



Memorandum

Ref No.:

5 February, 2013

To: Mr Kennedy

From: Peter Martin

Subject: COST OF NDIS - NIIS OFFSET

You have asked me about the potential impact of the NIIS on the costs of the NDIS.

This note updates earlier advice.

Background

AGA reviewed the PC's cost estimates of the NDIS during 2012. In that review, we did not consider the potential offsetting impact of the NIIS on NDIS costs.

AGA concluded that a reasonable estimate of the net additional cost of the NDIS (over and above existing Commonwealth and state spending on relevant disability programs) would be around \$6.8bn in 2012 dollars (the same as the PC), before allowing for the SaCS decision or any further offset from accident compensation arrangements (or the NIIS).

Then, after allowing for the SaCS wage decision, AGA concluded that it was reasonably likely that the net cost of the NDIS would be around \$7.5bn in 2012 dollars, again before allowing for any further offset from accident compensation arrangements (or the NIIS).

NIIS

To estimate the likely offsetting impact of the NIIS, certain assumptions are required, including:

- Cost profile of each new entrant to the NIIS
- Annual number of new entrants to the NIIS

The NIIS will operate 'prospectively'. That is, only new injuries after commencement will be admitted to the NIIS. This means that the client population of the NIIS will grow quickly in

the first few years and will continue to grow for many years, even before allowing for any increase in the annual number of new entrants.

Key assumptions adopted by the PC included the following:

- Around 900 to 1,000 new catastrophic injuries each year leading to material lifelong specialist disability support needs.
- The 'fully funded' cost of disability support for each new entrant cohort would be around \$1.8bn. That is, an average fully-funded cost of \$1.8m - \$2m per person. Note that this represents an estimate of the present value of the average lifetime cost of providing support to a new entrant.

Cost profile of each new entrant

The PC relied in part on work done by PwC et al in 2005. Based on my understanding of the work done in 2005, the fully funded cost estimates are likely to have been based on an assumed real discount rate of 2% pa. That is, investment returns were assumed to be 2 percentage points higher than assumed inflation in care costs.

I have developed a simple spreadsheet model with the following features:

- the age profile of each new entrant cohort biased to younger ages (average new entrant age between 25 and 30)
- mortality 120% of population average
- real discount rate of 2% pa
- average annual fully-funded lifetime cost of \$1.8m-\$2m (per person)
- constant annual cashflow (in real terms)

This model implies an average annual cashflow per-person of around \$55-65,000 (today's dollars).

I have previously suggested that the average annual per-person cashflow for the NIIS will depend on the eligibility criteria for the scheme. An average annual cost of \$70,000 per person would be consistent with the NIIS eligibility criteria resulting in a NIIS population distributed in line with the NDIS population for disability severity categories 5-24 (as in the PC's report on NDIS). This is not unrealistic (but it is very uncertain). Data from TAC suggests the annual average expenditure on Tier 3 type supports is around \$65,000 - \$70,000 in that scheme. Although current average spending in NSW LTCS seems higher than this at around \$100,000 per person, a significant part of that spending will be on medical and similar services.

Taking all of this together, I conclude that the average annual cashflow implied by my simple model (\$55,000-\$65,000) is not unreasonable (although, again, highly uncertain).

Note also that the cost profile will vary from person to person and is likely to vary significantly. For the current purpose I have relied on an average annual cashflow but this approach is unreliable where small populations are concerned.

Annual number of new entrants to the NIIS

As noted above the PC estimated around 900 to 1000 new entrants each year across Australia. The PC's estimate drew on work done by PwC et al in 2005. That work estimated the following distribution of new entrants.

Account	Assumed Australian number of catastrophic injuries	Assumed Australian proportion
General	240	31%
Road	380	49%
Work	65	8%
Treatment	85	11%
Total	770	100%

I am unable to determine precisely how the PC has updated its estimates. Very approximately, population growth might have been expected to result in revised estimates of about 850 (up from 770).

I have reviewed a recent financial condition report of the NZ Accident Compensation Commission. That report allows some broad consideration of the reasonableness of the PC's assumptions.

Among other things the financial condition report sets out estimated rates of serious injury in a number of injury categories. Serious injury is likely to be similar to the injury severity contemplated by the NIIS. The estimates at 2011 are repeated in the table below.

Account	Estimated annual number of serious injuries
Earners	55-65
Non-earners	85-95
Road	100-120
Work	15-25
Treatment	20-30

The earners and non-earners accounts, between them, include injuries that would be described as general injury by the PC (falls, sporting injuries, criminal assaults etc).

Combining these two accounts results in the following estimates for ACC.

Account	Estimated annual number of serious injuries	Proportion
General	140-160	50%
Road	100-120	35%
Work	15-25	7%
Treatment	20-30	8%
Total	275-335	100%

There is a clear difference between the ACC distribution and the PwC distribution, particularly in relation to general injury. In relative terms, the ACC expects about 40% more general injuries than motor ($50 = \text{approx. } 1.4 \times 35$) while the PwC work assumes about 35% fewer ($31 = \text{approx. } 0.65 \times 49$).

As well as this, based on consideration of relative population sizes, it is possible that the number of new entrants to the NIIS might be expected to be towards or even higher than the top of the PC's 900-1000 range.

In summary, the great uncertainty surrounding this sort of estimation process needs to be comprehended:

- We are using estimates that are more than 5 years out of date and which, themselves, were based on poor and incomplete data
- Consideration of NZ ACC experience is likely to be instructive but certainly cannot be expected to produce reliable estimates – for example, there is unlikely to be perfect or even strong correlation between the ACC serious injury definition and the NIIS eligibility criteria. As well, ACC covers at least some cerebral palsy cases, making comparison with the medical treatment injury section of NIIS difficult.

I have considered 2 scenarios:

1. annual number of new entrants = 1,000 and average annual cashflow per-person = \$65,000

and

2. annual number of new entrants = 1,200 and average annual cashflow per-person = \$60,000.

The choice of scenarios is largely subjective. However, they are, broadly, based on the high and low end of the estimated range for the number of new entrants (note that the actual number of new entrants could easily fall outside this range). Further I have assumed a lower average cost for the scenario which is based on 1,200 new entrants. Again, the choice is subjective but in line with an argument that the higher the number of people who are

admitted to the scheme, the lower will be the average cost per person, all else equal. The results are summarised in the table below.

	Scenario 1	Scenario 2
Steady state population (number alive and aged less than 65 – today's population terms)	30,500	36,600
Steady state cashflow (today's dollars)	\$2.0bn	\$2.2bn

This is intended to provide a broad indication of the size of the NIIS offset at maturity (after 60 years). Thus, the NIIS might account for around 7%-9% of the Tier 3 population by number but significantly more by cost – perhaps 17%-20% of the cost of care and support (excluding administration costs). In other words, the cost of care and support under the NDIS might eventually be perhaps 17%-20% lower than the gross cost estimated by the PC (that is, about \$9.8bn down from \$11.8bn in today's dollars).

The eventual impact on the net cost of the NDIS is even more significant, at perhaps 25%-30%. That is, the net cost of the NDIS might be reduced from around \$7.5bn (today's dollars) to around \$5.5bn as a result of a fully operational NIIS. Note that the \$7.5bn estimate assumes no offset at all from injury compensation schemes.

In very broad terms, about \$1.1bn of the \$2bn is estimated to relate to motor accident, workplace accident and medical treatment injury. The remainder is estimated to relate to general injury (falls, sporting injury, criminal assault etc).

The estimate of \$2bn is considerably higher than the PC's estimate of the NIIS offset of \$720m. Part of the difference (perhaps \$400m) relates to timing – the PC's estimate is at 2050 whereas my estimate is at maturity of the NIIS, which will be at least 60 years after it is fully implemented. I am unable to explain the rest of the difference – little detail is contained in the PC report regarding the derivation of that number, probably because this item was not a major component of the PC's work and had no bearing on the main results. I discussed this difference with the actuaries who supported the PC and I am satisfied that an estimate of \$2bn is likely to be more appropriate than the PC's estimate.

Shorter term impacts

The discussion above looks at the potential impact of the NIIS on NDIS costs when the NIIS reaches maturity. Since the NIIS is intended to operate prospectively, it will take a long time to mature.

Accordingly, you have also asked about possible shorter term impacts. This will depend, among other things, on when the various legs of the NIIS are introduced.

You have asked that I prepare estimates based on the implementation timetable below.

Note, for example, that 2014 refers to the 2013-14 financial year and, in effect, means that new entrants are assumed from 1 July 2013 onwards. Similarly, a start date of 2015 means that new entrants are assumed from 1 July 2014 onwards.

	NIIS year							
	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Motor	2014	2014	2016	2015	2015	2014	2015	2019
Work	2014	2014	2019	2019	2019	2019	2019	2019
Medical	2019	2019	2019	2019	2019	2019	2019	2019

Additional assumptions are needed and include:

- more than 2,000 people already receiving support (about 600 in NSW, 1,500 in Victoria and 70 in Tasmania)
- average per person cost (2013-14 dollars) of \$65,000
- cost inflation of 4.3% pa
- new entrant numbers Australia-wide in 2013-14 terms are 400 (motor), 80 (work) and 70 (medical treatment)
- growth in the number of new entrants of 1% pa
- jurisdictional new entrant numbers are assumed to be in the same proportions as their profound and severely disabled population (eg 32.2% of motor new entrants are assumed to be in NSW etc).

The table below shows the estimated NIIS offset in each jurisdiction in each year until 2029-30.

NIIS Offset (\$'m) by State									
	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
2014	43	101	0	0	0	5	0	0	149
2015	55	112	0	1	1	6	0	0	175
2016	68	123	3	4	3	6	1	0	209
2017	82	136	9	8	5	7	1	0	248
2018	96	149	16	11	8	8	2	0	290
2019	113	163	25	16	11	10	2	0	340
2020	132	179	36	21	15	11	3	1	398
2021	152	197	47	27	19	12	4	2	460
2022	173	215	59	33	23	14	5	3	526
2023	196	234	73	40	28	16	6	4	597
2024	221	255	87	48	33	18	7	5	673
2025	247	277	102	55	39	20	8	6	754
2026	275	300	119	64	45	22	10	7	840
2027	304	325	136	73	51	24	11	8	932
2028	336	351	155	82	58	26	13	9	1030
2029	370	378	175	93	65	29	14	11	1134
2030	405	407	196	103	73	32	16	12	1244

It is essential to note that a very high level of uncertainty surrounds these estimates. At best, they can be taken as possibly broadly indicative. If anything the estimates are intended to err on the conservative side (that is, to avoid overstating the size of the offset) but it is possible that the actual offset could be higher or lower than the estimates presented here.

s 22

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24 February, 2021

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REVIEW OF THE 31 DECEMBER 2020 PROJECTION OF SCHEME COSTS

This letter provides my review of the 31 December 2020 projection of Scheme costs, prepared by the Scheme Actuary.

THE 31 DECEMBER 2020 PROJECTION

Subsection 180B(1) of the *National Disability Insurance Scheme (NDIS) Act 2013* provides that the Scheme Actuary will prepare an annual FSR. The FSR provides a long term projection of the Scheme's expected costs, using assumptions which have been informed by the actual experience of the Scheme. The FSR is prepared at the end of each financial year based on data up to 30 June each year.

Projections of the Scheme's expected costs also inform the Commonwealth budget. These projections are generally required in February of each year. Given the additional experience that is available since the completion of the last annual FSR it is prudent to review the impact of emerging experience on the projected scheme costs.

SCOPE

This letter reviews the base projection as at 31 December 2020. This review focusses on the key changes to the projection since the seventh annual FSR, effective at 30 June 2020.

The prior budget was based upon an update to the sixth annual FSR. As changes in the projection from the sixth to the seventh annual FSRs were considered in my letter dated 9 September 2020, I have not reconsidered these changes in this letter. This review primarily focusses on the reasonableness of the 31 December 2020 projection, rather than an analysis of changes since the last projection underpinning the prior budget statements.

THE PROJECTION MODEL

At the highest level, projected costs are a function of the projected number of participants, average participant costs and an allowance for future inflation.

- Participant numbers are projected for each future year for each combination of age, gender, disability, level of function, SIL status and duration.
- Participant numbers in each category are projected using experienced-based new entrant and exit assumptions for that cohort, and are then multiplied by the assumed average cost assumption for the cohort.
- Assumed payments are based on the observed payment experience for the three months to 31 December 2020 for mature participants (and are adjusted for seasonality). A discount is applied for first year participants.
- Superimposed inflation is added at the support category level.

The only explicit transitions within the model are for ageing, exit and the transition of participants with developmental delay who are later diagnosed with autism or an intellectual disability. There is no explicit allowance for deteriorating level of function.

This letter summarises the overall results (i.e. the forecast total cost), then considers the projection through the lens of the expected numbers of participants, their costs and the future inflation of those costs.

PROJECTION RESULTS: COMPARISON OF YEAR ON YEAR COST PROJECTIONS

The projected increases to the costs of the scheme are significant. Table 1 compares the projected participant costs in selected future years from this December 2020 projection with those in the last PBS and the 2020 annual FSR.

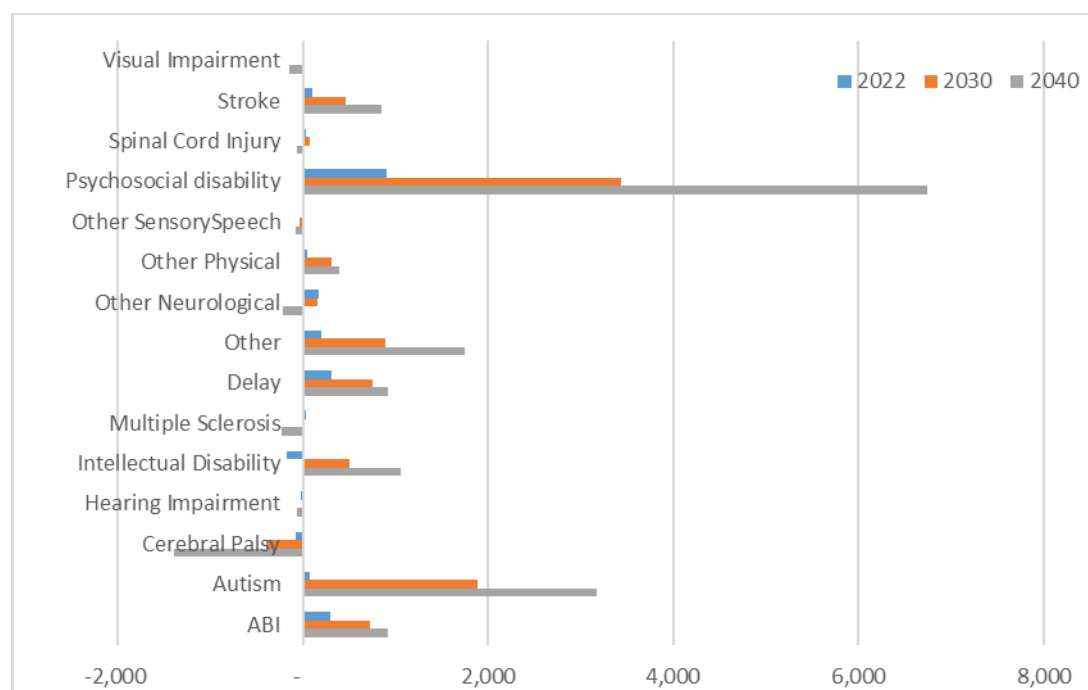
Table 1: Projected Participant Costs (Accrual Basis, ex. operating costs) \$bn.

