

30 July, 2010

Ms Patricia Scott
Commissioner, Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Dear Ms Scott

Re: Submission to the Inquiry into a National Long-term Care and Support Scheme.

Thank you for the opportunity to engage in the process by contributing this submission.
After making a presentation at the Perth Public Hearing on 22 July, 2010 and having read most of the submissions and transcripts available to date I wish to tender the following for consideration.

It is my intention to address aspects that may impact on a proposed National Disability Insurance Scheme

1. Overseas practises, problems and outcomes experienced in the implementation of Social Disability Insurance in other countries – commonly referred to as pay-as-you-go schemes (more often than not, called multi-pillar or multi-tiered schemes)
2. Concern and opinion as expressed by Hon. Bill Shorten MP. Parliamentary Secretary for Children and Disability Services Re: *“Paying a lot of money for an inefficient system”*
3. Relevant Australian data for consideration and reflection.
4. The PricewaterhouseCoopers Final Report (Oct. 2009) with emphasis on **Option 6** outlined as the recommended model.
5. The current Australian system with emphasis on practise within Western Australia.
6. Statistical Data on current unmet need in Western Australia
7. Comment on a number of submissions and transcripts so far available.

First, a brief overview to highlight overseas practises in other countries and their experiences.
The following is a summary of significant factors for consideration raised in:

1. **DISABILITY INSURANCE IN A MULTI-PILLAR FRAMEWORK**
Leo Aarts , Philip de Jong – University of Amsterdam November, 1999
Paper prepared for the World Bank Conference – Washington DC 14-15 Sept. 1999

Relevant Points:

Programs need to be socially acceptable and financially sustainable

Most programs in existence are multi-pillar to varying degrees.

The majority are based on loss of earning capacity

Social Insurance – often government benefits are supplemented by a private pension

Coinsurance

The necessity to have incentive structures in place for people to return to the workforce .

CLARITY IN THE DEFINITION OF DISABILITY

Disability is an ill-defined and complex phenomenon

Two dimensions that should be conceptualised ie. (1) severity (2) permanency.

ASSESSMENT – involves difficult and painful judgements – extremely subjective. The presence of impairment is necessary but not sufficient – some do not have any incapacitating effects at all. The nature and severity of the underlying pathology determine the extent and permanency of the impairment – functional limitations. Thus two people with exactly the same limitations may suffer different degrees of work disability.

General Disability Insurance (Social)

Public monopoly - **pay-as-you-go contribution rates**

Base - first pillar

- increased **moral hazard**

First Pillar Welfare States

- P 13

Examples - Norway, Sweden and Switzerland – one national first pillar

Sweden has four classes of disability, starting at 25% disablement

- P 15

Chile, four categories starting at 15 – 40%

- P 20

Switzerland – second level through firms based on % persons earnings

In 1995 75% of the Dutch disabled beneficiaries were on the full entitlement.

P - 17

85% of the Swedes.....

Rehabilitation Factor

A very significant aspect in many countries prior to granting any disability benefits. P - 9

Eg. Germany, Austria, Sweden and Switzerland.

MORAL HAZARD

Pay –as- You –Go Schemes

Outcomes

Unwillingness to work – can not predict behavioural change among the insured population.

Affects employers and the **program gatekeepers**

Outcomes: Attitudes lead to lenient interpretation of eligibility rules.

P 19 – 20

Lead to :

- a. Gatekeepers find it difficult to disentangle medical and labour market factors that produce disability claims.
- b. Psychological burden of being strict – becoming more lenient.
- c. Screening lacks consistency.
- d. Reduce workload.

Netherlands Experience (Page 8)

Between 1970 and 1980 the Dutch beneficiary volume more than doubled and it kept growing until 1994 “As a result, until today the Dutch social welfare system is kept hostage by a massive volume of disabled beneficiaries.”

The Netherlands is the only country that does not distinguish between general and work-related disablement **irrespective of cause.**

Nearer to home, PwC has issued a cautionary note as it states “A *particularly relevant feature of the NZ ACC Scheme is that over recent years it has faced severe pressure from cost and liability escalation in the serious injury cohort.*”

2. Statement by Hon.Bill Shorten MP

Parliamentary Secretary for Disabilities and Children’s Services

Extract from : House Debate of 23 June,2010

Second Reading of the Tax Laws Amendment Bill

Statement : “ *We are currently spending, at all levels of government, over \$22 billion on disability services, payments to carers and the Disability Support Pension.*

I do not believe that we are getting sufficient value for money. We are paying a lot of money for an inefficient system. Whilst I do not believe that amount of money should be reduced, I believe we can do better with it”.

It would be very beneficial in this process to have the background evidence .ie data, statistics and information supporting the above statement as it may give in-depth insight into the perceived current problems within the existing system that may be addressed and overcome.

3. Relevant Australian Data for Consideration and Reflection

Current Number of DSPs - 724,000 - \$12 bn. As at 11-6-2010

Current Revenue from the Medicare Levy

2008 / 2009	2009 / 2010	2010 / 2011 forward estimate
\$8.3 bn.	\$8.2 bn.	\$8.47 bn.

The data above is relevant for comparative purposes in consideration for the proposed introduction of an NDIS.

4. PRICEWATERHOUSECOOPERS Final Report

OPTION 6 Summary of relevant costing (Extracts)

Key Points :

The annual cost of **care and support** in 2009 for people aged 65 or less was estimated to be **\$9.5bn.** (\$17.1bn. in all)

Provision made for **equipment, aids and appliances and home modifications**

An administration fee of **10%** was included giving a total gross annual cost of **\$10.8 billion**

To implement :

This option would require an injection of funds at scheme outset to meet **current estimated unmet need**. This approach would require initial funding at scheme outset – say 2011

\$7.44bn. gross – \$6.47bn offsets.

