated, and hence, the statistical significance overstated. [1]The regression coefficient has been multiplied by 10,000 to improve interpretability.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

B4. Assessing the effects of financial disincentives on the decision of how much to work

Modelling approach

To estimate the impact of financial disincentives on the decision of how much to work among individuals currently employed, each person's EMTR is regressed on the change in hours worked from the current year to the following year. Focusing on changes over time captures labour supply responses more accurately than static measures, as it reflects behavioural adjustments to EMTRs, especially among those with differing initial hours. The analysis is restricted to individuals who remain employed across both years to avoid conflating adjustments in hours worked with transitions into unemployment.

An OLS model is estimated with the specification:

$$\left(Hours_{i(t+1)} - Hours_{it}\right) = \beta_0 + \beta_1 EMTR_{it} + \beta_2 EMTR_{it}^2 + (DSP_{it} \times EMTR_{it}) + (DSP_{it} \times EMTR_{It}^2) + Income_{it} + \gamma X_{it} + \delta Wave_{it} + \alpha GCCSA_{it} + \varepsilon_{it}$$

Where:

- $Hours_{it}$ and $Hours_{i(t+1)}$ represent the hours worked by individual i at time t and $t+1$.
- $EMTR_{it}$ captures the financial disincentives faced by individual i, with a squared term $EMTR_{it}^2$ included to allow for potential non-linear effects.
- $(DSP_{it} \times EMTR_{it})$ is an interaction term between DSP recipient status and EMTR, allowing the model to account for potentially different labour supply responses to EMTRs among DSP recipients.
- X_{it} is a vector of individual demographic characteristics including DSP recipient status, long-term health conditions, age, gender, education and work history.
- $Wave_{it}$ represents survey wave fixed effects and $GCCSA_{it}$ represents fixed effects for an individual's Greater Capital City Statistical Area (GCCSA) location.
- ε_{it} is the random error term, with errors clustered at the individual level.

Table B.6 presents regression results for selected coefficients.

Table B.6: Selected regression coefficients for the association between EMTRs and the change in hours worked from the current year to the following year

Parameter	Estimate
Constant	6.113***
Effective marginal tax rate (EMTR)	-26.463***
Square of EMTR	32.315***
DSP recipient status	-3.896***
Interaction of DSP recipient status with EMTR	28.512***
Interaction of DSP recipient status with square of EMTR	-38.895***
Income[1]	-0.142***
Long-term health condition impacting work	-0.622*
Age	0.035
Square of age	-0.001**
Female	-0.516***
Indigenous	0.016
Married	-0.262***
Number of dependent children (0 to 14 yrs)	0.209***
Highest education level:	
Postgrad or grad diploma or certificate	0.510***
Bachelor or honours	0.312**
Advanced diploma or diploma	-0.043
Certificate III or IV	-0.233*
Completed year 12	-0.361**
Studying full-time	2.049***
Studying part-time	0.286*
Proportion of time in paid work	0.009
Annual wage of partner[1]	0.009

Source: Deloitte Access Economics analysis of HILDA (2025).[8]
Notes: ***, **, * indicate statistical significance at the 1%, 5% and 10% level, respectively. The reference category for highest education is less than year 12. [1]The regression coefficient has been multiplied by 10,000 to improve interpretability.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

B5. Estimating the impact of a change in the taper rate

Following the estimation of how financial disincentives affect:

1. The decision to participate in work (for individuals not currently employed), and
2. The intensity of work effort (for individuals already employed),

the analysis moves to quantify the potential impact of a policy-driven reduction in financial disincentives on labour market participation among DSP recipients.

Step 1: Define the policy scenario

The analysis considers a reduction in the taper rate applied to earnings above the income-free threshold for DSP recipients. Specifically, it models taper rate reductions from the current 50 cents per dollar to 40, 30, or 20 cents.

It is important to note that while this scenario focuses on taper rate reductions, similar impacts may be achieved through alternative mechanisms, such as increasing the income cut-off point or implementing initiatives like the 'Work Bonus' for Age Pension recipients.

Step 2: Re-estimate financial disincentives

To assess the effect of the policy change, EMTRs and PTRs are recalculated for each DSP recipient under the new taper rate scenarios. This provides updated measures of financial disincentives under the simulated policy environment.

Step 3: Calculate the change in disincentives

Next, the difference in financial disincentives between the baseline scenario (50 cent taper) and the alternative scenario (e.g. 40 cent taper) is estimated for each individual and time point. This quantifies the reduction in disincentives resulting from the policy change.

Step 4: Apply regression results to estimate behavioural response

Using the coefficients estimated in the regression models, the marginal labour supply response to a change in financial disincentives is calculated. This includes estimating the change in hours worked for those already employed, and the change in the likelihood of transitioning into employment for those not currently employed.

The different regression models used to analyse the impact of PTRs on transitions into employment, logit, probit, and OLS, provide a range of predicted estimates. To account for uncertainty in the estimated change in hours worked from one period to the next in response to changes in EMTRs, 95% confidence intervals are calculated for the marginal effects. These intervals reflect statistical uncertainty in the estimated impact of EMTRs on hours worked within the regression model, but do not capture the full range of uncertainty associated with each underlying coefficient.

Step 5: Estimate the financial impact of behavioural changes for individuals

Once the behavioural responses are estimated, the next step is to estimate the financial impact of these changes on individuals.

- For DSP recipients currently employed, the change in their financial situation (taxes, benefits and income) is estimated by assessing how the average change in hours worked affects their net financial outcomes.
- For DSP recipients not currently employed, the impact of a change in their probability of employment is estimated by considering the change in their financial outcomes if they entered employment at their hypothetical wage.

These impacts are calculated using the HILDA tax-benefit model.

Step 6: Aggregate the financial impact for the DSP cohort

The final step involves aggregating the individual-level changes to the DSP cohort. First the composition of the DSP cohort is analysed, understanding the split between those currently employed and those not engaged in employment. The size of the cohort is then projected forward using population projections from the Centre for Population.

To estimate the impact on employed DSP recipients, the average change in income, taxes, and benefits after the change in hours is applied to those currently employed. For non-employed DSP recipients, the average change in the probability of employment is applied to estimate how many individuals in this group transition into employment. The average changes in income, taxes, and benefits for these transitions are then applied to the increased number of DSP recipients moving into work.

© 2025 Deloitte Access Economics. Deloitte Touche Tohmatsu

Deloitte.

General use restriction

This document is prepared solely for the use of DE Investments. It is not intended to and should not be used or relied upon by anyone else and we accept no duty of care to any other person or entity. The document has been prepared for the purpose of understanding the potential opportunities relating to reform of the Disability Support Pension. You should not refer to or use our name or the advice for any other purpose.

Deloitte Access Economics is Australia's pre-eminent economics advisory practice and a member of Deloitte's global economics group. For more information, please visit our website: www.deloitte.com/au/deloitte-access-economics

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organization"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which is a separate and independent legal entity, provide services from more than 100 cities across the region, including Auckland, Bangkok, Beijing, Bengaluru, Hanoi, Hong Kong, Jakarta, Kuala Lumpur, Manila, Melbourne, Mumbai, New Delhi, Osaka, Seoul, Shanghai, Singapore, Sydney, Taipei and Tokyo.

This communication contains general information only, and none of DTTL, its global network of member firms or their related entities is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication.

©2025 Deloitte Access Economics. Deloitte Touche Tohmatsu