Year	PBS	2020.06 FSR	2020.12 Proj	Diff. to PBS	Diff. to FSR
2020-21	\$21.7	\$22.3			
2021-22	\$23.8	\$26.1	\$28.1	\$4.3	\$2.0
2022-23	\$24.0	\$28.9	\$32.9	\$8.9	\$4.0
2023-24	\$24.3	\$31.4	\$36.9	\$12.6	\$5.5
2024-25		\$34.3	\$40.7		\$6.4
2029-30		\$51.7	\$60.5		\$8.8
2034-35		\$74.0	\$85.6		\$11.6
2039-40		\$105.0	\$118.7		\$13.7

Table 1 shows the projected total nominal costs (in \$bn) arising from the PBS, the June 2020 annual FSR and the 31 December 2020 projection. The two right hand columns show the difference between the December projection and the earlier PBS and annual FSR, respectively.

Figure 1 shows that the December 2020 projection expects higher costs (compared to the June 2020 FSR) in FY21-22 across psychosocial disability, with more modest increases associated with developmental delay and ABI. Long term increases are expected to be particularly pronounced for costs associated with psychosocial disability, autism and the 'other' category of disabilities.

Figure 1: Change in Total Projected Costs by Disability (\$m)



Part of the increase is due to the higher than expected starting position for the projection. At December 2020 there were 0.9% more participants in the scheme than expected in the June 2020 FSR and average YTD payments are also higher than expected (by 3.7%)¹. The December cash projection of participant payments is 7.1% higher in FY21-22 than the June FSR projection. A significant proportion of this increase is attributable to experience that has already occurred.

Higher than expected non-SIL new entrants, lower exits across most disabilities and increases in average payments across most categories increase the starting position for this December 2020 projection. This experience also informs (and increases) the assumptions utilised in the projection.

¹ December 2020 Quarterly Actuarial Report

Participant Numbers

Total Projected Participant Numbers

A higher starting population combined with increased new entrants results in a significantly higher projected population. The movement in the total projected number of participants is summarised in Table 2. The projected number of participants is (significantly) 30% higher after 20 years.

Table 2: Total Projected Participant Numbers (,000)

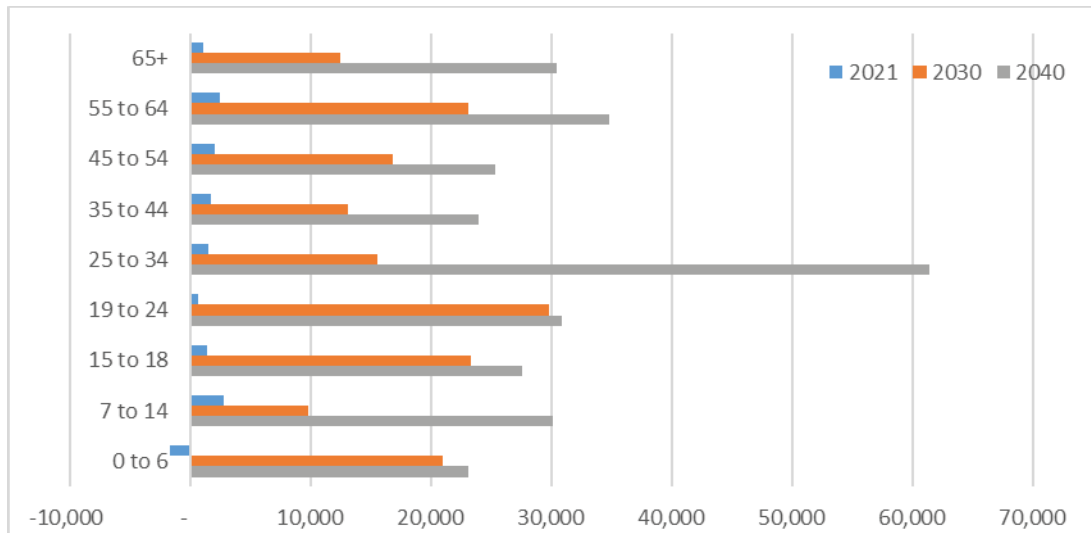
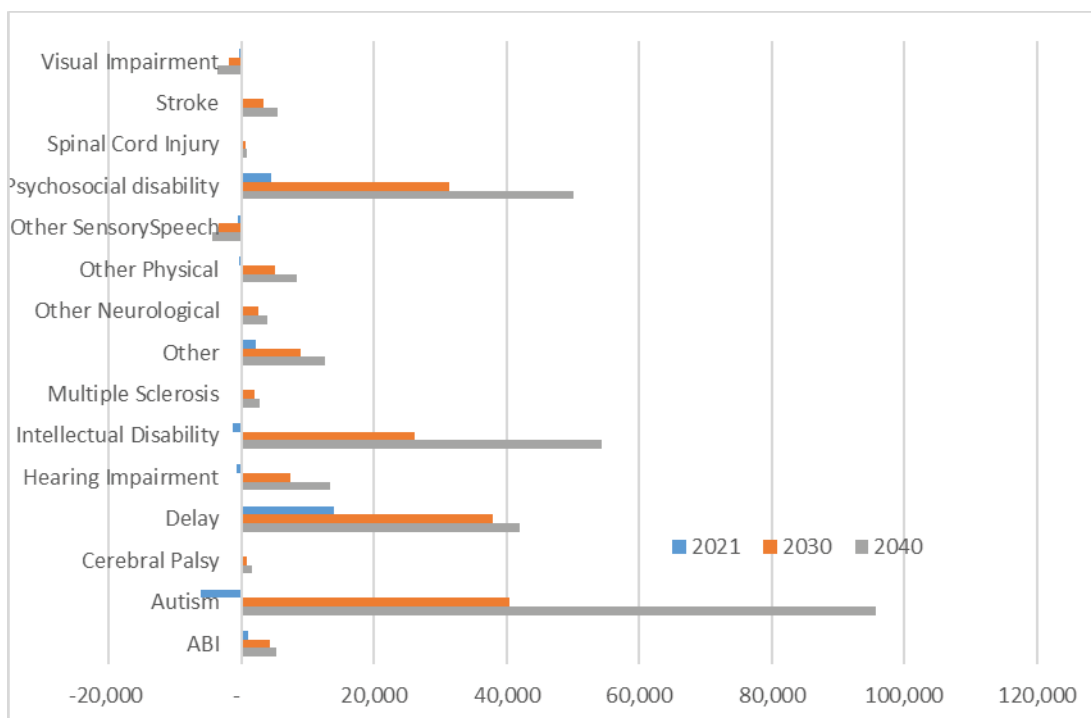
30 June	December 2020 Projection		June Projection		% Change
	No.	% PopIn	No.	% PopIn	
2020	392.0	1.5%	392.0	1.5%	
2021	468.7	1.8%	456.3	1.8%	2.7%
2022	537.9	2.1%	500.1	1.9%	7.5%
2023	596.6	2.3%	532.3	2.0%	12.1%
2024	643.2	2.4%	558.1	2.1%	15.3%
2025	682.8	2.6%	583.5	2.2%	17.0%
2030	870.8	3.1%	705.5	2.5%	23.4%
2035	1,050.4	3.5%	822.7	2.7%	27.7%
2040	1,224.1	3.8%	936.2	2.9%	30.8%

In the six months to December 2020, the scheme increased by around 40,000 people. The June FSR projected an increase of around 60,000 over the full year. Revising the starting population for *this December 2020 projection* to reflect an increase of 76,300 for the full year appears to be more realistic. This also suggests it is prudent to review new entrant and exit assumptions.

Projected Participant Numbers by Age & Disability

Figure 2 shows the movement in the total participant numbers by age, compared to the June 2020 FSR. In that FSR there was a significant increase in the expected number of participants under age 15, who then aged in the scheme over time. In this December 2020 projection, a higher number of participants have been projected across all ages. There is projected to be around 12,000 more participants at June 2021, increasing to 165,000 more participants at June 2030 and 288,000 additional participants at June 2040. This clearly drives a significant part of the projected increased costs.

Figure 3 shows the same information, by disability.

Figure 2: Change in Total Participant Numbers by Age**Figure 3: Change in Total Participant Numbers by Disability**

At December 2020 the scheme has a significantly higher number of participants age 7 to 64 than previously expected. Figure 3 shows that these additional participants were primarily participants with developmental delay and psychosocial disabilities. This is discussed further below.

New Participant Numbers

The December 2020 projection incorporates significantly higher numbers of new entrants than the June 2020 FSR.

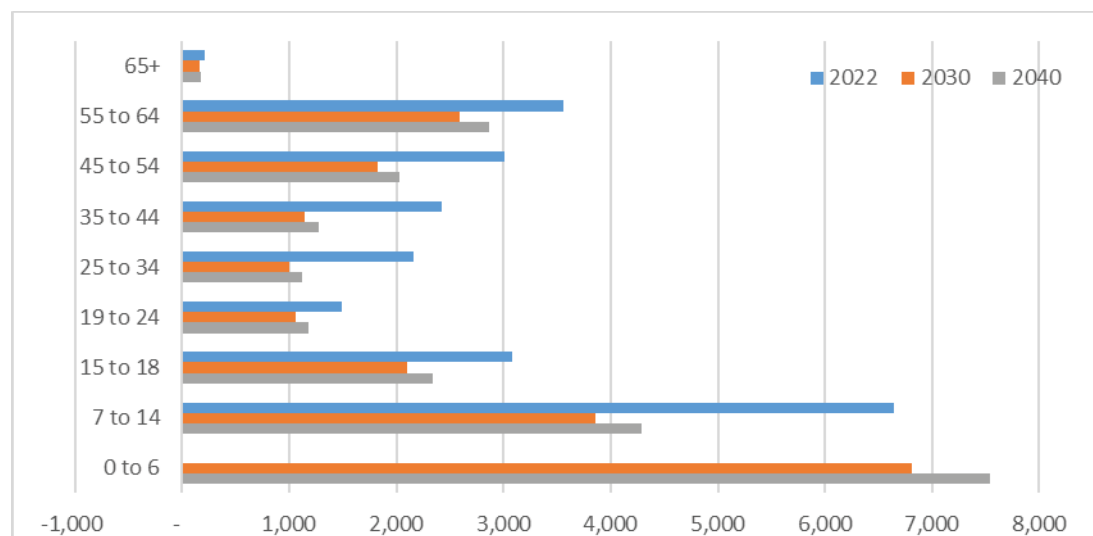
The model projects three categories of new entrants. These are:

- Individuals transitioning from prior State/Territory and Commonwealth Schemes. Assumptions for this group are set to nil in the December 2020 projection. This is a reduction of $\approx 6,000$ new entrants in FY21-22.
- Individuals with pre-existing disabilities that are not supported, but are eligible for NDIS benefits (“unmet needs” or “new to support”). These individuals are assumed to fully transition into the scheme by June 2024. This is a one year extension of the transition period, compared to what was assumed in the June 2020 projection. This December 2020 projection increases the expected “new to support” entrants by around 9,100, 7,000 and 3,800 in FY21-22, FY22-23 and FY23-24 respectively.
- Future disabilities. The assumed incidence rate for new disabilities has increased from around 180 per 100,000 population ($\approx 39,000$ people in FY21-22) to around 280 per 100,000 ($\approx 59,000$ in FY21-22).

Three key observations have resulted in the changes to the new entrant assumptions listed above; the last 6 months experienced higher new entrants than expected, almost all new entrants are now ‘new to support’ and the new incidence rates in mature sites are not reducing to the levels previously expected.

Figure 4 indicates that the majority of the increased new entrants are expected at all ages except for ages below 6 in FY21-22.

Figure 4: Change in the Forecast New Entrants by Age



In total, around 79,000 new entrants are expected in FY21-22. This reduces to around 61,000 in FY24-25, before growing steadily with population growth over the balance of the

projection period. The December projection incorporates additional new entrants in all projection years, compared to the June 2020 projection. There is an additional 22,500 in FY21-22, 26,500 in FY22-23 and 23,500 in FY23-24. After this the increased number of new entrants reduces to around 20,000 per annum over the balance of the projection period (increasing by about 1% per year), reflecting the higher long term new incidence rates.

