Institute of Actuaries of Australia

Submission to the Productivity Commission

Inquiry on Disability Care and Support

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1. Executive Summary

One of the Institute's key aims is to contribute to, and inform debate on, public policy, and we trust that this submission will assist the Commission with parts of its inquiry.

The Commission has been asked to examine the feasibility, costs and benefits of replacing the current system of disability services with a new national disability care and support scheme. The Commission is considering how a national disability scheme could be designed, administered, financed and implemented. This includes consideration of a variety of options, including a no fault social insurance model. The Commission is to assess how these models would interact with Australia's health, aged care, informal care, income support and injury insurance systems.

Reform of the system for disability care and support is essential and sound long term economic and social policy. (The current system is correctly described as fragmented, with significant gaps, inequities and inefficiencies and fails to recognise the ageing demographics of our society.) However the very broad range of questions asked by the Productivity Commission highlights just how large a task this is and the significant complexities involved.

Real reform will of course require bipartisan support and dedication to the cause over the long term. It is also very likely to require additional resources. Given the long term nature of reform, we have in Section 2, put forward nine guiding principles for the Commission's consideration. Strong and ongoing Commonwealth leadership at the conferences of Community and Disability Service Ministers will be critical.

There are substantial financial risks involved in implementing and managing a new disability scheme. We have observed large costing variances in accident compensation schemes, particularly where there is no existing scheme. Given the size of the task, the complexities and financial risks involved, we believe it is essential to implement any new scheme in measured stages over time.

While we have not articulated what those measured steps should be, two obvious areas are further harmonisation of the statutory accident compensation schemes (including removal of access to common law, limitations on benefits, 3rd party) and reform for those most seriously disabled. The IAA would be happy to put together a working group to consider the implications for accident compensation schemes and commercial insurers for those most seriously disabled.

We suggest that the Productivity Commission look to the accident compensation schemes for learnings (both positive and negative), particularly around Scheme Governance, and most importantly management including the importance of monitoring, claims audits, service delivery models, and objective and robust assessment and eligibility criteria.

One significant question on which we can provide some commentary is how to fund such a system. We note that the accident compensation schemes, the medical indemnity schemes and the commercial insurers have sound funding bases and it would be logical to explore ways of extending coverage and improving efficiency through these avenues, eg consider

encouraging greater participation in disability income insurance with coverage extending to additional care and equipment.

Beyond that we do not have consensus on the issue of funding, and there are strong supporters of a pay-as-you go (PAYG) system, and equally strong supporters of a funded insurance system. The fact that there is no single view amongst our members is in itself informative. It means that each method has its advantages, but also has significant disadvantages. The decision may come down to the one with the least relative disadvantages in terms of the Commission's (or the Government's) goals.

The Australian actuarial profession has a substantial body of experience with the design and ongoing operation of disability schemes, and is well placed to assist the Productivity Commission in its inquiry. We would be happy to meet with the Commission to discuss ways in which we can assist.

2. Guiding principles

In addressing some of the many questions in the Issues Paper, we offer the following framework consisting of nine guiding 'principles'.

1. **Address the needs of persons with disabilities, to the extent considered appropriate by Australians.** Australia's social security system is long established, and broadly reflects the views of Australians about the income support needed by persons in different circumstances. However the level of disclosure of the support provided has not been as transparent. The level of support needs to be more openly discussed and the system needs to move towards providing benefits on a broader level than currently applies.

2. **Move away from an arbitrary rationing system and towards a system where needs are met according to national standards.** While Australia's social security and universal health care systems provide an entitlement to services based on need, there is currently no equivalent entitlement to disability care and support services. (We note that the public health care system limits demand by restricting the range of services provided, requiring copayment in many instances and rationing of services in others). The inquiry is asked to assess an entitlement based approach for disability support.

   We are concerned that not enough is yet known about the costs of creating legal entitlements to disability services. It seems desirable in the first instance to establish target national standards, and measure the extent to which these targets are being achieved, before creating legal entitlements, eg agreement has been reached to establish a nationally consistent list of core equipment that all people with similar disabilities should be able to access (Appendix C4).

3. **Consider the long term economic benefits.** Scheme managers (with support from actuaries) need to weigh up the relative benefits of money spent now against the long term cost savings generated, (eg, early intervention for children born with disabilities may reduce costs of care over that person's entire life span).

4. **Provide access to support without unfair discrimination by age, location or cause of disability.** Need should determine access to support services, and the same services should be available Australia-wide. However we recognise that it may be necessary to make trade-offs in the short term and in chasing longer term economic benefits.

5. **Treat people with disability and their carers with respect, and give them the broadest practicable range of choices through a coordinated approach.** Greater focus needs to be placed on improving the quality, frequency and visibility of monitoring of service delivery. Given the complex needs of people with disabilities, it may ultimately prove necessary to provide care and support services through a specialised agency network or statutory body operating perhaps through the existing state based systems.

   Central to any such agency will be the need for an approach to case management that gives priority to the integration of the individual and family to the community to the

maximum extent possible. We note that an effective case management process will need to resolve any demarcation issues to ensure that it operates effectively across the system.

6. **Be transparent, stable and have multi-party support.** The disability system needs far greater transparency, eg release more information around Commonwealth and state government expenditure on disability support pensions, carer payments and other disability and aged care expenditure.

   The system would be more stable if it enjoyed the support of all the major political parties and multi-party support is achievable. It also requires the widest possible community support including state, private and non profit organisations' involvement.

7. **Have strong governance.** Regardless of whether services are delivered through government departments, statutory authorities or private organizations, strong governance is essential. Some of the better performing accident compensation schemes have:

   i) A governing Board;

   ii) A high level definition of the roles of the Minister, the Board and the CEO;

   iii) The involvement of scheme stakeholders through Advisory Councils;

   iv) The existence of dispute processes for matters such as scheme eligibility and care needs assessments; and

   v) Provision for guidelines to support the Authority in determining matters such as eligibility and care needs assessments.

   We note that role clarity is essential in ensuring proper governance.

8. **Be managed in a proactive and cost-effective manner.** We support proactive and cost effective management of the system which includes clear management roles and responsibilities, a sound understanding of the financial implications, comprehensive monitoring of all aspects of the system, and operational auditing of all key processes.

9. **Strive for continuous improvements, based on sound financial management.** Regularly reviewing the strategic direction on a regular basis (ie at least annually) is essential.

