

NDS & Endeavour Foundation

Modelling of the supported
employment population

May 2024

We find the patterns that matter



Wage offset design

Assumed structure

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

For costing the wage offset we assume:

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

Design considerations

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

Sources

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

Example of the impact

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

Existing employees

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

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

Note: Annual figures rounded and may not sum

Modelling of supported employment

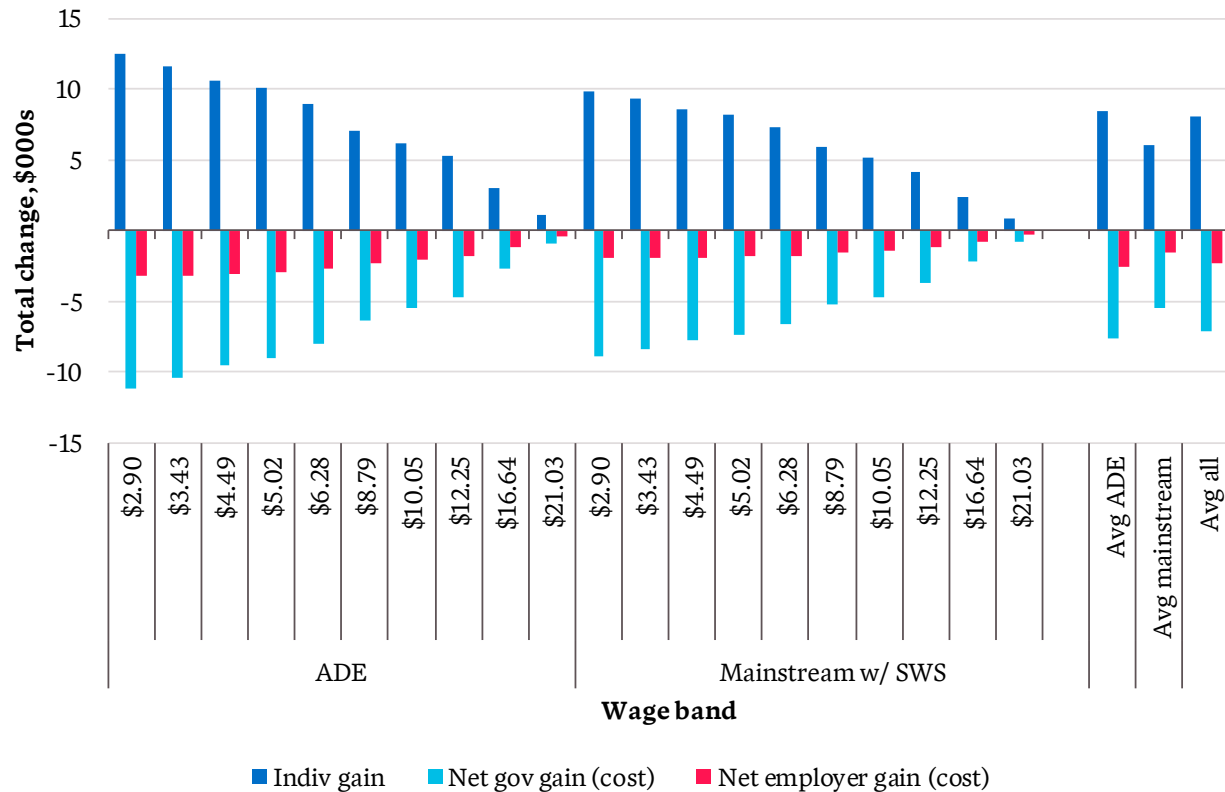
New employees

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

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

Existing employees – impact by wage band

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



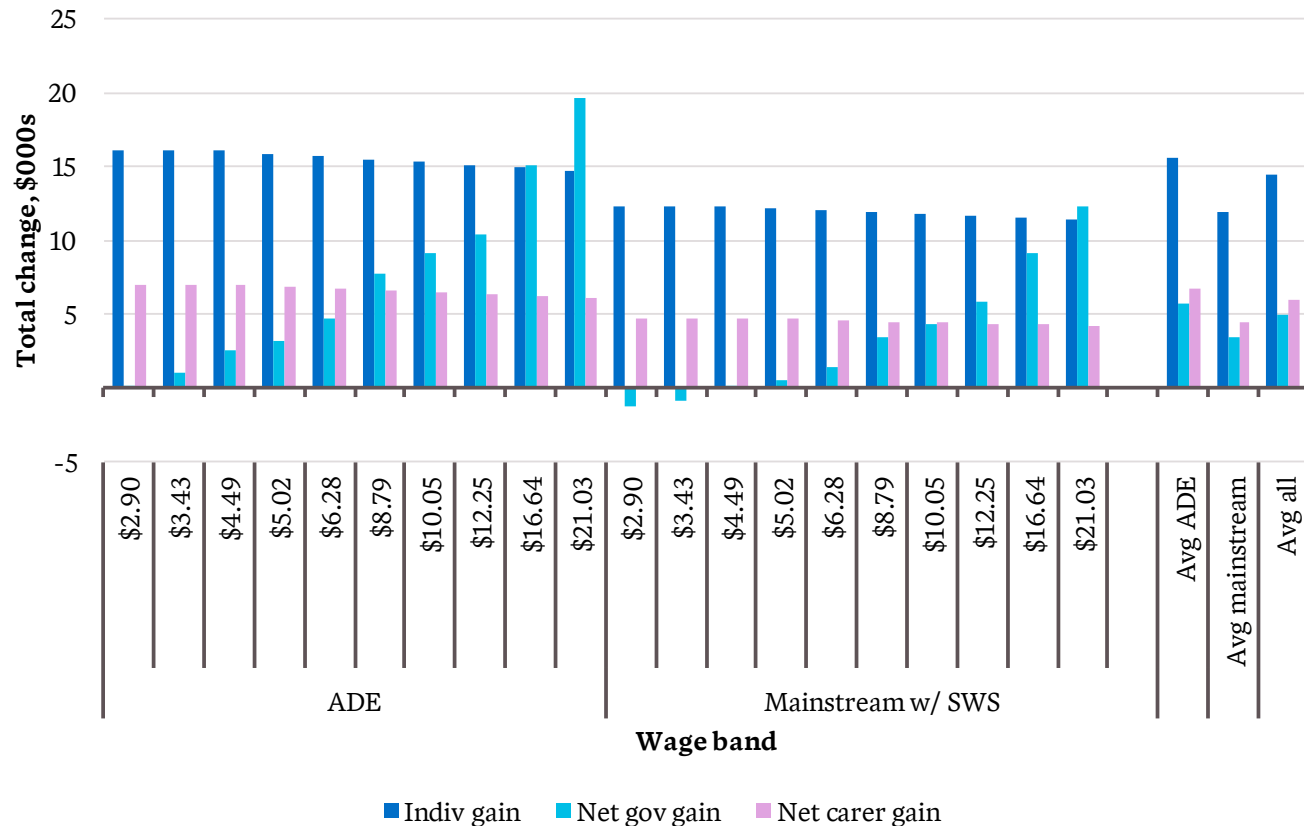
Note: No impact for carers assumed for existing supported employees

Commentary

- We see very significant benefits to supported employees, Average gains are \$8,500 per person employed at an ADE and \$6,100 for those in mainstream employment with SWS (fewer average hours). Gains are largest for lower-wage groups, as expected – they see the largest boost to wages.
- However, we also see significant costs to government and employers. Average net government costs are \$7,600 per person at an ADE, or \$5,500 for mainstream employment (with SWS). This is obviously a lot lower than the \$19k per person paid; about 60% is recouped through welfare and tax gains. No assumed impact on NDIS costs for existing employees (as they were already working).
- If employment costs are borne by employers then these costs are significant, mainly due to extra superannuation payments, estimated at \$2,500 / \$1,500 per person (ADE / Mainstream). The changes are highest in absolute terms for people on lower wages currently (and larger hours), and this represents and very large relative increase for these groups too.
- There is no impact on carers (who are assumed to still working similar hours).

New employees – impact by wage band

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



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

Commentary

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

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

Potential size of new employee group

Considerations and approach

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

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

- The NDIS reports above 20% of participants aged 15+ currently have a paid job¹ and have a target of 30%². Of the 20%, about a third are employed through ADEs.
- The Taylor Fry report to the NDIS Review³ estimates 24% of people of working age having a job (about 90,000 of 370,000 people). A six-percentage point increase to 30% would represent about 22,000 people. Additionally, the report noted around 30,000 participants without work are currently seeking a job.

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

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

Approach

For modelling, we assume an effective wage offset will:

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

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

Sources

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

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

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

Aggregate financial summary

Existing employee base

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

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

Aggregate financial summary

New workers

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

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

Aggregate financial summary

Combined existing and new workers

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

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

Financial viability and employment

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

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

Commentary

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

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

Feasibility of a temporary subsidy

One question is the feasibility of making the wage offset temporary, so that employers can build up to the minimum wage. This question was studied in the Royal Commission work¹, albeit with slightly different parameters and wage bands.

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

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

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

Sources

¹ <https://disability.royalcommission.gov.au/publications/costing-subminimum-wage-subsidy>

Wage offset modelling – key results

All existing workers who retain employment are better off

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

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

Overall costs to government for existing employees are substantial

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

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

The wage offset is cost-effective for new employees

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

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

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

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

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