Figure 5: Historical & Projected New Entrants by Age

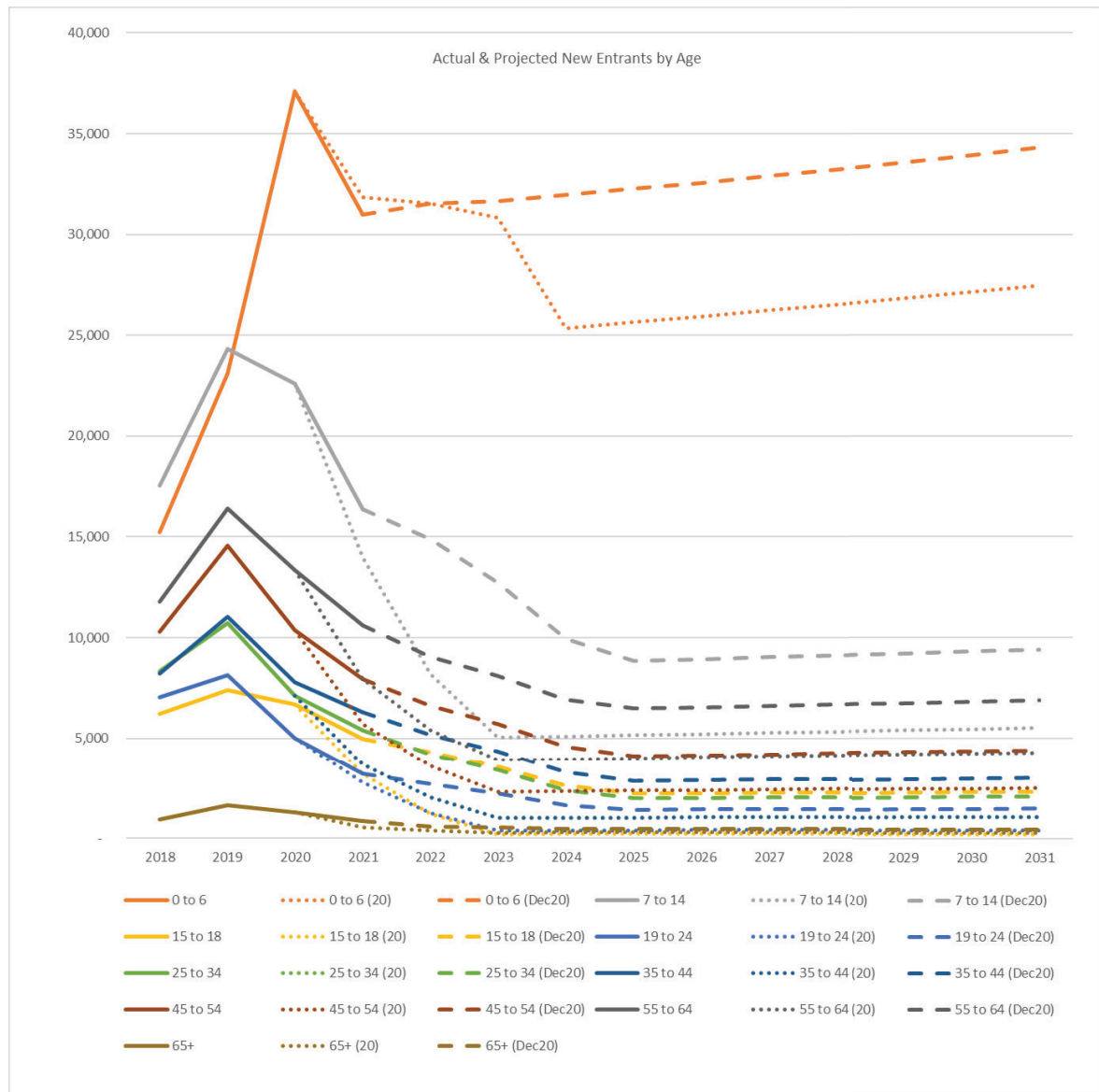
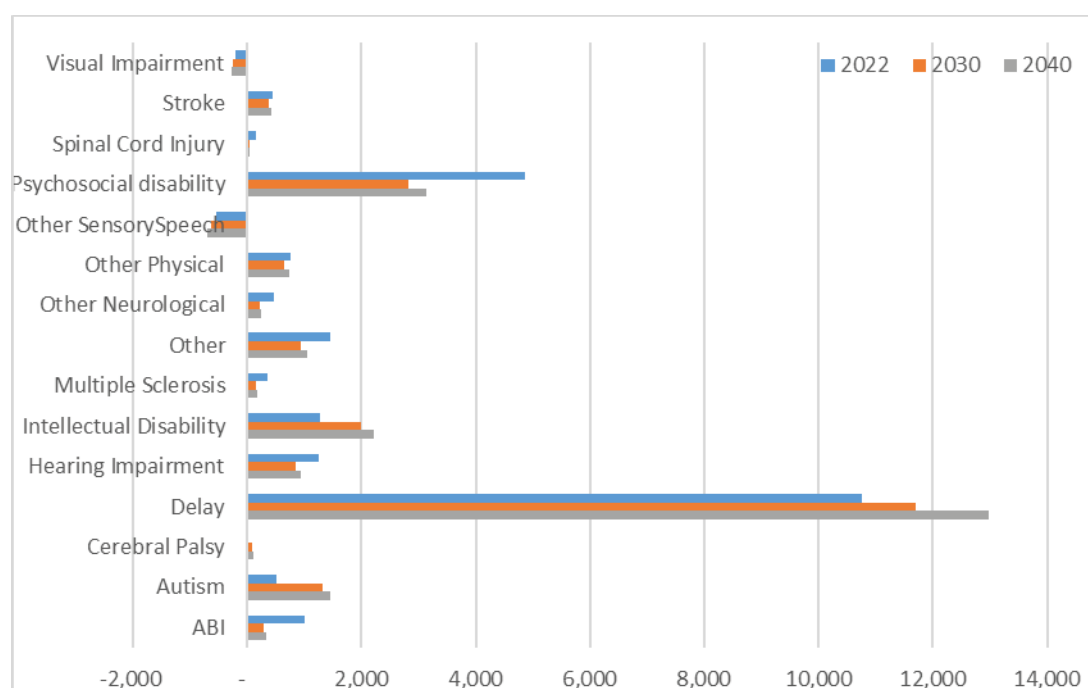


Figure 5 shows historical new entrants as a solid line, the June 20 FSR forecast as a dotted line and the December 2020 forecast as a dashed line. 2021 new entrants are the FY20-21 December YTD number of new entrants scaled for the full year. Whilst the chart is busy, it shows that, for all ages above 6, the YTD FY20-21 experience is higher than expected. At ages 0-6, the experience has been similar to that which was expected.

For all ages above 14, the dashed lines show that that trajectory of new entrants has been adjusted to follow the rate of reduction experienced in FY20-21 before settling on higher long term new incidence rates. For ages 7-14 the rate of reduction is expected to further slow over the budget period, before settling on the revised long term incidence rate. For ages 0-6, the revised long term incidence rate is largely assumed to have been reached at 31 December 2020, with the projected new entrants significantly higher than June 2020.

Figure 6 shows that the majority of forecast new entrants are associated with developmental delay, psychosocial disability and, to a lesser extent, intellectual disabilities.

Figure 6: Change in Number of New Entrants by Disability



The significant increases in the expected number of participants are primarily driven by increased new entrant assumptions.

The changes in new entrant assumptions aged 0-6 is underpinned by an additional 10,800 new entrants with development delay in FY21-22. This increase reflects YTD experience. Specifically, around 23,000 children aged 0-6 are expected to enter the scheme with developmental delay in FY20-21. The June FSR projected that this would reduce to around 14,000 in FY21-22. However, new entrants in this age group are mainly new incidences of disability. Assuming no change in scheme eligibility suggests that the revised forecast of around 25,000 represents scheme experience more closely.

Changes in new entrant assumptions aged 7-14 are underpinned by an additional 4,000 new entrants with Autism. Similarly, around 5,000 additional new participants are expected with psychosocial disabilities between 25 and 64. Whilst these numbers are significant, the short term expected new entrants are more reflective of recent experience and taper the

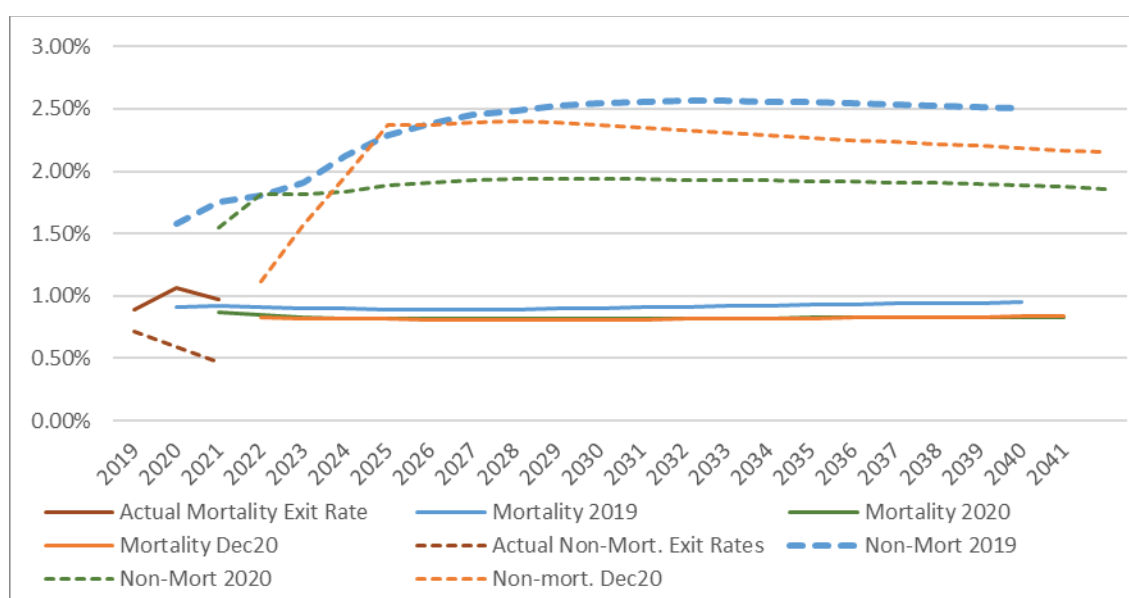
steeper falls implied if the earlier expectations following the end of the transition period were retained.

The projection paper acknowledges that there is material uncertainty in the long term new incidence rate. On balance, it is prudent to give some weight to the experience observed in mature sites, as has been done in the December projection.

Exit Rates

Figure 7 illustrates progression of crude (i.e. aggregated across all disabilities, function levels and ages) exit rates since the 2019 FSR.

Figure 7: Aggregate Exit Rates by Projection Year



There has been negligible change in the assumed crude mortality rate. The rate is marginally lower than recent experience. I regard the mortality assumptions as reasonable at this time, although there may be scope for a small increase in the mortality exit assumptions if experience persists at the current level.

Non-mortality exit rates after FY24-25 are unchanged since the 2019 FSR for all disabilities, with the exception of participants with developmental delay. Exit rates for this class changed in the June FSR to reflect the new transition methodology. Experience has remained well below the assumed rates. In response a 'taper' has been introduced in the first three projection years to provide time for the non-mortality exit rate to increase to previously expected levels. It is important to note that meeting the medium term levels requires an additional 7,000 exits per annum. This is a significant change in scheme practice. Whether this level of exits will occur is yet to be seen in the experience. Consequently, allowing for a gradual increase is prudent. There is significant uncertainty in the medium term assumptions.

Discussion

The short term increase in projected participant numbers reflects:

- Higher than expected participants in the scheme at December 2020. The December projection expects 12,000 additional participants at June 2021, reflecting the higher rate of growth in the scheme to December 2020.
- Higher expected 'unmet needs' and 'new incidence' entrants, significantly increasing the forward year projections. In the June FSR, new entrants were expected to reduce from around 75,000 in FY21-22 to 40,000 by FY23-24. This December 2020 projection assumes a reduction to around 64,000 over the same period.

Over the medium to longer term, the projection results in 871,000 participants in 2030, of which 807,000 are aged under 65. The increase is a result of the short term changes (above) coupled with increased long term new incidence rates over the projection period.

Whilst there is no benchmark prevalence rate for NDIS participation, projected prevalence can be compared to the prevalence of disabilities in the population. This may provide some points of reference. For example:

- Comparison with the prevalence of all disabilities:
In 2018, the AIHW reported that there were 726,000 people with a severe or profound² disability aged < 65. The total population aged < 65 with a disability (of any severity) was 2.4 million. Allowing for population growth and a constant prevalence of disability, this December 2020 projection implies that the NDIS would support a population roughly equal to the number of people with a severe or profound disability in 2030. The projection assumes 1.2 million people will be supported by the NDIS in 2040. If the prevalence of severe and profound disabilities remains constant within the Australian population, then the projected Scheme population would be significantly greater than the number of people with severe or profound disabilities in the Australian population.
- Comparison with the prevalence of autism:
The prevalence of autism in Australia increased to 2018. No newer data is available. This makes conclusions challenging. However, the 2018 ABS data reported that there were 205,000 people with autism in Australia in 2018. Of these, 65% (i.e. 133,000) were reported as having profound or severe limitations in core activities. The projection is compared to the 2018 population in Table 3.

² Severe or profound core activity limitation means always or sometimes needing assistance or supervision with self-care, mobility, and / or communication.

Table 3: Comparison of Australian population with autism with projection (,000)

Age	2018 Popln with Autism	NDIS June 2021 Proj.	% of 2018 Population	NDIS June 2030 Proj.
0-4	10.8	5.6	52%	9.1
5-9	48.3	46.0	95%	66.7
10-14	48.6	45.4	93%	81.7
15-19	40.6	24.1	59%	80.7
20-24	20.3	11.9	59%	52.1
25-29	14.6	5.4	37%	23.5
30-34	7.2	2.9	40%	10.6
35-39	3.4	1.8	53%	5.4
40+	11.2	3.3	29%	9.2
Total	205.0	146.4	71%	339.0

In the short term, the scheme appears to support the majority of the Australian population with Autism below age 15, regardless of severity. This is likely an outworking of the scheme's design (particularly for children), however the varying proportions supported by age raises questions about the consistency of scheme eligibility. Independent assessments are intended to go some way to helping us understand these differences. This may also be explained by increasing independence of those with autism as they age. Either way, understanding these differences may be instructive.

For the longer term projection to hold, the increasing prevalence of autism in the community seen since 2009 (noting that there were only 64,400 cases in the population at that time) must continue.

Summary: Participant Numbers

The number of participants in the December 2020 projection is significantly higher than June FSR in both the short and longer term.

The short term increase is a result of higher than expected numbers in the scheme at December 2020. The higher starting population of around 12,000 additional participants at June 2021 reflects YTD experience. Higher new entrants are also assumed over the budget period, reflecting the slower tapering of new entrants observed in mature regions. These factors significantly impact the projections over the budget period, however they also reflect the experience of the scheme.

The focus for this review is best placed on the shorter term results that are being used at this time. The increased population expected in the short term is driven by recent experience. Although there is some uncertainty in the rate at which new entrants might

decline over this period, I believe that (subject to the comments about SIL later in this letter) the projected population is within a range of reasonably likely outcomes.

Over the longer term, increased participants also reflect the increase in the expected incidence rate of new disabilities. The higher assumptions give consideration to the fact that mature sites have not seen the reduction in new incidence previously expected. This experience casts significant doubt on the likelihood of the scheme meeting the long term incidence rate that were originally assumed. It is prudent to give some weight to the experience witnessed by the scheme. This December 2020 projection gives 50% weight to scheme experience.

There is significant uncertainty in the long term assumptions. Whilst it is prudent to reflect scheme experience in the projections it is also instructive to reflect on the implications for the longer term prevalence rates of disabilities supported by the Scheme and in the wider population. In the longer term, the projection may imply a growing proportion of the disabled population will be supported by the Scheme, a growing incidence of disability in the population, or a mix of both. Independent assessments are intended to aid consistency, however time is required for the experience to emerge. It would be helpful to longer term assumption setting if the implementation of independent assessments could also help inform the proportion of the disabled population expected to be supported by the scheme over time. This could also assist in understanding how the severity of new entrants to the Scheme may change over time, which would in turn inform cost projections. At present, this data is not available.