3. Financial risks of a new scheme

The costs of the national disability insurance scheme have been calculated by PricewaterhouseCoopers (PwC) based on the incidence, life expectancy and likely severity of each type of disability. According to PwC the additional gross costs of a NDIS, over and above current government expenditure, would be equivalent to 0.4 to 0.8 per cent of taxable income but there is a significant amount of uncertainty attached to these costings. The scheme and costs will be exposed to the following major risks:

Cost Risk 1- General Pricing. Invariably, despite considerable effort and research the actuarial estimates of the cost of the changes of accident compensation schemes have varied materially, sometimes very substantially from the initial cost both upwards and downwards. Costings suffer from the same inherent uncertainty. These risks are difficult and some may be impossible to mitigate, although some may be addressed through legislative amendments and sound management.

- Actuarial costings are typically undertaken before legislation is drafted
- Lack of available historically accurate data
- There is a very large degree of uncertainty in assessing an appropriate cost. Pricing in advance to estimate claim payments for up to 100 years into the future for each accident year is a difficult task at best. The types of claims entering into the Scheme are the largest and most volatile of all claims – this is a fundamental feature of the insured risk
- Considerable uncertainty exists in the future incidence and treatment of disabilities, including medical advances. Improvements in medical care for example have already reduced deaths from cardio-vascular disease, and may soon begin to reduce age-specific mortality rates from cancer leaving more people vulnerable to diseases such as dementia requiring high levels of care, and prolonging the life expectancy of people living with disabilities. Increasing levels of obesity may also increase care requirements.
- There is a great deal of uncertainty in terms of how many people would be eligible under the new scheme. Careful consideration of the eligibility criteria (needs to be objective and robust) and how it is implemented and monitored will be crucial.

Upward pressure through deteriorating experience may impact the Scheme and costs in two ways:

- It increases the current assessment of the cost of future accident years, hence costs will increase;
- It crystallises losses in the years for which costs have already been charged and received. These past losses must also be funded by increasing the costs in future years.

Cost Risk 2 - Operational Risk. Operational risk for the Scheme can be described as the ability to manage the claims and administrative operations within the set guidelines and frameworks to achieve the cost outcomes assumed in the premium setting basis. The main components of this risk are:

- Recruit the appropriate staff (given the unique skills required to assess catastrophic injuries the talent pool is small) and set up appropriate management structures;
- Set up management, computer and financial systems;
- Set up appropriate and efficient processes and procedures for the various functions;
- Agree on an appropriate and fair set of guidelines for entry into the Scheme and ongoing care guidelines;
- Contemplate and manage effectively the complex financial management issues;
- Negotiate hourly care rates and contracts with carers;
- Build appropriate individual care plans for injured persons participating in the Scheme;

Failure to effectively and efficiently implement these structures and processes will lead to claims costs in excess of that assumed in the actuarial costings.

Cost Risk 3 – Cost of Care. Being a large contributor to the cost of the Scheme there are a number of risks which may lead to upwards pressure on the cost of care (i.e. the average hourly rate paid). Examples include:

- Higher expectations of claimants over time;
- Waiting period of claimants which would demand intense physiotherapy to keep muscles active before the "new" treatment arrives;
- More than one carer required for occupational and health reasons.

The additional demand for carers and care management that the Scheme will create will add to the already increasing demand from the aging population and will continue to increase over time (competing for carers). This will be exacerbated from:

- Current historically low unemployment rates
- It is not perceived to be an attractive or 'glamorous' job
- The Scheme may help a shift away from 'family' providing all or most of the care to paid carers

The ability to 'bulk buy' care services and negotiate favourable hourly rates with care groups without reducing supply of carers will have a significant influence on their ability to manger and control this risk.

Cost Risk 4 – Investment Returns. Given the absence of short term cash outflow or solvency requirements and the long term nature of the claims liabilities, an appropriate investment policy may be to allocate a high proportion of the Scheme's investments to growth-type investments (eg equities). Allocating a high proportion of investments to growth investments is likely to result in considerable volatility in the investment performance, asset values and

reported financial results of the Scheme from year to year and even over five year periods.

Cost Risk 5 – Capital Management. The unique features of the Scheme create challenges to its financial management. The management of the Scheme should devote a significant amount of time and research to understanding the financial risk in their business and in particular the volatility of their financial results and balance sheet and how to manage that volatility.

There are five important components of the approach to the management of financial risks:

- Investment policy as discussed above;
- The funding level to adopt. Accident compensation schemes have funding level targets of between 85% and 125%;
- The risk margin in the outstanding claims liabilities. The majority of accident compensation schemes have adopted a level of sufficiency of 75% (the minimum level mandated by the Australian Prudential Regulatory Authority for commercial insurers) or a higher level;
- What explicit margins should be included in costs. Some schemes adopt explicit assumptions in the premium rate basis (eg a profit loading, risk free discount rate and a explicit superimposed inflation rate assumption);
- Education of the scheme stakeholders especially the Government. It is important for scheme stakeholders to understand the nature of the financial risks and how they impact the volatility of the Scheme's profit and balance sheet. The Scheme's balance sheet may directly impact the Government's balance sheet.

4. Low risk implementation

4.1 Measured approach

Given the financial and political risks the only approach likely to be practical, financially responsible and have broad political support is a measured transition from the current state. We suggest that further research and pilot studies be undertaken to determine what these measured transition steps should be. Further harmonisation of the statutory accident compensation schemes (eg addressing the issue of benefit design, in particular removal of access to common law) and reform for those most seriously disabled would be two obvious areas. We note there are other initiatives that have already been recommended by previous enquiries (please refer to Appendix C).

4.2 Understanding the existing system

The Commission needs to deeply analyse and understand the existing system before making its recommendations. Those aspects that are working well, those that are not, and any gaps in coverage, inefficiencies (such as leakage), cost shifting and unintended consequences (such as perverse incentives) need to be clearly identified through detailed studies. The implications and timeframes of changes to the system would be difficult to determine without considering the interaction with the existing schemes/insurers and other participants.

4.3 Crucial importance of operational data

Agreement on data needs, and establishment of data capture procedures, should be early priorities. Accident compensation schemes and insurers have maintained detailed computer records of every event, and these have been invaluable for operational control and financial planning. Also of crucial importance is the interpretation of the data by people with operational experience. When services are provided through many different organizations, collecting operational data is particularly difficult.

4.4 Data and research

While recent inquiry recommendations regarding data capture have merit, far more data capture is needed. The House of Representatives Standing Committee on Family, Community, Housing and Health recommended (2009, xxi) that the Survey of Disability, Ageing and Carers be held every three years, and that more survey information be obtained on carers.

The Disability Investment Group (2009, 95-97) recommended the establishment of a national disability research institute, with $10m pa initial funding. Regardless of the mechanism, significant research across the disability sector is essential. More than $10m may well be justified.