The result is a net annual cost of \$0.97billion in 2011.

Statistics on funding

Gross % of GDP 1.06%

Levies – net cost

Per person \$324.64

Per working person \$772.34

% of taxable income 1.22%

% of GDP 0.59%

Comment : Option 6 is based on numerous assumptions, sensitivities and variables.

Is this option socially acceptable and economically sustainable ?

It is worth noting the following statement by R.Cumpston (an actuary) in submission No.7 “ *the number of beneficiaries may be about 50% higher than estimated by PwC (appendix D7).....*

Improvements to the present system may be more equitable, cost-effective and politically acceptable than the long-term and support scheme in the inquiry’s terms of reference.”

5. CURRENT SITUATION RELEVANT TO AUSTRALIA/ WESTERN AUSTRALIA

It is important to review that which is currently in place to support the disabled within our society.

A	Disability Support Pension	\$644.20 pf.
	Pension Supplement	\$ 56.90 pf.
	Commonwealth Rent Assistance - up to	\$113.40 pf.
	Medical and pharmaceutical benefits	
B	Mobility Allowance	\$80.50 to \$112.70 pf.
	Carers Allowance	\$ 106.70 pf.
	Annual supplement	\$600 pa.
	Carers Payment	Means Tested

- C** **WA. Taxi vouchers** **50% subsidy**
WA. Unrestricted Travel Voucher **\$93 p. half year.**
Companion Card
Other - various eg. Mobility, continence aids, etc.
- D** **CAP Funding** **Varies from State to State**

In essence the above may be considered a multi-pillar or four-tiered system for comparable purposes to those schemes in other countries.

6. AN EXAMINATION OF UNMET NEED IN WESTERN AUSTRALIA

Based on statistical data from the Combined Application Process Funding Bulletin 24

Program	People from Previous Rounds	New People	Total People This Round	People Recommended For Support <u>Approved For Funding</u>	Available Budget
Accommodation Support	348	50	398	45	\$4,860,978
Alternatives to Employment	174	32	206	21	\$362,147
Intensive Family Support	226	55	281	39	\$1,299,217
<u>TOTAL COST = \$6,522,342</u>					

Balance of Unfunded Applicants

Clearance of unfunded backlog

Calculation if funded at the same rate as those in the previous round as per Bulletin 24

AS Funded 45 = \$4.86m therefore 353 = \$38.12m

ATE Funded 21 = \$0.362m therefore 185 = \$3.18m

IFS 39 = \$1.3m therefore 242 = \$9.06m

\$50.36 m. = Total Cost

Outstanding Balance of Unfunded Applicants = 780

On the assumption that those funded in CAP 24 were the most needy then there is the likelihood that funding the outstanding balance of those who applied may be as low as 80% of the above figure. **\$40.2m.** The recent Western Australian Disabilities budget amounted to **\$540m an increase of 10.6%** over the previous budget as outlined below.

WA STATE DISABILITIES BUDGET 2010 / 2011 - Division 37

	2009 – 2010 Estimated Actual	2010 – 2011 Estimated	% Increase	P461-470
TOTAL	\$488,350,000	\$540,235,000	10.6%	
Net cost : Accommodation Support	\$235,724,000	\$262,473,000		

Individual Support	\$90,366,000	\$99,439,000
Individual Coordination	\$18,375,000	\$19,849,000

Local Area Coordination (LACs)

Employees	235	241
Ave. cost per contact	\$51	\$52
Ave. cost per server user.	\$2,554	\$2,636

In view of recent comment by the Hon. Bill Shorten, Parliamentary Secretary for Disabilities and Children's Services it may be construed that **priorities and efficiencies** within the disability sector are in urgent need of addressing to relieve the plight of the severely disabled and their many long suffering carers.

Summation

The writer wishes to:

- Endorse the sentiments as expressed throughout submission No.47 by the Intellectual Disability Association SA, in particular the view expressed in the last two sentences of the submission ie.
“To suggest the current system nationally is totally hopeless is incorrect. It is restorable with strategic change and appropriate funding.”
- I concur with the appraisal of the PwC's report by actuaries who have submitted comment. In particular that expressed by Richard Cumpston in submission No.7.

It could be stated that Australia has a fundamental three or four tier or multi-pillar system as outlined below:

- Disability Support Pension
- Supplements to the DSP
- Carers Allowance or Carers Payment- Supplement to carers,
- CAP Funding - Varies from State to State.

The above system is well bedded into the Australian culture, generally socially and economically accepted with the major concern centred on the CAP process and outcomes that the 'most needy' are reliant on for support.

- The statement by Hon.Bill Shorten, Parliamentary Secretary for Disabilities that “ *I do not believe that we are getting sufficient value for money. We are paying a lot of money for an inefficient system*” is indicative that efficiencies and improvements can be achieved within the current framework.
- *The writer has some background knowledge of practice within Western Australian and does not wish to reflect on practice and outcomes in other Australian States.*
- *As previously indicated Western Australia has 780 unfunded applicants after the last funding round and this backlog could be cleared within the financial parameters of \$40 - \$50 million. With a recent 10.6% budget increase to a total budget of \$540 million it is inherently possible and within capacity through re-arranging priorities and implementing efficiencies to redirect \$20m. (3.7%)to the most needy cohort within our disabled community for which State funds are primarily allocated.*
The pressing major question is:

Would the Commonwealth match this measure \$ for \$ to clear this backlog ?

It is of interest to note that that the PwC's report has estimated that it would cost in the vicinity of \$0.97 billion to clear this nation's backlog in 2011 if introduced.

***Thank you for the opportunity
 Brian O'Hart***