The assumed longer term exit rates are higher than experience to date, and whether this level of exits will emerge in the experience will have a significant impact on participant numbers, in the long term.

Average Costs

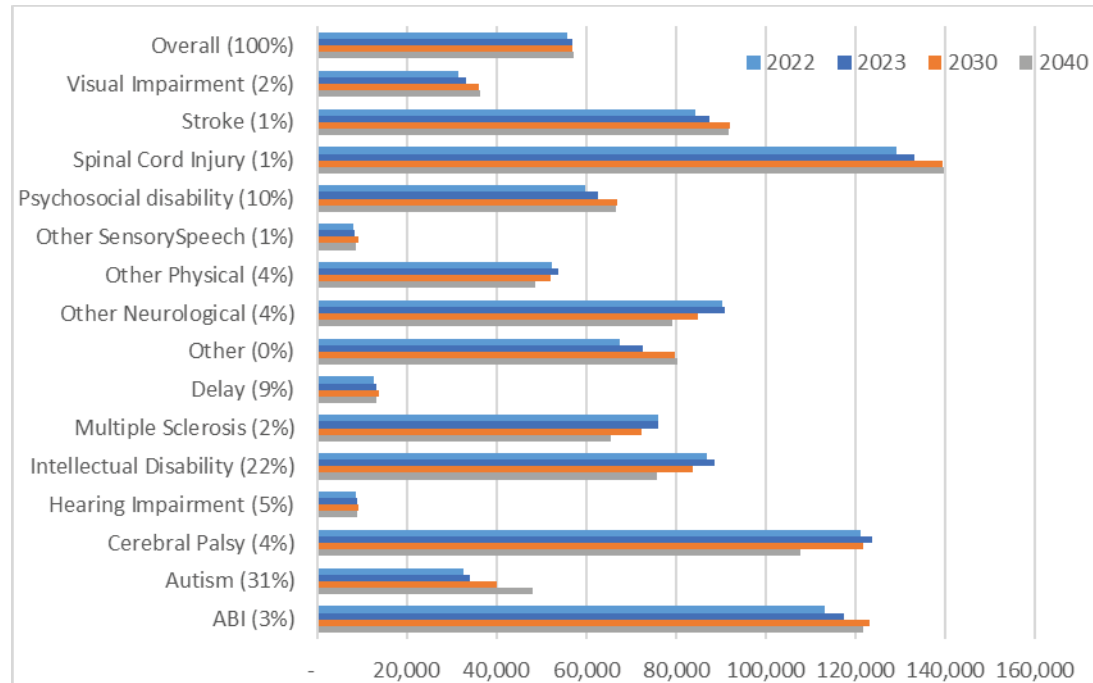
Care must be taken when examining average costs as they are, by definition, averages. This can mask underlying trends, such as changes in the mix of participants that make up that average. Nevertheless, they can illustrate areas where increases are occurring, even if further investigation is required to fully understand the cause.

This YTD, average annualised non-SIL costs have increased above expectation (9.1%). Average SIL costs are only marginally (0.3%) above the June FSR. Cost increases in the SIL sector appear to be under greater control compared to prior years.

Figure 8 summarises the projected average costs per participant in specific future projection years. In Figure 8 and Figure 9, values are presented in 2021 dollars, where the effect of normal inflation has been removed. Increases may therefore be attributable to (amongst other things) superimposed inflation, the effect of ageing and increasing plan utilisation over time.

The percentages in the vertical axis show the proportion of the participant population in each category in 2020.

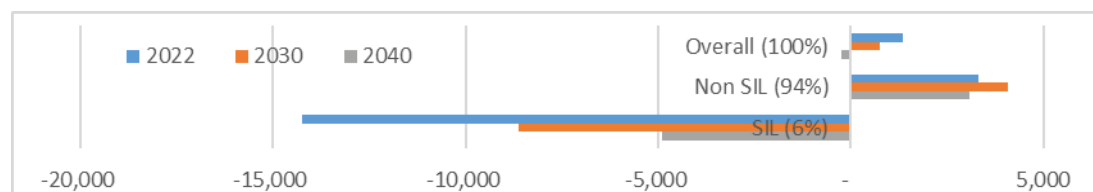
Figure 8: Projected Average Costs per Participant by Projection Year



Without inflation, the Scheme is expected to experience a relatively stable average cost over time. However this is only an overall average. The projection forecasts real increases in some classes (e.g. spinal cord injury and autism) and reductions in others (e.g. cerebral palsy and intellectual disability). The average cost increases over time in all categories when inflation is included.

Figure 9 illustrates that the December forecast incorporates recent lower SIL average cost experience in the short term. Correspondingly, the higher non-SIL experience is also reflected in the new projection.

Figure 9: Change in Projected Average Costs by SIL Status from 2020 FSR*



* %'s reflect numbers of participants

The significant decrease in future average SIL costs represents a significant change from previous trends, reflecting expectations around greater cost controls in this area. Non-SIL

costs however are projected to increase, reflecting in part the significant increase in recent average annualised costs.

Inflation

Inflation also contributes materially to increases in forecast costs. The projection contemplates inflation in two parts; 'normal' and superimposed inflation.

'Normal' inflation is that which is associated with general wage and price increases. Table 4 shows the change in 'normal' inflation from the prior FSR. Lower initial inflation more closely reflects the current economic climate, before reverting to Treasury medium term forecasts.

Table 4: 'Normal' Inflation Assumptions

FSR	2020	2021	2022	2023	2024	2025	2026
2019.06	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
2020.06		3.0%	3.0%	3.0%	3.5%	3.5%	4.0%
2020.12			2.6%	2.7%	2.7%	2.8%	2.8%

Traditionally, the assumed rate of 'normal' inflation was set with regard to expectations of the rate of growth in long term average weekly earnings. In June 2020, consideration of shorter term expectations of AWE were introduced. In this update, the Scheme Actuary has further reviewed the assumption regarding normal inflation, considering the mix of payments by support type, wage inflation, price inflation and the competitiveness of the market for each support. This has resulted in a reduction in expectation regarding future inflation, specifically that scheme inflation will ultimately converge to a long term rate of 3.2% pa, reflecting a mix of long term wage inflation (4%) and CPI (2.5%).

Short term movements in both CPI and AWE have been more volatile this past year. Treasury continue to update their economic outlook and a new Treasury forecast may be available in the course of completing this forecast.

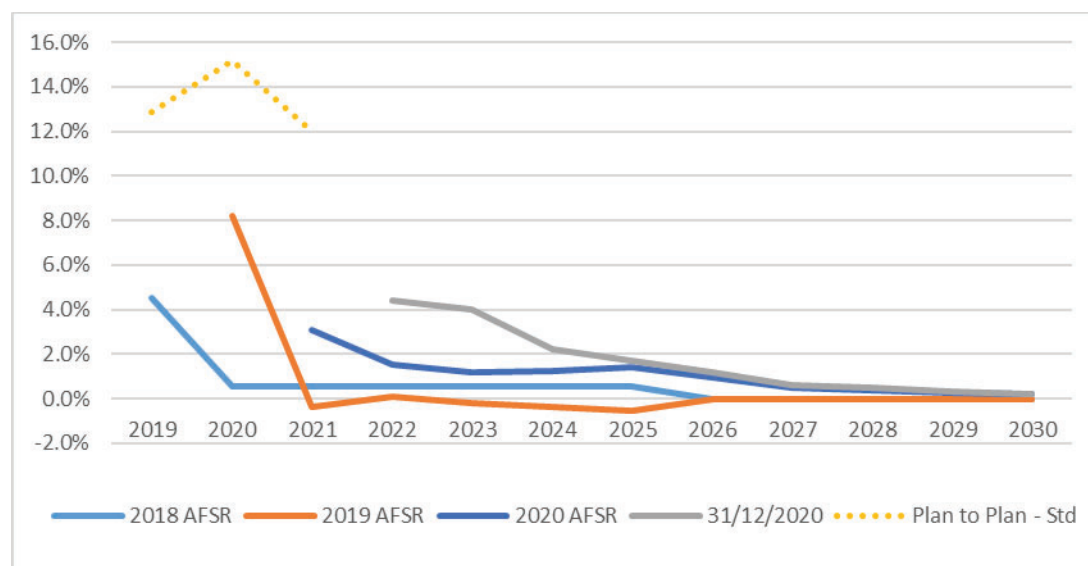
Superimposed inflation refers to inflation in payments that is not explained by 'normal' inflation or modelled changes to plans and their utilisation. Examples of causes of superimposed inflation include; utilisation rates increasing at higher rates than expected, pricing changes beyond 'normal' inflation, additional supports being included in plans, cost shifting from other schemes, AAT decisions, a change in the profile of participants within categories (e.g. due to reclassification of the level of function) and competition issues in the supply chain.

Superimposed inflation is set at the payment category level and separately for SIL and non-SIL participants. Average superimposed inflation assumptions adopted in recent projections are set out in Figure 10.

Whilst YTD superimposed inflation has reduced, assumptions in the first projection year have consistently underestimated the actual 'plan to plan' inflation in the same year for each

of the last three years. Superimposed inflation assumptions have again been increased in this December 2020 projection.

Figure 10: Superimposed Inflation



Despite the improved experience, the scheme needs to remain vigilant in reducing actual inflation of supports costs to address the rapid increase witnessed in non-SIL costs and meet future expectations. The revised assumptions do provide for a slower rate of reduction in short term. Past experience teaches us that there is a high level of uncertainty associated with inflation assumptions. Superimposed inflation could exceed the assumptions made.

It may be beneficial to disaggregate further the components of superimposed inflation for modelling purposes, for greater understanding of the underlying cost drivers as different components may have different drivers. This may also help more specific analysis of variance.

SIL

The scheme is highly leveraged to SIL costs. Whilst SIL participants comprise just over 5% of participants, they account for just over a third of the costs. Increasing SIL costs have been an area of significant sustainability concern in recent years.

This YTD, some favourable (in terms of cost) SIL experience emerged. Scheme participants reduced from 24,119 at 30 June to 23,368 at December and average annual payments remained broadly in line with expected (0.3% higher YTD). However, some of this may be attributable to changes in recording SIL participants.

The model incorporates the reduced SIL starting population, but ultimately assumes the reduction in SIL residents is a temporary change. The projection results in the number of SIL participants being 6.6% higher than in the June FSR at June 2024.

The SIL population is a function of the projected total Scheme population, assumptions regarding the mix of disability and severity level in the Scheme population, and assumptions around the proportions of each age/disability/severity combination being in SIL or non-SIL.

Regarding the latter set of assumptions, this December 2020 projection generally increases the proportion of participants in SIL over time, with higher increases for those with higher levels of severity (within the same disability type). In moving through the short to medium to long term assumptions, there are no combinations of age/disability/severity in which the proportion in SIL reduces over time. Whilst the short term proportions will reflect the current experience, the basis for assuming an increased proportion of participants in SIL (for a given age, disability and severity) in the medium and long term is not clear.

The average YTD annualised payment in FY20-21 is \$312,624. This is an increase of about 4% on FY19-20. The average payment assumed in FY21-22 is \$322,575, an increase of about 3.2% on prior. Average payments are lower than that which was assumed in the June FSR in all projection years.

Continuing to be vigilant managing SIL resident's superimposed inflation needs to remain a priority to support the sustainability of the scheme. The materiality of SIL to total scheme costs means achieving this outcome is important if the scheme costs are to be consistent with the projection in FY21-22.

The proportion of Scheme participants that receive SIL is a key assumption. As the proportion of the Australian disabled population supported by the Scheme grows over time, this proportion could be expected to vary. For a given age, disability and severity, it is not clear why the proportion is expected to increase over time. There is inevitable uncertainty in these assumptions. Given the Scheme's leverage to SIL costs, changes in SIL experience can be material in the medium term. Further investigation into the expected future proportion of the Scheme population in SIL may help reduce uncertainty.

Plan Utilisation

Average utilisation rates have not altered substantially over the June FSR. There is uncertainty regarding the actual long term utilisation rate for the scheme, particularly as plan inflation reduces.

Table 5: Utilisation Rates

FSR ³	2020	2021	2022	2023	2024	2025
2019.06	76%	77%	78%	79%	79%	79%
2020.06		76%	78%	78%	79%	80%
2020.12			76%	77%	78%	79%

³ Sourced from Section 6.1 of the 2019 & 2020 FSR and "Utilisation Summary" of the 300 workbook for Dec. 2020.

There has been no change in the discount for first year participants. The discount is 20% for non-SIL participants and 10% for SIL participants.

Summary: Costs

Total costs are forecast to be 7% higher in FY21-22, increasing to 17% higher in FY29-30 before tapering to be 13% higher in FY39-40.

This initial increase is partly attributable to higher starting participant numbers and average costs (i.e. past experience). However, new entrants are also higher than previously expected. This causes the rate of increase in this December 2020 projection to be higher over the medium term, before lower long term inflation assumptions start to mitigate some of that increase.

Increases in the projected average costs can be attributed in part to increases that occurred in 2019-20 and increases in superimposed inflation.

These changes highlight need to focus on the appropriateness of plan amounts and their movement from period to period as well as scheme eligibility, where independent assessments are being introduced.

Sustainability

The cost increases forecast in the FSR are significant. It is therefore important to ask whether this could represent a risk to the financial sustainability of the scheme. These comments contrast the projection against the principles defining sustainability that are set out in Attachment Two of this letter.

Against item 2.1, the NDIA has reported growth in the number participants benefiting from the plan with associated improvements in metrics relating to plan approval.

Against item 2.2, average costs have been increasing at rates higher than expected in prior FSRs.

Against item 2.3, the cost of the NDIS is expected to grow significantly as a proportion of GDP.

Without an absolute statement of what is affordable for the scheme it is impossible to say that the scheme will breach a threshold regarding value for money, or willingness to contribute. Nevertheless, against the Scheme's own measures, many financial metrics are trending unfavourably and if these trends persist, this is likely to impact the Scheme's sustainability.

CONCLUSION

In providing this review, I have been provided with access to the underlying models and have carried out sample checks on the model structure.

The projection's assumptions are based on emerging scheme experience. Although there is uncertainty around a number of the assumptions, the cost projections are significantly higher in this projection than in previous reports and this is of concern.