One priority area of research should be "what is the most effective model of disability support?" eg the Issues Paper asks questions around Individual Funding. We support the use of detailed pilot studies. Experimentation in care and cost management should be encouraged between the accident compensation schemes with the results being carefully evaluated and disseminated.

4.5 Making research results publicly available

Community and disability service ministers should be making detailed reports on progress towards agreed objectives publically available. Statistics and conclusions drawn should also be widely available, as part of the process of building public support.

4.6 Learning from the existing schemes

The various accident compensation schemes are well established and have a long history of providing support to people with acquired disabilities. Much could be learnt from the management of these schemes including their governance, management information, defining and managing eligibility criteria, third party management and the support and care of people with a serious or catastrophic disability.

A case study on the Victorian Workcover Authority is presented in Appendix D. While this scheme provides more compensation style benefits than lifetime care and support, many of the financial and management issues are similar. The pre 2002 years highlight the financial volatility associated with constant legislative changes. The post 2002 years highlight the effect of proactive management, including a strong focus on understanding the financial models, monitoring, operational auditing of key eligibility criteria and setting strategy. It has also been a modular reform consistent with our recommended approach here, e.g. use of pilot studies. Appendix D also discusses how they have managed their outsourced claims management providers.

4.7 Co-operation with accident compensation schemes

The various accident compensation schemes and the national disability scheme should cooperate where practical. Many areas of possible co-operation exist, reducing risks and costs for both sides. Facilities and expertise for looking after profoundly disabled persons should be shared. Service providers are often shared, and agreement may be feasible on training, accreditation, fee rates and measures to prevent over-servicing.

4.8 Harmonisation of accident compensation schemes

Further progress in harmonising the accident compensation schemes is needed. In particular the issue of benefit design (including access to common law, limitations on benefits, 3rd party) and reform for those most seriously disabled needs to be considered. The Institute would be happy to assist the Commission to consider the implications of removal of access to common law including the impact on accident compensation schemes, medical indemnity schemes and insurers, and commercial insurers (life, general and health).

4.9 Better integration with the health and social security systems

Any national system will need to also integrate with the health system which is also going through reform. Stronger integration with the health system needs to be supported.

5. Funding a new scheme

5.1 Principles of funding

The actuarial profession strongly believes in the discipline of the actuarial control cycle, which has significantly improved the financial management of insurers and accident compensation schemes alike. A similar far-sighted approach is also appropriate for pay-as-you-go (PAYG) systems – that is, greater consideration of future trends should be considered. For example, expenditure projections over the next 5, 10 years etc, etc together with the level of premiums that would be charged, if it was to be a fully funded insurance scheme, would be useful. Both calculations would need to be undertaken under a range of different scenarios.

5.2 The current system

We note that the current system is already a mixture of PAYG and insurance approaches. The existing accident compensation schemes, the medical indemnity schemes, the commercial insurers (life, general, health) have sound funding bases and it would be logical to explore ways of extending coverage and improving efficiency through these avenues.

5.3 A new national disability scheme

Beyond that we do not have consensus on the issue of funding. We have had extensive discussions within the profession, including experienced accident compensation actuaries and it is clear that there are strong views supporting both approaches. Table 1 below shows some of the key differences between PAYG and an insurance approach:

Table 1: Pay-as-you-go versus an insurance approach

Funding method	Pay as you go	Premiums invested to pay future benefits
Use in Australia	All social security	All insurance & accident compensation
Apparent cost	Lower initially	Lower eventually
Funding source	General revenue	Individuals and employers
Means testing	Usual	Not relevant
Risks	Unsupportable benefits	Unexpected surpluses & deficits
Suitable uses	Basic benefits	Benefits replacing individual losses
Flexibility	High	Unable to cover past events

We present below the views for and against each approach.

5.4 Views in support of a PAYG approach

As all Australian social security benefits and the public health system are currently funded on a PAYG approach, there is an argument that a PAYG funding model should continue to apply. The costs of any national disability scheme should be met from general revenue, rather than a special-purpose tax as per the Henry Review (2009, p17).

As highlighted in section 3 the true costs of operating any new national insurance scheme will not be known for many years and may change considerably as the system reaches maturity. There is also concern about the ability for a large and complex national system to

be appropriately governed and well managed even if it is through state based arrangements. Sound governance and management will be critical to the success of any new scheme, and it will need to step up from the better managed state based accident compensation schemes.

An insurance approach with expectations well entrenched may be difficult to unwind. A PAYG system with greater consideration of the longer term trends may result in a similar outcome but still retain strong financial control of the system.

5.5 Views in support of an insurance funded model

The PAYG approach (and funding from general revenue) do not create the discipline for applying sound funding on actuarial control cycle principles – principles which are core to the sustainability of a very long-tail system such as is proposed. The TAC, the ACC Serious Injury and NSW Lifetime Care and Support Scheme (LTCS) all operate on fully funded basis.

Whilst PAYG can work, there is concern about the potential mismatch between the long term commitments being made and the impact of short term issues. The best outcome may require a change in thinking, moving from funding welfare to funding entitlements. For this to really work there may need to be some independence from the budgetary process, and establishing some sort of funding and scheme may achieve this.

5.6 Transitional approach

Rather than it being a question of PAYG or an insurance approach, it may be more a question of the degree of partial funding. As such the target for "fully funded" could be tweaked (similar to the suggestion by the DIG) so that for example the new incidence of disability could be genuinely fully funded, with existing prevalence to move to full funding over a 10 year period. This transitional approach from PAYG to an insurance model may result in a minimal increase in the annual cost depending on the length of the transition.

Appendix A. Relevant experience of Australian actuaries

A.1 The Australian actuarial profession

The Australian actuarial profession has a substantial body of experience with the design and ongoing operation of disability schemes, and is well placed to contribute to the Productivity Commission's inquiry. Our work and training gives us deep practical and operational experience, through board positions, senior management and operational roles covering all business facets.

