Inquiry into the Future of the NDIS

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Financial and actuarial modelling and forecasting of the scheme: Term of reference (e)

i) The role of insurance-based principles in scheme modelling

The NDIA document NDIS Insurance Principles and Financial Sustainability Manual, Version 5, Novemebr 2016 sets ot the following Insurance principles at P25:

1. The aggregate annual funding requirement will be estimated by the Scheme Actuary's analysis of reasonable and necessary support need. The Scheme Actuary will estimate this on the assumption that the NDIS is well functioning. If the Scheme Actuary believes that the actual scheme expenditure is likely to differ from this baseline estimate, then this should be reported, along with reasons and, if possible, an estimate of the difference, including a buffer for cash flow volatility and uncertainty. The aggregate funding requirement will comprise equitable resource allocation at an individual and subgroup level, and will be continually tested against emerging experience. This will require a comprehensive longitudinal database.

2. The NDIS will focus on lifetime value for scheme participants, and will seek to maximise opportunities for independence, and social & economic participation with the most cost-effective allocation of resources. This will align the objectives of the NDIS with those of participants and their families.

3. The NDIS will invest in research and innovation to support its long-term approach and objective of social and economic participation, and independence and self-management, for participants.

4. The NDIS will support the development of community capability and social capital so as to provide an efficient, outcomes-focused operational framework and local area coordination and a support sector which provides a high-quality service and respects participant social and economic participation and independence.

These principles are well expressed and are very appropriate for a social insurance scheme like the NDIS. They should remain in place.

To fully implement the Principles:

- There needs to be greater appreciation of the financial impact for the NDIS of the lifetime nature of participant's support packages. Supports provided to improve long term functioning will in many cases reduce the need for future supports. There was allowance in the Productivity Commission's 2011 cost estimates for the reduction in costs due to the long-term impact of past supports, but the 2020-21 Financial Sustainability report does not contain such an allowance nor any discussion of the issue.

- The NDIA needs to be supportive of NDIS related research including actuarial and statistical research. There needs to be an expressed willingness to cooperate and encourage research, and arrangements and systems for researchers to access de-identified data on participants, including their level of functioning, the size and composition of support packages and the supports purchased with NDIS funding.

ii) Assumptions, measures, and methodologies used to forecast and make projections about the scheme, participants, and long-term financial modelling

On 11 October 2021 the NDIS Annual Financial Sustainability Report 2020-21 was released. The accompanying press release summarised the findings as follows:

> The key AFSR projections include the following:
>
> - 670,400 participants are estimated to be in the Scheme by end June 2025, and 859,300 by end June 2030.
> - On an accrual basis, total participant costs are estimated to be $29.2 billion in 2021-22, growing to $41.4 billion in 2024-25, and $59.3 billion in 2029-30.
>
> The NDIS is growing at a rapid rate, with the numbers in this report being significantly higher than those estimated by the Productivity Commission in 2017

This is the first occasion on which the annual Financial Sustainability Report has been released. Preparation of the Report each year is mandated in the NDIS Act. This increased transparency for the NDIA is welcome.

I have closely analysed the Report and have prepared a substantial report, which I hope to finalise during November. I am presenting some initial comments in light of the 29 October submission deadline.

The modelling approach used to produce projections in the Report is described in Chapter 3 of the Report:

> The modelling approach splits participants into cohorts based on characteristics which reflect expected differences in average payment, new entrant rates and/or exit rates between different groups of participants. The characteristics allowed for are age, primary disability type, level of function, gender, whether a participant is in SIL arrangements, and the duration that a participant has been in the Scheme. Separate average payment, new entrant and exit assumptions have been developed for each of these cohorts.

The projections depend on assumptions about the growth in participant numbers, average payments per participant and inflation. It is essential that these assumptions be supported by detailed and reliable analysis.

The projected number of participants appear to be based on growth rates over recent years. There is some discussion that new entrants have not tailed off as expected in areas which were part of the pilots for the NDIS beginning in 2013. More and broader based analysis is needed, notably on the number of particioants aged 0-14 and 65 and over. The NDIA now has large amounts of data on all its participants, so is well placed to do the analyses required, to commission outside analysts and to involve the disability reseacrh community.

The report contains results of a small analysis showing more recent entrants are receiving lower payments per head then earlier entrants, and some allowance has been made in the projections for this. Further analysis is needed on the evolution of average payments. In particular, the new entrants from the long established areas in the NDIS (discussed above) may have substantially less support needs compared to earlier entrants, which would explain the delay in them becoming NDIS participants.

How the NDIS is funded: Term of Reference (d)

i) The current and future funding sources for the NDIS

The NDIS should be funded from general taxation sources in accordance with good public finance policy. Hypothecated funding should not be expanded beyond the current 0.5% Medicare levy supplement

ii) The division of funding between the Commonwealth, States and Territories

The Productivity Commission in 2017 investigated NDIS funding arrangements. In particular, the funding of cost overruns was discussed in some detail in the Position Paper at P337-340. I submitted a view that the role of the States and Territories should be carefully considered in relation to cost overruns.

States and Territories provide a range of mainstream services to people with disability, notably education services, health services and justice services. The scale and effectiveness of this provision impacts directly on NDIS participants' needs for supports. This argued for the states and Territories meeting a share of cost overruns. I suggested a 25% share.

The Department of Social Services argued along similar lines, and proposed States and Territories pay 50% of cost overruns. I agreed with that in my second submission.

Recommendation 12.3 of the Final report concluded that the Australian Government should meet 100% of cost overruns.

In the light of experience, I suggest that this position on cost overruns be revisited.

The NDIS Act requires the Scheme Actuary to include in each Financial Sustainability Report an assessment of 'any trends in provision of supports to people with disability otherwise than through the NDIS'. The 2020-21 report discussed above does not include such an assessment. Such an assessment, based on the data available to the NDIA on supports provided to NDIS participants could be supplemented by enquiry of selected participants about their use of mainstream services and the specific supports provided (if any) by those services.

iii) The need for a pool of reserve funding

The NDIS is funded by the Australian Government, with substantial contributions by States and Territories. As a government funded social insurance scheme, there is no need for a reserve funding pool.

Measures to ensure the financial sustainability of the NDIS: Term of reference (f)

ii) The arrangements for providing actuarial and prudential advice about the scheme

The responsibilities of the Scheme Actuary and the Supervising Actuary should not be changed.

However there needs to be more openness about the actuarial analyses by the Scheme Actuary. The recent release of the 2020-21 Financial Sustainability Report (and the earlier Interim Update) are welcome but more supporting analysis needs to be released and discussed.

There was an NDIA proposal in 2014 to establish an independent Centre for Actuarial, Applied and Economic Research and Evaluation in Disability (CAERED). The Centre did not proceed. Such a centre could have been a focus for a range of analyses and consequent debate about the evolution of the NDIS, the issues arising and policy options to respond.

iv) Measures to ensure transparency of data and information about the NDIS

Prior to the NDIS States and Territories collected data on clients and supports provided from disability service providers. This data were passed to the Australian Institute of Health and Welfare (AIHW) which collated and published a national collection and detailed annual report.

The NDIA has not put in place any replacement arrangemnt to pass data to the AIHW. The NDIA's own reporting has been limited and does not include comprehensive information on the supports it provides to participants. Information should be provided to AIHW, including demographic and functioning information of participants, the size and content of support packages approved, and the utilisation of those packages including the characteristics of support providers.