There is considerable uncertainty when setting a number of assumptions for the projection. These assumptions include the ultimate prevalence of disabilities, the rates of new incidence of disabilities for each age and severity, whether these rates are stable over time, non-mortality exit rates, long term SIL numbers, the ultimate rate of utilisation and future superimposed inflation. Whilst I believe that the model is fit for its current purpose, further enhancing the model over time to explicitly model factors such as the transitions between severity levels and between SIL and non-SIL may be required to better understand some cost drivers within the scheme. Whilst modelling all aspects of the scheme is complex, this is likely to become more essential as the Scheme grows and matures. Ongoing investment in this area is central to effective management.

Whilst noting that (due to the immaturity of the scheme) there is material uncertainty in a number of the projection assumptions, I am satisfied that the results of the scheme projection are reasonable and within a range of reasonably likely outcomes in the short term. The scheme will need to focus on managing inflation and scheme eligibility if these projections are to be met.

The increased numbers of participants incorporated in this December 2020 projection point to the Scheme expecting to support a growing proportion of the Australian disabled population, or that that population is itself growing. This suggests that further investigation of the total disabled population, their eligibility and the implications of any changes could help inform future projections, particularly in the medium to longer term.

The NDIS remains exposed to a number of risks relevant to the schemes sustainability. I believe that these risks are understood by the Sustainability Committee.

S180E(3)

The Agency has taken the steps necessary for me to undertake this review, in accordance with subsection 180E(3) of the NDIS Act.

Yours sincerely



Guy Thorburn
Reviewing Actuary
Australian Government Actuary

ATTACHMENT ONE:

DUTIES OF THE REVIEWING ACTUARY

Section 180E of the Act sets out the responsibilities of the reviewing actuary as follows:

1. The reviewing actuary must, on request by the Board, review and report to the Board on actuarial reports and advice received by the Board.
2. The reviewing actuary must review and report to the Board on each annual financial sustainability report and summary prepared under section 180B.
3. The reviewing actuary must include in each of his or her reports under subsection (2) a statement whether he or she is satisfied that the Agency made all arrangements necessary for him or her to conduct the review to which the report relates.
4. If the reviewing actuary has significant concerns about the financial sustainability of the National Disability Insurance Scheme, or the risk management processes of the Agency, he or she must report those concerns to the Board as soon as reasonably practicable.

ATTACHMENT TWO:

SUSTAINABILITY DEFINITION

There is no quantified statement of when the NDIS is sustainable. In 2017, the Productivity Commission discussed the principles that are considered and listed the NDIS operating principles. The Productivity Commission report stated that the NDIA defines financial sustainability as:

- the scheme is successful on the balance of objective measures and projections of economic and social participation and independence, and on participants' views that they are getting enough money to buy enough high-quality goods and services to allow them reasonable access to life opportunities — that is, reasonable and necessary support; and
- contributors think that the cost is and will continue to be affordable, under control, represents value for money and, therefore, remain willing to contribute.

Sustainability is therefore achieved when a balance is met between meeting the reasonable needs of participants (social sustainability) at an acceptable and sustainable cost (financial sustainability). Both elements must be met for the scheme to be sustainable.

The 2017 Productivity Commission report listed the NDIA operational performance measures of financial sustainability in Table 11.1. These were:

2.1 Participant characteristics and their families	2.1.1. Access requests made by outcome 2.1.2. Eligible participants against bilateral targets, including key characteristics 2.1.3. Participants with approved plans against bilateral targets 2.1.4. Trends in plan approvals 2.1.5. Access request to plan approval within different timeframes 2.1.6. Ineligible participant numbers and key characteristics
2.2 Support Packages	2.2.1. Committed support 2.2.2. Actual payments 2.2.3. Average and median package costs by sub-groups of the population and for all participants compared with the expected averages and medians, including trends 2.2.4. Details of participants with second plans, including length and value of supports 2.2.5. Distribution of package costs
2.3 Projections	2.3.1. Cost of the NDIS in dollar terms and as a percentage of GDP (split by participants aged under 65 years and over 65 years). This measure will include NDIS operating costs

Items one and three in the dashboard deal more with the matter of social sustainability and have not been included here given the focus of the projection.



Telephone: s 22
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3 March, 2022

Mr Kurt Fearnley AO
Chairman
National Disability Insurance Agency
GPO Box 700
CANBERRA ACT 2601

Dear Kurt

NOVEMBER 2022 INTERIM PROJECTION

I am writing as the Reviewing Actuary of the NDIS to summarise my review of the 30 November 2022 interim projection, prepared by the Scheme Actuary (a/g). This interim projection updates the June 2022 Financial Sustainability Report (FSR) for specific aspects of the NDIS's experience since June 2022. It is not intended as a full update of the June 2022 FSR.

Subsection 180E(2) of the *National Disability Insurance Scheme (NDIS) Act 2013* (the Act) requires that I review each FSR and report to the Board on my findings. Whilst this interim projection is not considered a full FSR, the Board has asked that I review the revised projection and provide comments to the Sustainability Committee.

The interim projection

The Scheme Actuary (a/g) has reviewed the experience of the scheme since 30 June 2022 and has updated the projection of scheme costs for the period to 30 June 2027. This is intended to inform considerations for the Commonwealth Budget, which is expected to be released in May 2023.

I have been provided with [1] the paper presented at item 2.1 (Attachment A) to the Sustainability Committee on 17 February titled *Draft scheme projection results based on 30 November 2022 data*; [2] the model used to derive the projection in that paper; and [3] supplementary information summarising the experience of the scheme to 31 December 2022.

Whilst the projection is based on data to 30 November, the Scheme Actuary has also considered experience since November when setting assumptions. For consistency with the *Quarterly Actuarial Report* and the supplementary information provided, actual scheme data in this letter generally refers to data as at 31 December 2022.

The last projection I reviewed was the 30 June 2022 projection. This review focusses on the changes made in the 30 November 2022 projection. Commentary in this letter on changes between projections refer to changes since the 30 June 2022 projection.

The Projection

Methodology

The projection methodology is unchanged from that which was used in the 2022 FSR. This is described in the June 2022 FSR and is commented on in my review dated 28 September 2022.

Comment on key population assumptions

Starting population

At 31 December 2022, there were 573,342 NDIS participants. This exceeded the number expected in the June 2022 FSR by 1.7%. This was primarily driven by new entrants aged 0 to 14, particularly children aged 0 to 6 experiencing developmental delay. The population mix is also different to that which was expected with a higher proportion of participants accessing SIL. The interim projection properly reflects this experience in the starting population.

The model projects the population over financial years. The YTD experience is allowed for in the model by first projecting the population to 30 June 2023. This is achieved by:

- Projecting a June 2023 starting population based on the current population and assumed rates of new entrants and exits over the balance of this financial year. The forecast starting population is 3.2% higher than that which was expected in the June 2022 FSR.
- Calculating the average annualised payments based on the three months to November 2022 and inflating these to June 2023.

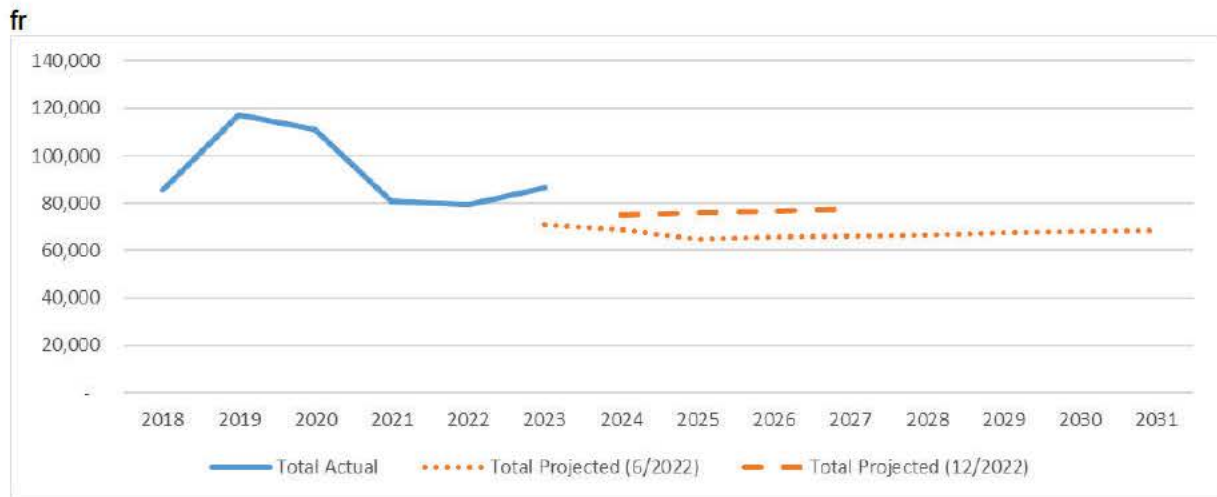
New entrants

Past projections have expected the rate of new entrants to taper over time to around 60,000 per annum. This appeared to be bearing out, based on trends up to June 2021. From this point this trend has paused, and potentially reversed, based on recent numbers. This year, the trend has reversed, and the rate of new entrants has started to climb. The annualised number of new entrants in 2022-23 is presently exceeding that which was expected in the 2022 FSR by 22.5%. This throws significant doubt over previous assumptions that the rate of new entrants would decline.

Figure 1 illustrates recent aggregate new entrant experience alongside the 2022 FSR and the revised interim projection.

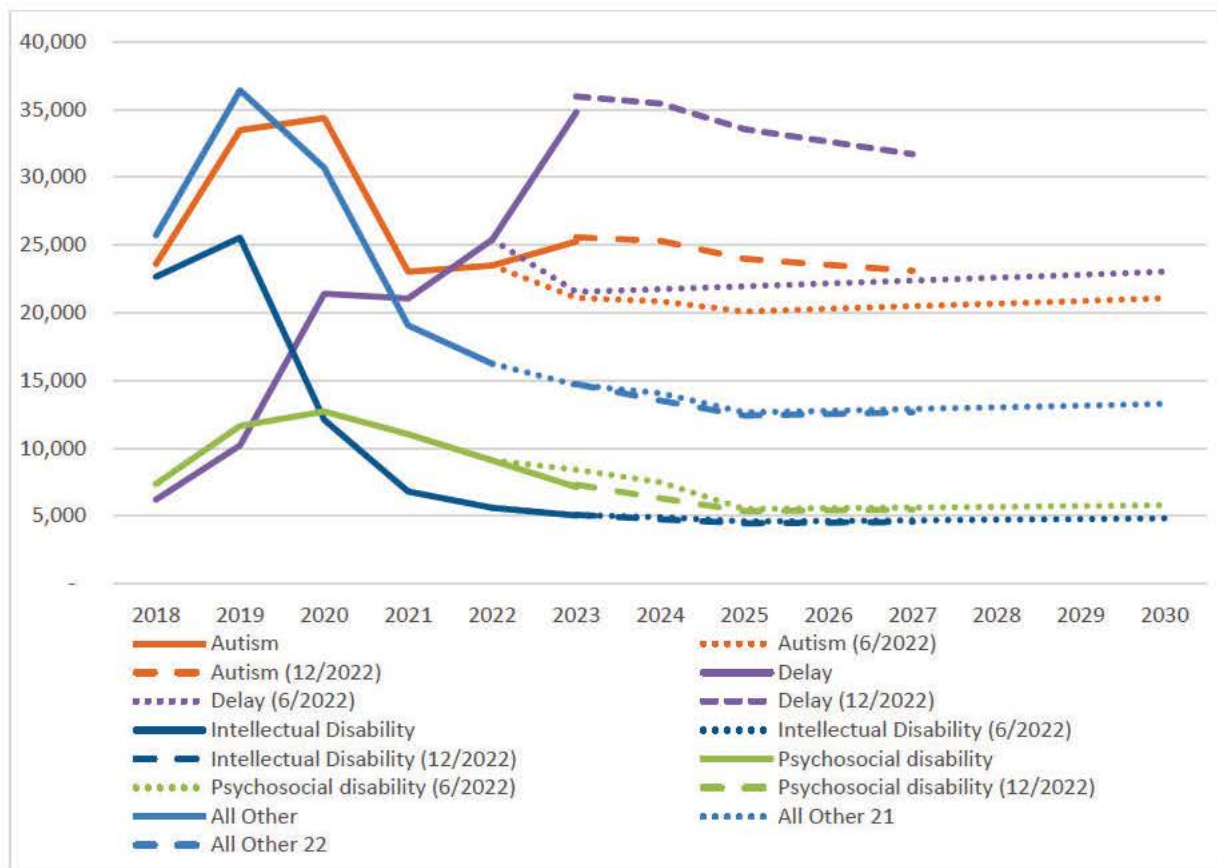
The interim projection has increased the number of new entrants, but it has not given full credibility to this years' experience. This is a measured approach; however, the interim forecast will understate future experience if new entrants persist at recent levels.

Figure 1: Actual & projected total number of new entrants



The increase in children assumed to enter the scheme reflects the significant increase in new entrants with Development Delay and, to a lesser extent, autism (refer Figure 2). These two categories have shown no sign of tapering towards a longer term stable new incidence rate and remain a key area where this forecast is at a greater risk of understating future experience.

Figure 2: Actual and projected number of new entrants for major disability types



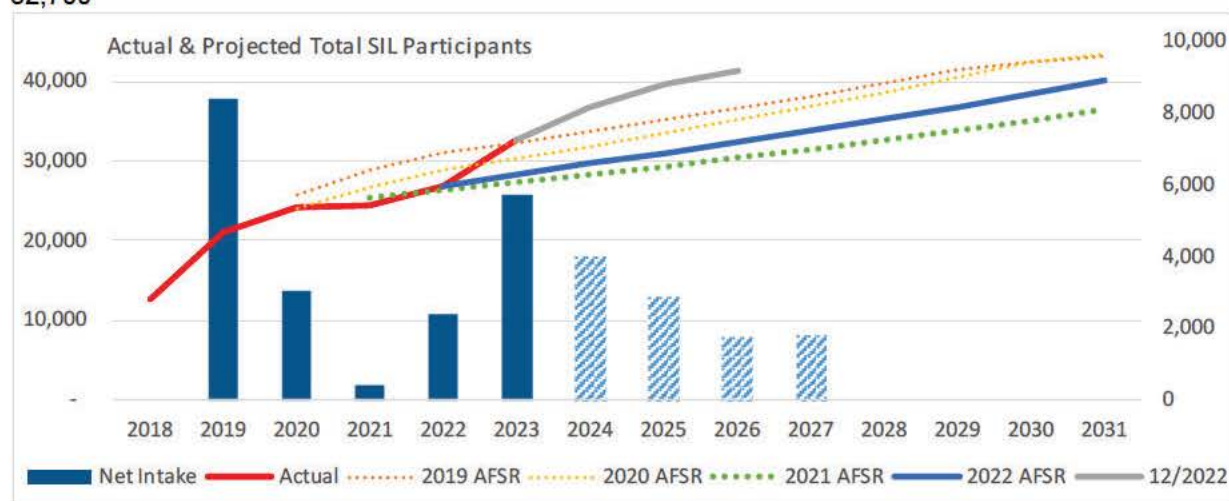
Comment on SIL population projection

The projection of participants in supported independent living (SIL) deserves particular attention as this group accounts for 31.8% of the total outlays of the scheme, despite only accounting for 5.2% of participants¹. Small changes in the projected SIL population have a material impact on the projection.