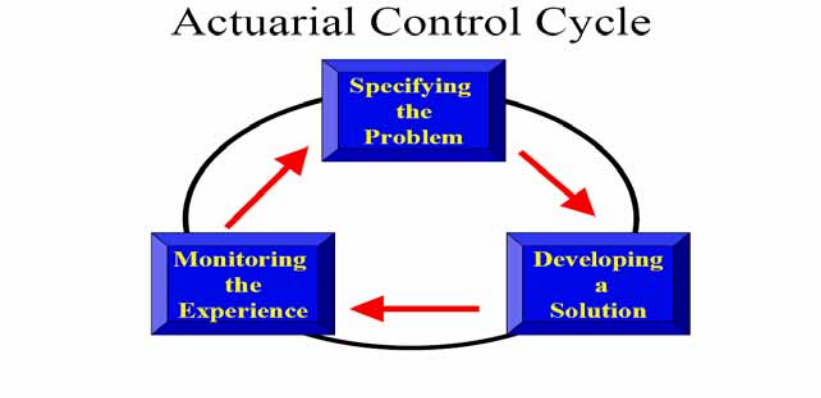
A.2 The actuarial professional skill set

Members of the actuarial profession in Australia are in a unique position to assist the Productivity Commission with its inquiry. Our professional training and standards are designed to ensure that we are able to consider all important financial and risk issues in the operation of insurers and other funders of the disability system. Our skill set is based on the following strengths :

- Strong analytical foundations in post graduate level mathematics and statistics;
- Experience in the collection and use of prevalence and cost data;
- Experience in both strategic and operational elements of financial management;
- Strong understanding of all facets of compensation and disability insurance, both operational and strategic: especially anti-selection and equity;
- Professional standards of practice and contributing to the public good.

A.3 The actuarial control cycle

The actuarial control cycle is the framework that we apply to the management of insurance liabilities and could be directly applied to the national disability system. The control cycle describes the process of identifying an issue, the development of a solution and the monitoring of the experience. This approach, where the experience of the scheme is constantly monitored and any new problems are solved as they arise, would be particularly applicable for a national disability system, which will face many complex long-term challenges.



A.4 Actuarial advice to insurers and accident compensation schemes

The actuarial profession first arose to provide independent assessment and monitoring of the financial soundness of life and disability insurers. This extended to general insurance and health insurance over time, and Australian actuaries have advised in the design and operation of all of the Australian accident compensation schemes over many years.

Private insurers in general and life insurance (and health insurance) are required by APRA (and PHIAC) to obtain an annual actuarial financial condition report (FCR), which covers capital adequacy, suitability of reinsurance arrangements, profitability of premium rates, risk management including underwriting and claims management controls in addition to the appropriateness of their claims liabilities reserves and many other issues.

All accident compensation schemes and medical indemnity schemes receive yearly or half-yearly actuarial advice, which is presented in their accounts and statutory returns (where relevant). This includes setting of premiums and reserving for claims liabilities.

In addition to the regular actuarial advice, actuaries are also extensively involved with designing premium rating systems/incentive systems/monitoring systems and advising on capital management – all elements of the actuarial control cycle. Operational actuaries actually implement much of this work.

Actuaries are also frequently asked to undertake costings of major legislative reforms. Indeed given the substantial financial risks, respective governments have generally sought several actuarial views prior to implementation of major changes.

A.5 Other relevant experience of actuaries

As expert witnesses in personal injury litigation, actuaries have to deal with the uncertain life expectancies and complex needs of disabled persons. A number of actuaries are also involved in disability issues through their roles at non-profit organisations. The profession has links with a number of Australian universities and has a history of published research.

A.6 Availability and transparency of actuarial reports

Actuarial reports on workers' compensation insurers in WA, Tasmania, NSW and the NT are available from the respective state government regulatory agencies websites. Similar reports for the workers' compensation schemes in other jurisdictions (with the exception of Queensland) are available through freedom of information legislation. When available, these reports provide a great deal of valuable information. No detailed actuarial reports are routinely available on motor accident compensation schemes. Insurer's Financial Condition Reports (FCRs) are also not publically available, but brief actuarial reports are included in published annual reports.

A.7 Reproducibility of actuarial estimates

The principles to be followed in preparing most of these reports are specified by professional standards set by the Institute of Actuaries of Australia which are broadly in line with

international standards. The actuarial reports to accident compensation schemes generally provide enough information to allow third parties to understand the assumption bases, and to replicate the calculations. Reproducibility of estimates is an important step in gaining public confidence.

Appendix B: The present fragmented system

It is not surprising that the current disability arrangements within Australia have been described as “fragmented” and providing benefits like a “lottery”.

B.1 Intrinsic complexity

The disability system is intrinsically complex because of the many autonomous participants, the manner it has evolved (without the benefit of centralized design) and the many different needs of the disabled:

- Virtually all arms of government (federal and state) are involved in some manner: as providers or funders of disability services and as communities with disabled members;
- All families and communities are potentially participants to the extent that they have members that are, or will become disabled;
- While types of disability and appropriate support can be characterised in various ways, each person, family and community is unique (and continuously changing), requiring that any system that addresses this needs to be flexible.

This complexity and the requirement for flexibility represent a real challenge for reform.

- It is extremely difficult to identify and prioritize areas (of inefficiency and inequality) particularly with the different values/views of various stakeholders across a wide range of dimensions and issues;
- The current fragmented system cannot be centrally controlled even if it were possible to identify what was required. This is not to say that any coordination is impossible, just that it will necessarily be a challenge.

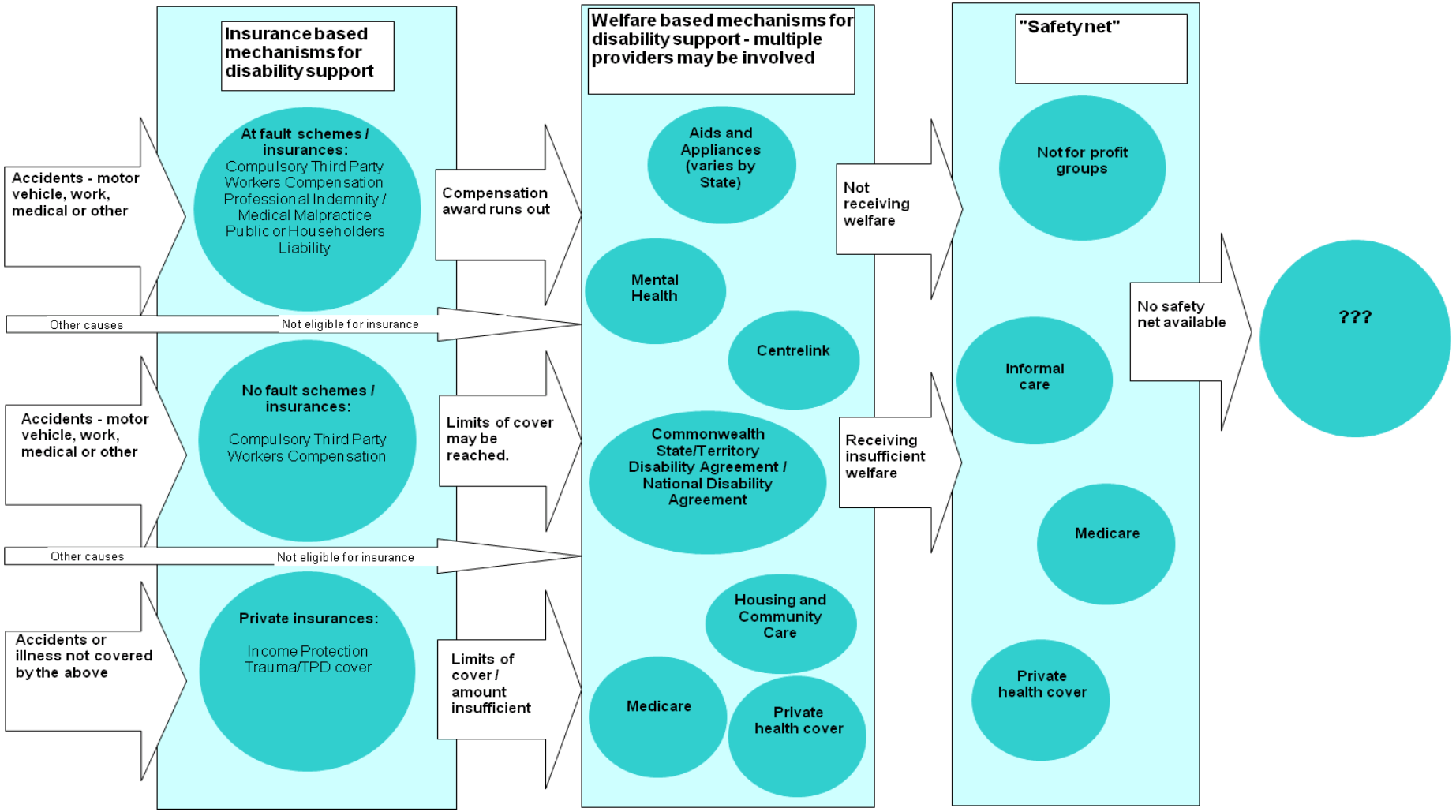
B.2 The major institutional elements

The diagram overleaf is one attempt at visually presenting the institutional elements of the current system. The cause of disability determines which part of the system a person enters and ultimately interacts with. We believe that "insurance support", "welfare based mechanisms" and "safety nets" have very little interaction with each other and indeed internally.

B.3 Keeping family/community central

The diagram does not consider persons with disability in the context of their family and community. An alternative visualisation of the system would have the individual with a disability in the centre, supported in the first instance by their family and close community. The formal institutions should be seen as providing support to ensure that the person and their family can cope, rather than controlling or having full responsibility for their lives.

An overview of the current Australian support frameworks for people with disabilities



	Compensation schemes (CTP, workers compensation) or compensation based insurance (professional indemnity, public liability)	Life insurance products - Income protection (IP) or Trauma/TPD	Medicare* and Community Rate Private Health Insurance (PHI)	Centrelink*	State Housing and Community Care	Other: - FAHCSIA - Other Department of Human Services (Aus Hearing, CRS) - CSTDA - Mental Health	Informal carers, not for profit groups
Income	Full/partial replacement	Partial replacement (IP)		Fixed benefits not linked to pre-disability income.			Implicit from informal carers
Medical	Generally full coverage, sometimes caps on total amount	Trauma/TPD amounts not earmarked for specific costs, but could be used for these costs	Range of treatments available (PHI also covers non medical)			Can provide funding for Autism treatment (CSTDA)	
Care/ home modifications / aids and appliances	Home care or gratuitous services covered - can have limits, or requirement for minimum level of need		PHI provides some aids and appliances	Carer payments, allowances and supplements available	Nursing and respite care, allied health services, domestic assistance, meal and transport and counselling	Wide range of support services e.g. respite care, employment services	Informal carers a key source of care
Housing and Community Care	Not specifically provided			Rent assistance available	Disability housing	National rental affordability scheme (FAHCSIA), Housing services (CSTDA)	
Case Management/ Rehabilitation/ Job access	Statutory schemes would generally cover rehabilitation, case management varies		Case management would be indirect		Case management program in place	Provided in the context of needs - focus on mental health (FAHCSIA); May be part of community services (CSTDA)	

* Not for Profits

Appendix C. Improvements to the present system

C.1 Recommendations by recent inquiries

Reports by recent inquiries have been

- Senate Standing Committee on Community Affairs "Building trust: supporting families through disability trusts", October 2008
- Harmer J, "Pension Review report", February 27 2009
- House of Representatives Standing Committee on Family, Community, Housing and Youth "Who cares ...? Report on the inquiry into better support for carers", April 2009
- National People with Disabilities and Carer Council "Shut out: the experience of people with disabilities and their families in Australia", August 2009
- Disability Investment Group "The way forward - a new disability policy framework for Australia", September 22 2009
- Henry K, Harmer j, Piggott J, Ridout H & Smith G "Australia's future tax system - report to the Treasurer", December 2009.

All these reports have contained valuable information and relevant recommendations. Some of the recommendations of the Senate Standing Committee, the Harmer Review and the House of Representatives Standing Committee have been implemented. The report of the House of Representatives Standing Committee contained 50 recommendations, apparently with the full endorsement of the 12 members of the committee.

C.2 Increases to pensions, but more severe income testing

The April 2009 report of the House of Representatives Standing Committee on Family, Community, Housing and Youth recommended a significant increase in the base rate of carer payments, and reduction of the disincentive for carers to earn supplementary income (recommendations 18 and 19).

The 2009-10 budget included changes to pension rates and income test taper rates

- from 20/9/09, the full single pension rate was increased by $65 a fortnight, and the pension for couples increased by up to $20.30 a fortnight combined, in addition to normal indexation;
- the income test taper rate increased from 40 cents in the dollar to 50 cents, and from 20 cents to 25 cents for couples ("Secure and sustainable pensions", downloaded 10/6/10 from www.centrelink.gov.au).

These new rates and income tests applied to persons receiving age pensions, disability support pensions and carer payments. From table B1, the income test taper rate for couples appear to be identical to the 50 cents in the dollar for single persons, and not the 25 cents shown by Centrelink. The 50 cents for couples was calculated as 1057 / (2362 – 248).

Table B1 Pension rates and income limits effective from 20/3/10

Persons	Full pension including supplement $ per fortnight	Allowable income for full pension $ per fortnight	Allowable income for any pension $ per fortnight	Pension lost per $ of income per fortnight
Single	701.1	142	1544.2	50 cents
Partners (combined)	1057	248	2362	50 cents

The pension increases in the 2009-10 budget do not appear to be the "significant increase" recommended by the Standing Committee. The increase to a 50 cents taper rate increases the disincentives to earn extra income, rather than reducing the disincentives as recommended by the Committee.