The rate of growth of participants with SIL has increased since June 2022. The number of participants at 31 December 2022 is already above that which the 2022 FSR projected to exist at 30 June 2023. The June 2022 FSR assumed the number of new participants with SIL would reduce, attributed to a backlog being cleared. This information was noted at the time to be uncertain. With hindsight, it has proven to have been unreliable. The Scheme Actuary (a/g) has examined the pipeline of SIL applications and concluded that there is no reason to assume that the rate of net intake will reduce over the remainder of 2022-23. In response, the interim projection assumes [1] that the net growth in participants with SIL will continue at the same rate over the second six months of FY2022-23 as has occurred in the first six months, and [2] an increase in the assumed rate of net growth of participants with SIL for the four-year projection period. This is illustrated in Figure 3.

Figure 3: Actual and projected participants with SIL

32,700



As for new entrant numbers, the interim projection has increased the number of new participants with SIL in 2023 and 2024, but it has not given full credibility to this years' experience. Again, I regard this as a measured approach but note that the interim forecast will understate the experience if new participants with SIL persist at recent levels. The number of new participants with SIL has shown no sign of tapering towards a longer-term stable rate in recent months. It remains a key area where this forecast is at a higher risk of understating future experience.

¹ Quarterly Actuarial Report, 31 December 2022

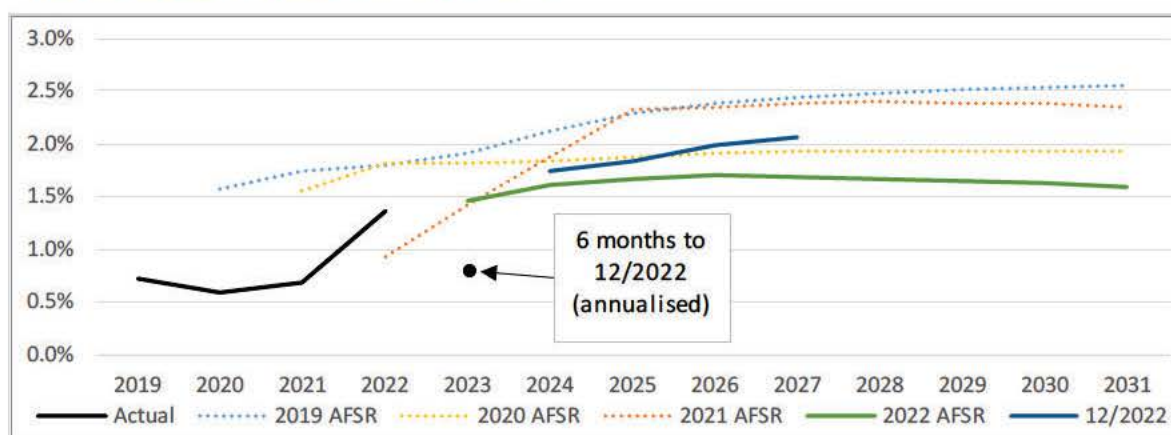
Whilst preparing this projection, new analysis examining the pathways of transition to SIL has been completed. This is welcome. It informs assumptions and points to opportunities to consider enhancing the projection by modelling transitions explicitly.

Leaving the scheme

The projection incorporates assumptions regarding the proportion of participants that will leave the scheme to live independently (for reasons other than mortality). Assumed rates at which participants leave the scheme are unchanged from the 2022 FSR.

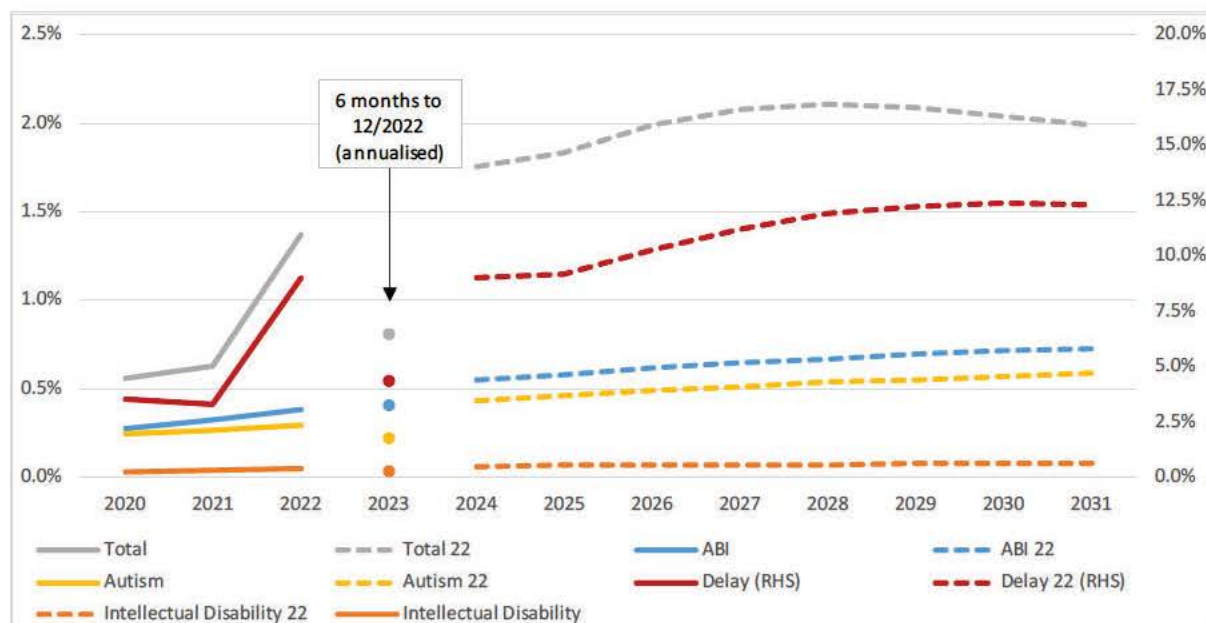
Figure 4 shows that the assumed rate of leaving remains higher than the actual scheme experience to date. For the six months to 31 December 2022, 2,925 scheme participants left the scheme for reasons other than mortality. Despite this experience, the projected number participants leaving in 2023-24 has increased to 11,318 in the current projection.

Figure 4: Actual and projected crude rate of leaving



The rates of participants expected to leave the scheme by disability type are illustrated in Figure 5. Experience in 2022-23 appears lower than expected in the 2022 FSR.

Figure 5: Selected actual and projected rates of leaving by disability



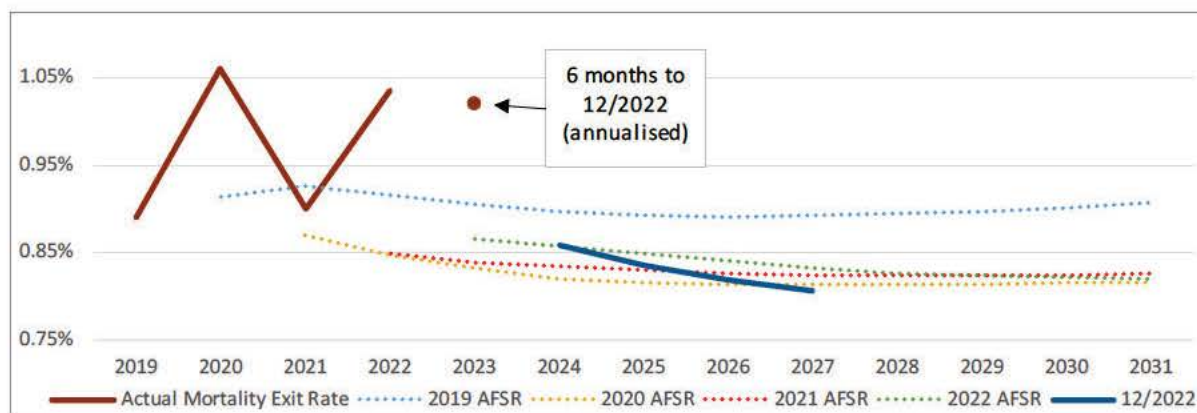
The Branch Manager, Financial Sustainability (a/g) has investigated the recent low rates of exit and has advised that this is attributable to operational processes and a lack of resourcing in the reassessment team, which is being rectified. There remains a risk that the rate of participants leaving the scheme will continue to be lower than expected. The Board should note this risk. The Scheme Actuary (a/g) should continue to monitor this experience closely.

Deaths

The projection incorporates assumptions regarding the proportion of participants that will die. Mortality experience is expected to exhibit significant volatility in a population of this size. This is illustrated in Figure 6.

Figure 6 also shows that recent mortality experience has been higher than expected. Mortality rates for participants with a psychosocial disability have been increased relative to the 2022 FSR. Aggregate mortality rates are expected to decline over time due to the growing proportion of children in the scheme. Nevertheless, projections are lower than recent actual experience.

Figure 6: Actual and projected crude mortality exit rate

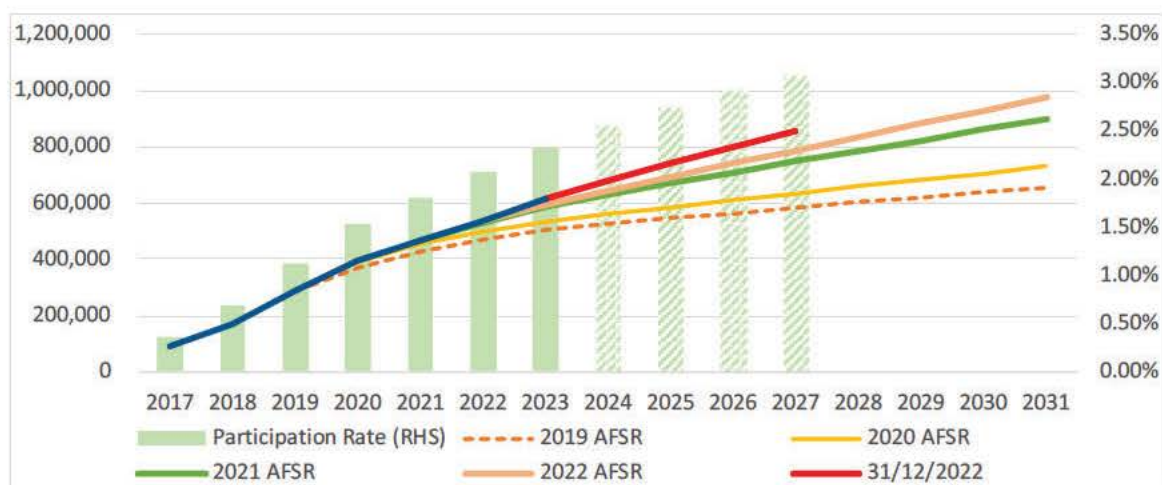


Should current mortality rate persist, the assumed rates will underestimate the future number of deaths. Having said that, the number of deaths in the scheme is relatively small. Differences between the assumed number of deaths and the actual number of deaths will not have as significant an impact on the participant projection as, for example, variations in the number of projected new entrants.

Comment on the overall population projection

The progress of the projected number of participants in successive projections is set out in Figure 7².

Figure 7: Actual & projected number of participants over time.



The number of participants has consistently exceeded expectations in successive projections. The evidence that the rate of growth will taper has weakened with persistent new entrant numbers and low rates of exit.

² Data used for "2023 actual" is the forecast 30 June 2023 population.

Comment on key participant spend assumptions

Average spend

The average participant spend for the five months to 30 November 2022 was 2.4% higher than what was expected in the 2021-22 FSR (on a mix adjusted basis). Reflecting this, the starting average participant spend in the projection has been increased to reflect the most recent experience.

Inflation

The projection models inflation of average payments in two components.

The first component is the effect of normal wage and price inflation on the scheme. Wage and price inflation have been updated based on RBA economic forecasts. This increased normal inflation in 2023-24 by 0.2%. No change was made to the assumption in subsequent years.

The second component represents additional inflation that is scheme specific. Selecting assumptions for additional scheme specific inflation has been challenging in successive FSRs. Successive projections have assumed this component of inflation would reduce to low levels in the short to medium term. This has not borne out in the experience to date. For the six months to 31 December 2022, the additional growth (the rate of increase after separating out pricing impacts and the effect of SIL transitions) in plan budgets was 5.4% (11.1% on an annualised basis).

The assumed future rates of additional growth have been reviewed for the Interim FSR. Assumed additional growth for 2023-24 is 2.0% higher than what was adopted in the 2022 FSR. This reflects higher than expected plan growth since 30 June 2022, adjusted for the Scheme Actuary's view that around half of the observed increase in plan growth will flow through to the payment experience. The remaining projection years are unchanged.

There are two areas of uncertainty that should be acknowledged. The first is the rate at which growth in plan budgets will flow into payments experience. The projection assumes that average payments will grow at a lower rate than budgets, implying a fall in utilisation of supports. The second area of uncertainty is whether the high levels of additional growth in payments observed in the recent experience will persist in the short to medium term or abate and return the level of the 2022 FSR from 2024-25 onwards (as assumed in the projection). As there is substantial uncertainty in both of these assumptions, there is a risk that actual additional growth in average payments will exceed that which is assumed in the interim projection.

SIL

Average SIL payments have increased by over 7% pa in each of the four financial years ended June 2022. This has continued in the 2022-23 year, with the average SIL payment increasing by 7.8% YTD. This exceeds the level expected in the June 2022 FSR by 1.5% on an annualised and mix-adjusted basis

To align projected average payments more closely with recent experience, average SIL payments in 2023-24 are projected to be 2.4% higher than projected in the previous FSR. The projection assumes average SIL payments will continue to increase at a rate of 9.0%, 8.0% and 4.8% in 2024-25, 2025-26

and 2026-27 respectively. As rates below 7% have not been seen for some time, there is uncertainty in the degree to which this tapering in 2026-27 will occur.