The severe income testing of disability and carer pensions may not be saving much. Using inadequate data and crude assumptions, the extra costs of removing all income and asset tests have been estimated as 2% for disability support pensions, and 19% for carer payments (Cumpston 2010 pp12-13).

The Henry report on Australia's future tax system (2009, p97) recommended a comprehensive means test based on a combined measure of income and deemed income on assets.

C.3 Meeting specific costs associated with health and disability

The Harmer Review (2009) found that the specific costs associated with health and disability are best responded to by targeted services rather than generalised differences in base rates of payments or financial supplements (finding 2).

The report of the Disability Investment Group said (p30)

"Disability leads to a much higher cost of living for many. During its consultations, the DIG repeatedly heard that ongoing costs of home modifications and purchase of aids and equipment drains the family budget. These items are not luxuries, they are necessities ... support needs to respond to individual needs".

C.4 Better aids and equipment

The expenditure disparities between the states and territories were noted in A6. Bringing all the states up to the ACT level of expenditure per person might have increased total 07-08 expenditure from about $118m to $209m. This modest extra expenditure might have major benefits for some of the disabled, and help reduce their need for future support. In many areas, better equipment has given productivity gains and a better quality of life.

Relaxing the eligibility conditions for aids, and ensuring that appropriately designed aids are nationally available, could help many disabled persons lead more productive lives, and reduce the heavy burdens on carers. The extra costs would be very low compared to the current expenditures on disability support pensions.

Overall savings in disability expenditures might result. The issues paper (p10) comments

> *"under-servicing in one area - such as insufficient access to aids and appliances - may result in costly additional servicing in another area or at a later time".*

The National Disability Agreement, agreed on 29/11/08 by COAG, identified ten priority areas. The ninth of these was "more consistent access to aids and equipment by the end of 2012". On 11/6/10 Community and Services Ministers from all States and Territories

> *"agreed to establish, by December 2010, a nationally consistent list of core equipment that all people with similar disabilities should be able to access, no matter where they live." (Shorten 17/6/10)*

C.5 Special Disability Trusts

Special disability trusts were established under the Social Security Act in 2006, but by 31/12/07 only 22 trusts had been established (Senate Standing Committee on Community Affairs 2009 p1). The Committee noted that special disability trusts were developed to assist parents and carers concerned about what would happen to a person with a disability, when they were no longer able to provide care.

Of the 14 recommendations made by the Committee, at least the following have been accepted:

- The sale of a property owned by a special disability trust and used by the beneficiary as their principal place of residence should be exempt from capital gains tax;
- Unexpended trust income should be taxed at the beneficiary's personal income tax rate.

Committee recommendations that have not been implemented include:

- Removal of section 1209M(b), which requires a disability sufficient to qualify a sole carer for carer payment or carer allowance, or residence in an institution, hostel or group home, wholly or partly funded under an agreement between the Commonwealth, states and territories;
- Inclusion of eligibility requirements which effectively enable those with intellectual disabilities or mental illnesses to become beneficiaries of special disability trusts;
- Doubling the asset value limit to $1m, annually indexed;
- Annually indexing the gifting concession limit, now fixed at $500,000;
- Transfer of property and other assets to a special disability trust be exempt from capital gains tax and stamp duty;
- Expanding the allowable uses to include all day-to-day living expenses that are met to maximise the beneficiary's health, wellbeing, recreation and independence;
- Unexpended income be able to be contributed, on a pre-tax basis, to a superannuation fund for the beneficiary;
- Where a trust is used to purchase a first home for the beneficiary, the First Home Owner Grant should apply.

FaHCSIA's portfolio budget statements for 2010-11 noted (2010, pp91-92) that:

- Beneficiaries are now allowed to work up to seven hours a week:
- Trust fund uses have been expanded to include all medical expenses, including health insurance fund membership, and maintenance costs of fund assets and properties:
- Discretionary spending not directly related to care and accommodation needs is now allowed, capped at $10,000 a year:
- In two years time, a government review of the concessional limit, eligibility for gifting concessions and trust fund audits.

A cautious approach to these new trusts is appropriate, but most of the Committee's recommendations appear to have merit. Persons with disabilities may need to live in areas with good transport and services, and $500,000 may not buy adequate accommodation in such areas. In addition to accommodation costs, persons with disabilities may have substantial unmet health and transport costs. Difficult issues may arise where a beneficiary's health improves, and they are able to work more than 7 hours a week.

C.6 Eligibility for disability support payments

FaHCSIA's portfolio budget statements for 2010-11 noted (2010, pp90-91) that

- Assessment processes that determine eligibility for the disability support pension will have a greater focus on a person's potential to work with appropriate capacity building and rehabilitation;
- Greater consideration will be given to the person's transferable skills, suitability for alternative employment and capacity to benefit from vocational training;
- Claimants who do not have sufficient evidence to demonstrate that they cannot be assisted back to work will have their DSP claim rejected;
- Revised DSP impairment tables will be implemented;
- Assessment procedures will be improved, so that those who are manifestly eligible will have their claims determined as quickly as possible;
- Updated work capacity guidelines for assessors will be introduced to help ensure that both medical impairment and work capacity determine the threshold for entry to DSP.

It is to be hoped that these new procedures will be cautiously implemented, with consideration for natural justice, and with long-term follow-ups of the persons rejected for disability support pensions.

C.7 Early intervention and prevention

On 11/6/10 Community and Services Ministers from all States and Territories

> *"endorsed a National Framework and work plan for Early Intervention and Prevention. This enables each jurisdiction to examine their systems and identify gaps to improve the effectiveness of their early intervention programs. This will lead to better outcomes for people with disability ... particularly in the early years and at key transition points." (Shorten 17/6/10)*

C.8 Training and accreditation of service providers

The "Report on the inquiry into better support for carers" by the House of Representatives Standing Committee on Family, Community, Housing and Youth (2009, p188) quoted evidence from the Carers Support Network of South Australia

"Carers report that the current system of paid in-home care workers is unreliable and of low quality. We hear incidents on a regular basis of the care worker being late or not turning up, not having the skill set required to provide good care, or not having an appropriate attitude towards the care recipient."

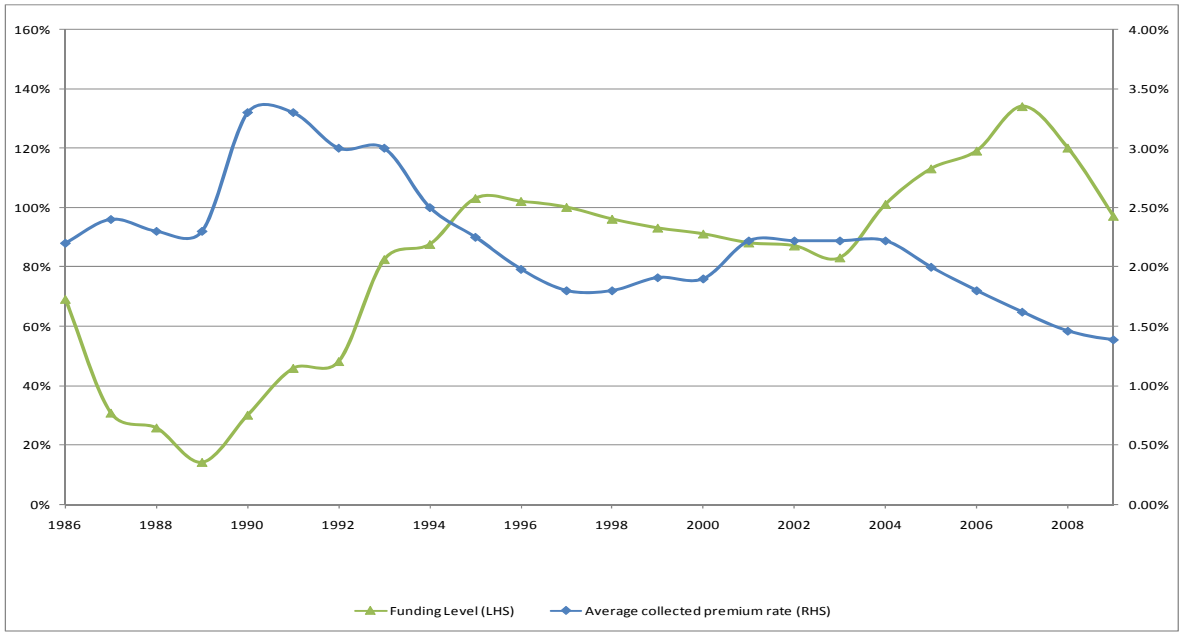
Training and national accreditation are important to ensure good quality service, and also to maintain the financial viability of the system.

6. Appendix D: Accident compensation scheme case study

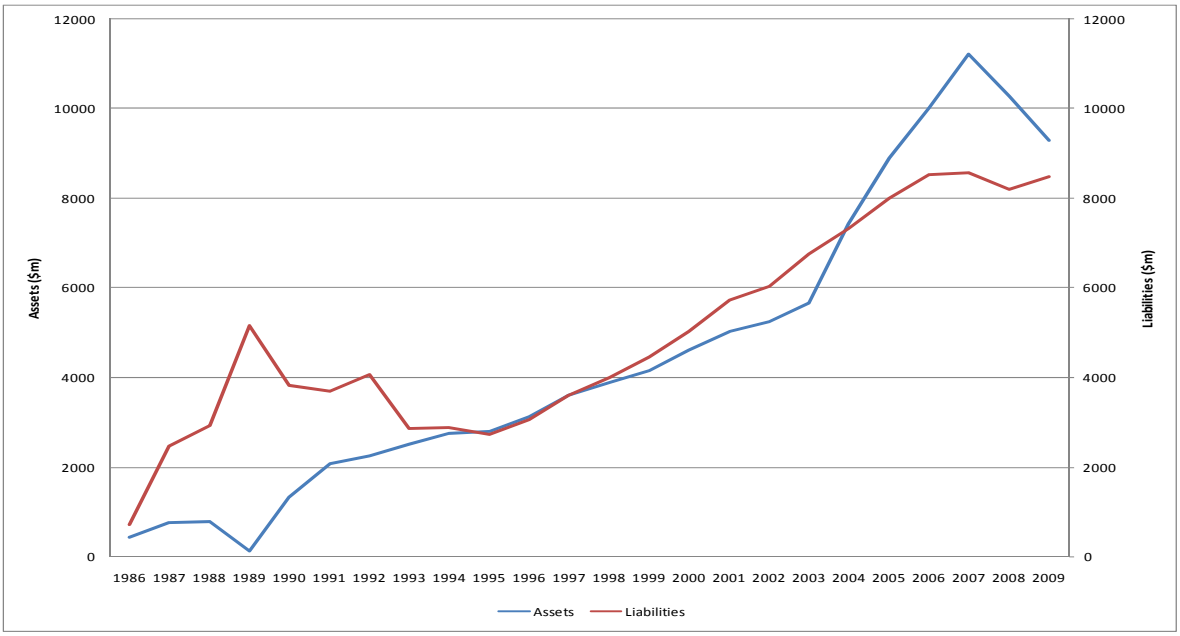
D.1 Victorian Workers' Compensation Scheme

The following graphs show the average collected premium rate and funding level (i.e. ratio of assets over liabilities) for the scheme and the changes in the scheme's assets and liabilities over the same period. The information was obtained from Worksafe's annual reports but did not include the breakeven premium rate.

Victorian workers compensation scheme – funding level and collected premium rate



Victorian workers compensation scheme – assets and liabilities



This case study illustrates a relatively slow response to poor scheme performance in the early years of the scheme up to 2000 and more rapid responses since that time:

- The initial delay in recognising (in premium rates) the true cost of claims until 1990 when premiums increased in the order of 50%;
- There was a relatively slower response to the very poor financial situation of the scheme up to 1990 with volatility in the liabilities in the early years reflecting legislative changes around 1989 and again in 1993;
- Except for a brief period between 1995 and 1997 the scheme did not achieve a funding level above 100% until 2004. This partly reflects an inadequate premium rate even from 1995;
- The falling funding level from 1995 to 2003 also reflects the gradual response to the deterioration in claims experience. Eventually the deterioration culminated in the removal of access to common law in 1997. This was subsequently reintroduced in October 1999 with the change in government and associated with an increase in the premium rate;
- The full cost of the reintroduction of access to common law to the scheme in 1999 is only now starting to be fully understood, albeit with signs of deteriorating trends more recently, some 10 years after reintroduction;
- The significant improvement in the management of weekly liabilities over the last decade has contributed to the reduction in the premium rates and sound financial position.

At the commencement of this scheme in 1985 it was a monopoly and soon moved to a hybrid model but has retained many of the features of a monopoly scheme. The hybrid model has evolved significantly over time. The experience rated premium system was introduced in 1993. Prior to 2000 the scheme was primarily managed through legislative changes. At one stage (prior to 2002) Worksafe also acted as a claims manager alongside the other third party administrators.