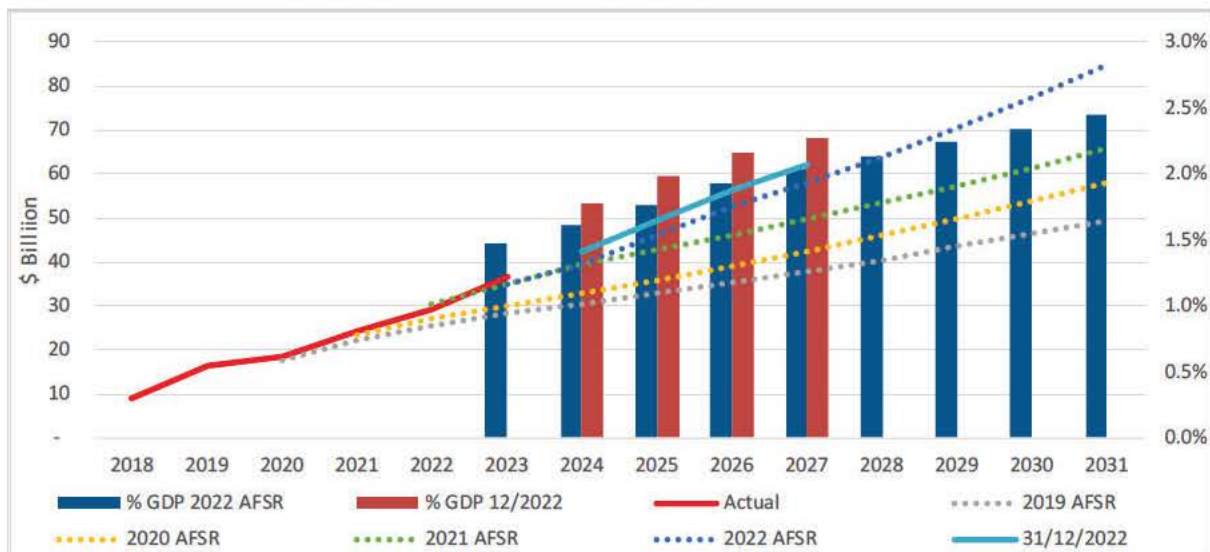
Overall results

Figure 8 shows that the resulting projection is higher than the 2022 FSR for each of the four years of the projection period. This increase is primarily attributable to the combined effect of:

- the higher initial participant numbers and updates to the assumed rate of new entrants over time, particularly those with developmental delay or autism;
- the number of participants transitioning to Supported Independent Living; and
- the rate of growth in average payments to participants.

The costs of the scheme, as a percentage of GDP, is projected to be higher than in June 2022. For the reasons outlined in my letter of 28 September 2022, this raises questions of sustainability of the scheme.

Figure 8: Actual & projected total participant spend and agency expenses



Uncertainty

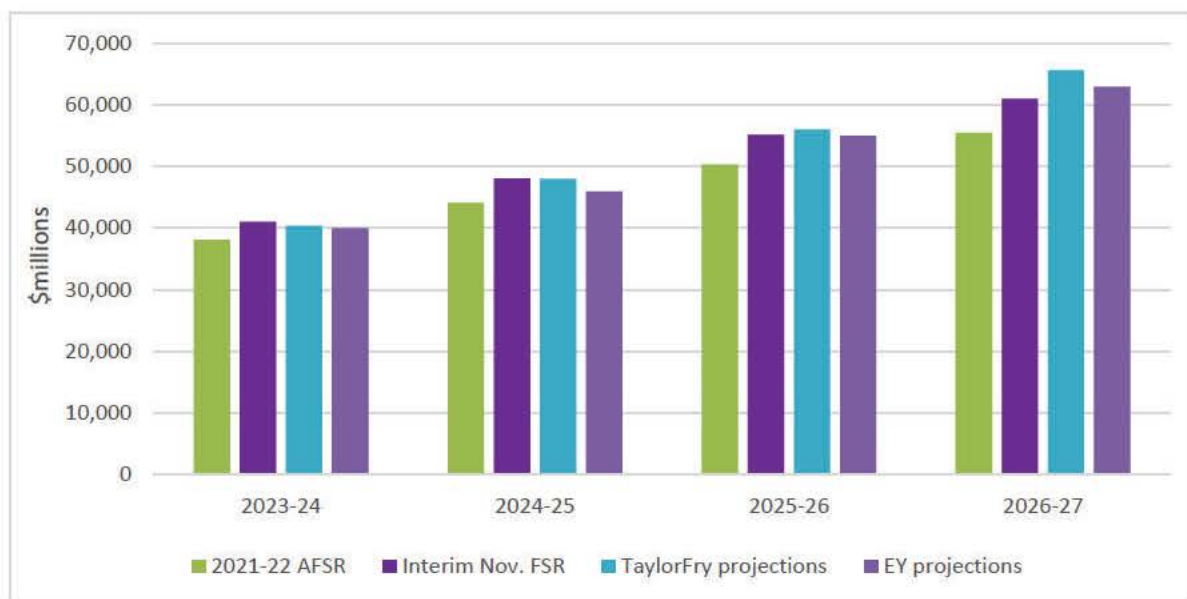
Uncertainty is a feature of any projection.

Key aspects of uncertainty in the scheme that were present in prior FSRs have been borne out in the areas where changes have been required in this interim projection. These are new entrant numbers, transitions within the scheme and inflation. This uncertainty is expected to be a persistent feature of the scheme for the foreseeable future.

Independent Projections

To test the reasonableness of the Scheme Actuary's own projections and provide an independent view, the NDIA commissioned projections from two external actuarial providers, Taylor Fry and Ernst & Young (EY). Taylor Fry and EY were given unit record data on access requests, plan support, participant demographics and in-kind supports. They used this data to produce projections of participant numbers and Scheme expenses over the four-year period. The draft results from these projections are compared with the Scheme Actuary's interim projection and the 2022 FSR, as shown in Figure 9.

Figure 9: Accrual expenses, excluding scheme administration costs – Independent projections



The November 2022 interim projections increased projected participant expenses over the four-year period from \$188.1b to \$205.3b.

Taylor Fry project scheme costs over the four-year period to 2026-27 of \$210.1b, 2.4% higher than the interim projection. Limited information has been provided at this time and only high-level observations can be made.

Taylor Fry assumed more new entrants than the interim projection in each of the first two years, a similar number in year three and slightly lower in the final year. Higher participant numbers combine with higher rates of total inflation to drive the higher estimate of Scheme expenses. Taylor Fry's projection assumes that current high levels of additional inflation will persist over the four-year period.

EY project scheme costs over the four-year period to 2026-27 of \$204b, 0.6% lower than the interim projection. I have not been able to review their full report in the available time and can only provide initial high-level observations of their results.

EY produces an 'unconstrained' projection, and then reduces the projected spend through explicit modelling of supply side constraints. Their unconstrained projection projects fewer participants than the interim projection, but with a higher proportion in SIL (7% at June 2027 compared to 5.1% in the interim projection). The EY model is a microsimulation model, which is likely to be modelling transitions within the scheme more explicitly. There are likely to be lessons to be learned contrasting this aspect of the EY model with the internal model as transitions are becoming an increasingly important feature of the scheme for modelling purposes.

The unconstrained projection totals \$229b over four years. This is then reduced by \$25b to \$204b over four years for supply constraints. Explicit modelling of supply constraints is a new element to the projection. The amount of the resulting reduction in the projection is material and requires careful consideration to understand the level of uncertainty associated with this adjustment.

All three models project broadly similar aggregate expenditure over the four-year period. The different paths by which the projections arrive at this result reinforce the areas of uncertainty that have been a focus of discussion with prior annual FSRs. This helps confirm areas of focus for the future.

Conclusion

This interim projection updates the 2022 FSR where specific elements of scheme experience have diverged from that which was assumed in the June FSR. The key aspects that have been updated are:

- The higher starting population,
- The starting population in SIL has been increased to reflect YTD experience,
- The average rates of payment in 2022-23 have been increased to reflect the recent experience of the scheme,
- The assumed rate of participants who will be new to SIL has been increased to reflect recent experience,
- The number of children assumed to enter the scheme have been increased, particularly those with developmental delay and autism, and
- Expected future inflation has been increased, considering ongoing high levels of plan inflation experienced in the scheme.

The first three bullet points reflect changes in the scheme that have largely occurred. To improve the accuracy of projected cash flows it is fundamental that the projection commences with an accurate starting population.

The second three bullet points update assumptions about what will happen in the future. Whilst there is inevitably some judgement when setting assumptions, I believe that it is appropriate to increase the assumed future experience in these three areas.

In making these changes, the Scheme Actuary (a/g) has assumed the current rates of new entrants with development delay and autism peak in 2022-23 and will decline in future years. A similar pattern is assumed for participants new to SIL. Higher inflation is also only assumed to persist in 2023-24,

before returning to the level of the 2022 FSR. The common thread is the expectation that experience will moderate. This has yet to emerge in the data. The Scheme Actuary (a/g) has taken a measured approach when factoring the increased experience into the projection. Given the significant uncertainties in the scheme, I believe the overall projection is in the range of reasonably likely outcomes. However, if experience does not moderate as assumed, costs are likely to exceed this interim forecast and future projections could need further upward revision.

The projection is intended to inform the May 2023 budget. The Government has initiated a review of the NDIS. This may require assessments of future cash flows under different policy settings. If so, two points should be noted. [1] The material changes in experience since the 2022 FSR suggest that it is no longer suitable to use the 2022 FSR as a base for this purpose. [2] If this forecast is used as a base for assessing potential changes, consideration needs to be given to the moderation of experience already incorporated into this projection. Actions need to be established to be confident this moderation will occur before the impact of further actions are assessed.

This projection is a short-term projection only. The longer-term implications of recent experience on the sustainability of the scheme have therefore not been considered in this review.

Yours sincerely

A grey rectangular box containing the stylized signature 's 22'.

Guy Thorburn
Australian Government Actuary



10 May 2023

Mr Kurt Fearnley AO
Chairman
National Disability Insurance Agency
GPO Box 700
CANBERRA ACT 2601

Dear Kurt

NOVEMBER 2022 INTERIM PROJECTION - INITIATIVES MODELLING

I am writing as the Reviewing Actuary of the NDIS to summarise my high-level review of the impact of a range of initiatives that are being considered by the NDIA. It is understood that these initiatives may be applied to the 30 November 2022 projection for the purposes of the Commonwealth Budget, which is expected to be released in May 2023.

Subsection 180E(2) of the *National Disability Insurance Scheme (NDIS) Act 2013* (the Act) requires that I review each FSR and report to the Board on my findings. Whilst adjustments to the interim projection are not considered a full FSR, the Board has asked that I review the modelled impacts and provide comments to the Sustainability Committee.

Overview

I have been provided with modelling of seven potential initiatives. These are titled early childhood, workforce capacity, plan growth, market and providers, protecting participants funds, lifetime supports and SIL. If implemented, it is expected these would alter the projected experience of the scheme from that which was set out in the November 2022 interim projection.

I have been provided with several spreadsheets that have been used to quantify the impact of each initiative. In addition, I have been provided with copies of correspondence between the Department of Finance (DoF) and the Agency which respond to questions raised by the DoF during their review of the modelling. I have also been provided with a spreadsheet which summarises the expected impact of the initiatives and applies a reduction factor that reduces the total impact of the initiatives to make an allowance for overlapping impacts that arise when modelling each initiative individually.

The last projection I reviewed was the November 2022 projection. This review focusses on the impact of the proposed initiatives and comments on the use of the November 2022 projection as the base projection, from which the impacts of these potential initiatives are to be subtracted. I have focussed on the “low scenario” results as these are noted to be results applicable to operational levers. The results set out in the “high scenario” are noted as including policy changes. It is not clear to me where policy changes may have been agreed at this time.

Initiatives

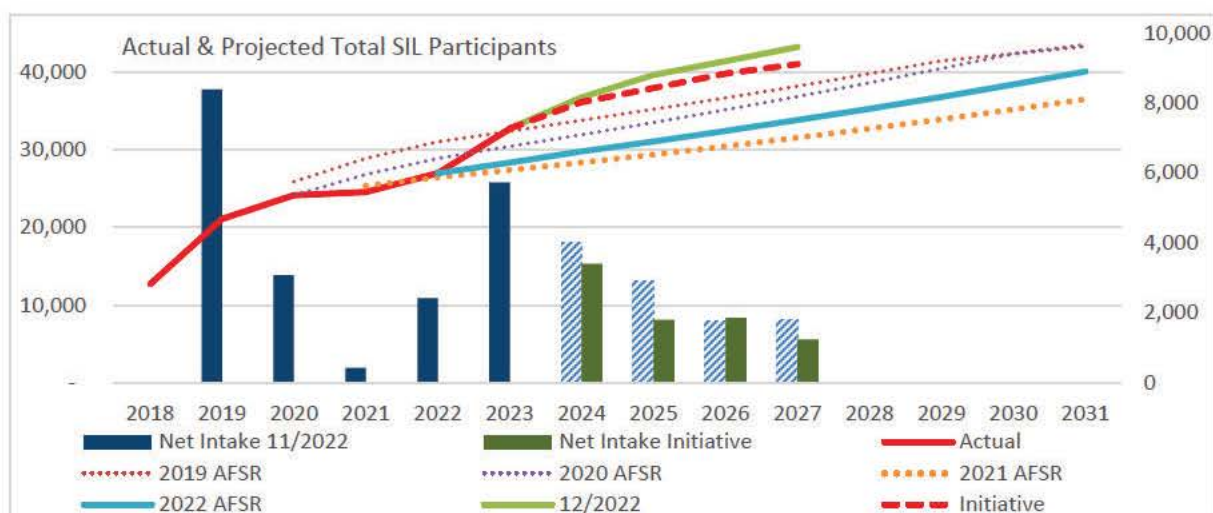
I have not been able to fully review all initiatives in the time available. This review has, necessarily been carried out at a high level. Commentary in this letter should be read in this light.

SIL

The SIL initiative appears to have evolved over time. The assumptions in the spreadsheet are not useful guides to the outcomes of the initiative due to global adjustments in the spreadsheets. I have created a simplified version of the same calculation to roughly estimate the expected impact on the net intake if the projected savings are to be achieved. I assumed the average movement occurs mid-way through the year and the average savings are \$200,000 per SIL participant.

Historical and projected numbers of SIL participants are illustrated in Figure 1.

Figure 1: Actual and projected participants with SIL



My alternate modelling of these savings suggest that this initiative is expected to reduce the SIL net intake in each projection year, except for 2025/26. The reduction is attributed to strengthening the assessment processes.