The hybrid model that operates today stems from major changes in or around 2000. The changes include a greater focus on financial management, significantly enhanced reporting, active management of third party administrators, central claims management and customer service strategies and less reliance on legislated changes. Worksafe now has one of the lowest premium rates in Australia and the scheme is in a sound financial position (i.e. assets exceed liabilities).

Key features of the scheme management are:

- **Governance.** Worksafe Victoria is the responsible government entity for the Victorian Scheme and its OHS legislation. It has a full commercial board (something other hybrid or monopoly schemes do not have);
- **The role of the Board** is to ensure that the strategic direction of the scheme is sound and being effectively and efficiently implemented. The Board take an active interest in all strategic matters and this level of scrutiny is seen as a driving force for continuous improvement;
- **Management taking full accountability for financial performance.** A major change to the scheme occurred when management decided to accept full accountability for the financial performance of the scheme as measured through the actuarial valuation. The Actuarial Release concept was implemented around 2000/2001 and this (together with a review of the TPA remuneration model) aligned staff and TPA incentives and responsibilities to movements in the actuarial valuation;

  The Actuarial Release concept uses the valuation of liabilities to manage the financial position of the scheme and drive scheme wide claims initiatives to reduce liabilities. The TAC and VWA schemes have used the Actuarial Release concept over a long period of time. Both schemes have also been able to also demonstrate improvements in customer service at the same time as achieving liability reductions;
- **Strong reporting culture.** Since 2000 Worksafe have developed a very strong reporting culture where management information is regularly and effectively provided to Board members, especially performance reporting, TPAs and other services providers. This enforces great discipline in terms of the integrity in management information;
- **Depoliticising the scheme.** The Board and management have worked hard to depoliticise the scheme. Accident Compensation schemes are highly complex and often take a decade or more before the true cost of legislative changes becomes apparent. Since 2000 the Board and management have actively sought to manage liabilities through claims management initiatives rather than through legislative changes;
- **Organisational Structure.** The Actuarial Release approach drove changes in the organisational structure to more closely align accountabilities for the various payment types to the actuarial valuation. Worksafe established a Return to Work (RTW) Division, a Medical Division, an Impairment Benefit branch and a Dispute Management Division reflecting the four main categories of benefit payments.

D.2 TPA (Third Party Administration) Management

Worksafe has operated an outsourced claims management model for most of the last 25 years. However Worksafe's approach to managing TPAs changed significantly with the commencement of the 2002 TPA contracts.

Before 2002:

- Worksafe had approximately 16 insurers managing claims on their behalf with minimal oversight by Worksafe
- The incentive component of the insurer remuneration model was based on one measure (TRPR – True Risk Performance Ratio) which was intended to measure the movement in scheme liabilities. TRPR replaced an earlier remuneration model (numerous measures) in response to requests from TPAs to simplify their assessment.

From 1 July 2002 Worksafe reduced the number of TPAs to 6 in recognition that there was a balance between TPA market share (needs to be large enough to attract TPAs), the resources required for Worksafe to manage multiple TPAs and the need to have competitive tension between the TPAs. At that point in time there was also some expectation of rationalisation in the general insurance industry. As with all outsourced arrangements the question of TPA performance would have also been considered.

The main components of Worksafe's claims management model since 2002 have been:

- Dictated Claims Management Model
  - Worksafe dictated the claims management model which included segmenting *claims into medical only claims, early return to work (1st 52 weeks), long tail claims* and impairment benefits. (Common Law claims being handled by legal panels managed by the Worksafe's Dispute Management Division but supported via TPAs' Senior Legal Managers (SLMs));
  - Worksafe sets minimum staffing requirements for TPAs including caseloads and ratios of injury management advisors (nurses, physiotherapists etc) and other professionals to the number of claims officers managing claimants on weekly benefits.

- **Central claims and customer service strategies.** Under the Worksafe model TPAs are required to implement Worksafe's central claims management and customer service strategies in conjunction with their own strategies. An example is:
  - The Clinical Panel. Worksafe employs appropriately qualified para medical staff (e.g. physios, audiologists etc) who review medical files, provide instructions to claims staff and challenge treating professionals' approaches where required. This central approach is supported by the strategic use of data

- **Worksafe's League Table approach to managing TPAs.** Those at the bottom of the table receive greater scrutiny from Worksafe. Worksafe actively intervenes with all TPAs on a regular basis and at all levels .

- **Development of Worksafe's claims management knowledge.** Worksafe have invested in developing their claims management knowledge, capacity and capability. They constantly undertake claims audits and from time to time step in to provide additional

support to TPAs. Strategies are set with a sound understanding of the actuarial models and deep operational dives to understand the operational issues. They have the ability to takeover key TPA functions should the need arise.

- **Worksafe recognises the strategic importance of monitoring:**
  - The consistent control of the claims management strategy has been built around a sound understanding of the actuarial issues;
  - Worksafe have a large team of analysts including 7 or 8 experienced accident compensation actuaries who constantly monitor every aspect of the scheme and TPA performance linking in with the operational performance of the scheme including feedback from claims audits;
  - Worksafe have developed a suite of reports that they provide TPAs to continue to drive improvements. They often rank TPAs against each. These are personally presented to TPA State Managers on a monthly basis highlighting areas of concern. Similar reports are presented to National Managers, CEOs, brokers etc as well as employers through Worksafe's annual report.
  - **Worksafe's approach to TPA remuneration consists of 3 elements:**
    - A service fee;
    - An Annual Performance Adjustment (a series of 15 or so measures with targets set and performance assessed annually – used to drive performance – agents can earn/lose an additional 30% or more); and
    - A Lump Sum reflecting a proportion of any reduction in scheme liabilities (no downside).

    The Annual Performance Adjustment is reviewed every year enabling Worksafe to focus TPAs' attention on strategically important issues and hot spots.

- **Worksafe have included an injured worker satisfaction survey** as part of the remuneration model (part of the Annual Performance Adjustment) to improve customer service. The introduction of the remuneration measure, plus the central customer satisfaction strategies, and TPAs own endeavours have significantly improved customer satisfaction scores. Scores have moved from the mid 50s to just below 70 (on average) with some TPAs achieving historical scores in the high 70s. TPAs would not have focussed on injured worker satisfaction to the extent they have without Worksafe's drive.

- **All TPAs in the Victorian scheme use Worksafe's processing systems**, ACCtion and Novus. Some of the advantages of this central approach are that it is cost effective, it can be specifically tailored to the Victorian scheme and it can be integrated with other government systems.

The above approach is labour intensive.

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