To achieve the modelled impacts, the net intake must reduce by roughly 600, 1,100, -100 and 600 in each year. It has not been possible to form a judgement of the likelihood of the initiative in reducing the net intake by these levels in the time available. Changing the assessment process in a timely and effective manner will be critical to achieving the savings estimated by this initiative. This places significant importance on effective change management by the agency.

Plan growth

Additional inflation contributes to the sustainability pressures on the NDIS. This initiative (plan growth) is seeking to reduce additional inflation. This initiative has the largest projected impact on the forecast of all the initiatives (low estimate of \$9.6bn over the four-year period). Generally, this initiative is expected to result in:

- Plan growth is assumed to equal normal inflation in 2023-24, except where a participant has a change in circumstances. This is assumed to result in a 90% reduction in additional inflation in that year.
- Ongoing active monitoring of plan over-utilisation is expected to result in 50% lower intra-plan inflation across attendant care, therapy and other support costs in subsequent years. 75% of additional inflation is assumed to be intra-plan inflation in most years.
- 100% lower intra-plan inflation in respect of changes in volumes of supports across all expense categories.

The reductions in intra-plan inflation are a matter of judgement by the Scheme Actuary, made with reference to experience in 2021. Whilst it is difficult to comment on the selected assumptions, I can make the following comments on the modelling.

The 2021 experience was not sustained. By contrast, this initiative is assumed to result in a sustained reduction in intra-plan inflation.

Reductions in additional inflation are assumed to occur across both SIL and non-SIL participants. The reductions in SIL participants, set out in Figure 1, are based on current cost increases for new SIL participants, without inflation. I therefore do not regard this as presenting obvious double counting.

It is unreasonable to expect that additional inflation can be eliminated. Genuine deterioration in function and changing needs mean that additional inflation is likely to be a persistent feature of the scheme. This is considered in the modelling of this initiative by not expecting any change in additional inflation in respect of changes to levels of function.

This reduction is applied to the interim projection. The additional inflation assumed in the interim projection was below that which was experienced over 2019-22. To meet the adjusted forecast, actions need to ensure that additional inflation is first reduced to the assumed levels and then beyond that to achieve the adjusted forecast.

Some stakeholders may have come to expect that intra-plan increases are a feature of the scheme. This may mean that reducing additional inflation is not a straightforward exercise. Regardless of the starting point, I expect that a material reduction in inter-plan inflation will require excellence in implementation and communication with stakeholders.

Lifetime supports

The balance of modelled additional inflation is inter-plan inflation. This is assumed to reduce at the same rates as expected under the plan growth initiative. The Scheme Actuary models that this would reduce forecast expenses over the projection period by 1.36bn. Combining this with an expected reduction of 0.75bn (attributable to increased eligibility reviews of non-SIL participants) results in a reduction of 2.1bn over four years under this initiative.

The modelling used to determine the incremental impact of reduced inter-plan inflation is carried out in the same manner as that which is used for the plan growth initiative. The discussion relating to plan growth applies equally to this initiative.

Increased eligibility reviews are expected to increase the crude non-mortality exit rate of the scheme by 20% across all years from 2023-24. This equates to additional exits of roughly 0.5% of the scheme's non-SIL population each year. These additional exits are assumed to experience the same average costs of non-SIL participants with autism (LoF1&2), developmental delay, psychosocial disability, hearing impairments, other sensory speech impairments and intellectual disability (LoF1). This is considered to be the cohort most likely to experience increased non-mortality exits.

The higher crude exit rate is applied to the total projected population in the interim projection. The use of a crude exit rate implies a changing mix of exits over time. This level of detail is outside the scope of the current modelling. It will need to be considered further when completing the 2023 AFSR.

The model forecasts an additional 2,264 exits in 2023/24, growing to an additional 10,863 exits in 2026/27. The workforce to resource this activity consistently over time is not trivial and needs specific planning. Previous efforts to complete eligibility reviews in a consistent manner have had resources diverted away. I am advised that this can occur when the number of applications for new participants increases as there are service standards for new entrants that must be met, whilst this is not the case for eligibility reassessments. I have not reviewed the resource planning underpinning this activity.

There is likely to be some double counting of the impact of this initiative with others that impact the non-SIL population (i.e. initiatives impacting additional inflation). This reinforces the use of an aggregation factor when calculating the total of all initiatives.

Protecting participant's funds

This initiative is expected to lead to a reduction in payments of \$5.0bn over the four years. This is intended to arise from increased surveillance, oversight of and response to suspicious provider conduct. Investment in real-time claims management and working closely with law enforcement agencies is expected to increase compliance. A material uplift in capability is required to achieve this. I understand that the initiative is accompanied by an investment in IT capability to proactively monitor payments and identify a significant proportion of those which are not compliant.

I have been provided with a PowerPoint document that derives a potential best estimate scenario that will save 1.4% of plan expenditure. This assumes a claim error rate of 3.6%. I am advised that the YTD error rate in 2022/23 was 4.3%, based on a sample of non-compliant claims.

This initiative expects reductions in plan outlays (after aggregation) of 0.7%, 1.4%, 2.2% and 2.6% in each of the next four financial years. I have two observations regarding this result:

- A significant investment is required to increase the ability of the agency to identify incorrect payments on a scheme wide basis. It is unclear if this will be completed in time to ensure that all savings implied by known errors can be achieved by 2024/25.
- It is assumed the system will mature to deliver increased savings over time, above current known errors. This is assumed to include new sources of errors not identified in the data to date. Depending on assumed utilisation rate for these amounts, the detectable error rate may need to increase to something around 6% to 10% of all payments in 2026/27. Assumptions for 2026/27 have been considered by benchmarking against other schemes. The Scheme Actuary expects higher error rates will come from new sources of errors.

The documentation provided states that there is a high level of uncertainty in the assumptions underpinning the assumed savings from this activity. I would support this statement and recommend that it is noted. This stems from the small sample size behind the known non-compliance rate, and uncertainty in the possible size of new (as yet unmeasured) non-compliance.

Workforce capacity

This initiative increases the workforce to improve the capacity of planners to deliver plans that reflect best practice reasonable and necessary supports. As the Agency's capability improves, planning will be completed by agency planners, rather than by Partners in the Community.

The agencies analysis suggests that there is a wide distribution of plans around that which is expected for participants with similar characteristics. It is expected that a better trained workforce will result in greater consistency in planning outcomes across similar individuals.

It is assumed that plans which exceed that which is expected for a similar participant by a percentage amount that is above the 80th percentile but below the 95th percentile will be reviewed to the level of the 80th percentile. Plans above this amount are assumed to be reduced by half the amount to reduce them to the level of the 80th percentile. Whilst there is an intuitive connection between an increase in plan consistency and a reduction in outliers, the level at which this will occur and the resulting change in plans is a matter of judgement.

There is no equivalent assumption for increasing plans that are below the 20th percentile. The additional workforce is assumed to be focused only on outliers above the 80th percentile. This is an omission if the initiative is to ensure best practice support across the scheme.

This initiative would reduce the inflation experienced by the scheme. There will be overlap between this initiative and those titled plan growth and lifetime supports. Some plans may also be those which are assumed to have exited in the lifetime supports initiative. This further underlines the importance of the aggregation factor to reduce the combined benefits of the individual initiatives.

Market and providers

This initiative proposes a two-year price freeze for therapy and capacity building and other support costs in 2023/24 and 2024/25. This is modelled by reducing normal inflation to 0% in each of these two years for these support categories. The modelling is carried out in a similar manner to the initiatives focussed on additional inflation. This is separate to the impacts on additional inflation as it is targeting normal inflation. Achieving this impact is a distinct decision of the Board. This contrasts with the judgement under pinning assumptions in earlier initiatives.

In addition, the initiative assumes that there will be a 2/3 reduction in support co-ordination costs in 2025/26. This will apply equally in 2026/27. I have not investigated the activity supporting this assumption in the time available.

Early childhood

This initiative invests in improved pathways for children with Developmental Delay and Autism whilst ensuring that supports are based on needs rather than diagnosis. This is expected to reduce the number of children entering the scheme by around 20% and increase the number of children exiting by 11% in these groups. This initiative is expected to reduce the November forecast by \$0.389bn over the four years to June 2027.

Ultimately, the impact of this initiative relies on the estimated 20% reduction in new entrants with development delay and for children under 18 with autism. It also relies on the assumption that 11% of current participants with developmental delay will be exited from the scheme over four years. These assumptions are informed by a survey of 75 access met decisions, where it was determined that 20% of these plans could have been diverted to early childhood support. The 11% is lower than the 20% to allow for it being easier to divert a participant at application than to divert an existing participant. A small sample of access met decisions is being extrapolated across the scheme to derive the overall impact. This creates the uncertainty noted in the projected impact.

Diverted participants will be included in the analysis of earlier initiatives, again underlining the importance of the aggregation factor.

Aggregation factor

Earlier commentary on each initiative notes that the results if individual initiatives are likely to include material double counting if they are simply added together to arrive at a total program level impact. An aggregation factor is therefore essential.

The amount of the aggregation factor is subjective. The only way to clearly ensure there is no double counting is to incrementally adjust the scheme projection spreadsheets for each initiative. This approach has not been taken at this time. Whilst this can be explained by the way the initiatives have evolved since the November interim FSR, the result is that an assumption is required to reduce double counting when considering the total program. That assumption is ultimately a matter of judgement.

The impact of the initiatives will need to be given further consideration when the FSR is produced later this year.

Conclusion

The combined initiatives are assumed to result in a sustained material reduction in scheme outlays. In large part, this reduction results from greater scrutiny of scheme access and planning decisions in a sustained manner. The impacts of some of the initiatives are based on assumptions of historical observed experience that has not been sustained. The ability to implement sustained change within the scheme is likely to be a recognised challenge in implementing these initiatives. I note it here for completeness.

The interim projection assumed the number of new entrants would moderate, the exit rate would increase, and that additional inflation would also moderate over time. The initiatives are being subtracted from this interim projection. Whilst the assumptions in respect of new entrants consider this, the initiatives aiming to reduce inflation are incremental to the interim projection. This implies that actions are in place that will see that the moderation of inflation already assumed in the interim projection is achieved, in addition to these initiatives.

Uncertainty exists in the impact assessment for each initiative, over and above the general uncertainty in projections that I have commented on in earlier letters. Key areas of uncertainty I have noted are:

- **Judgement:** The impact of some initiatives (e.g. those impacting exit rates and additional inflation) on modelling assumptions is ultimately a matter of judgement. I don't believe it is appropriate to second guess the Scheme Actuary's judgement in this review. However, the Board should note that this judgement will progressively be replaced by the emerging experience in the scheme.
- **Implementation complexity:** The operational change behind each initiative should not be underestimated. The initiatives imply significant resourcing implications and IT development within the Scheme. They also imply significant communication to stakeholders. Implementing multiple initiatives concurrently complicates the task. I have not reviewed resourcing or communication plans but note that the complexity of the program adds uncertainty to the likelihood of the resulting scheme experience being equal to that which has been assumed in the modelling.
- **Modelling uncertainty:** Initiatives have been modelled individually, leading to double counting if initiatives are simply added together. A reduction factor has been applied to the total of the initiatives to reflect implementation risks and double counting. This is necessary, but this factor also requires some judgement. Modelling each initiative incrementally in the main projection model could eliminate double counting. The modelling approach will need further consideration when completing the AFSR later this year.

This uncertainty means that the projected impacts should be expected to change over time, possibly significantly. It is important to ensure that all stakeholders relying on these projections understand this additional uncertainty. I would advise all stakeholders to consider that in their communications relating to projected outcomes.

Yours sincerely

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Guy Thorburn
Australian Government Actuary



20 March 2024

Mr Kurt Fearnley AO
Chairman
National Disability Insurance Agency
GPO Box 700
CANBERRA ACT 2601

Dear Kurt

DECEMBER 2023 INTERIM PROJECTION

I am writing as the Reviewing Actuary of the NDIS to summarise my review of the December 2023 Projection (Projection), set out in spreadsheets prepared by the Scheme Actuary. This Projection updates the June 2023 Financial Sustainability Report (FSR). I am advised that the Scheme Actuary's advice relates only for the budget period to 2028. As this letter reviewed the spreadsheet, some information in this letter shows results beyond the budget period. Readers should therefore focus on the advice in this letter that relates to the budget period.

Subsection 180E(2) of the *National Disability Insurance Scheme (NDIS) Act 2013* (the Act) requires that I review each FSR and report to the Board on my findings. Whilst this projection is not an FSR, the Scheme Actuary has asked that I review the Projection for the Sustainability Committee. Being an interim projection, this letter does not comment on risks to sustainability.

The interim projection

The Projection set out in the spreadsheet presents a scenario of the expected costs of the scheme over the next 10 years. The projection methodology is broadly the same as that which was used in the 2023 FSR. The key difference is that there is only a single projection, which allows for the effect of the Reform for Outcomes (RFO) initiatives. The June FSR provided a projection after allowance for RFO initiatives. A scenario was also provided showing the impact of Scheme expenses before RFO initiatives.

The Projection being reviewed does not incorporate any allowance for further changes that may arise from the NDIS Review.

Review of the December 2023 projection

For clarity, this letter provides a review of the projection models. It is not a review of the Scheme Actuary's advice set out in his Board paper. I have been provided with [1] Excel models used to derive the Projection dated 16 February 2024; [2] information summarising the experience of the scheme to date that enables me to examine the reasonableness of some assumptions underpinning the Projection; and [3] a file note setting out the methodology used for the partial year projection from November 2023 to June 2024. I have discussed these materials with members of the Agency's actuarial team.

The Treasury, Langton Crescent, Parkes ACT 2600

s 22

aga@aga.gov.au

The last projection I reviewed was the projection underpinning the 30 June 2023 FSR. This review focusses on the changes made in the December 2023 projection. Commentary in this letter on changes between projections refer to changes since the 30 June 2023 FSR projection.

In this letter, the short term refers to the four-year Budget period; the medium term to the balance of the ten-year projection; the long term refers to the period beyond 10-years.

Projection

Comment on key population assumptions

Starting population

The starting population is the actual population at 30 November 2023, rolled forward to 30 June 2024. This starting population of 684,216 on 30 June 2024 is 2.3% higher than the post-RFO initiatives population that was expected on that date in the June 2023 FSR.

Rolling forward the November 2023 population to June 2024 is itself a short-term projection. I have been provided with a document describing the methodology used for this step, but not the model setting out the underlying working.

The methodology allows for the YTD rate of new entrants with autism, developmental delay and psychosocial disability to continue. The methodology also allows for the current lower rate of exits to continue to apply through to June 2024. This results in roughly 690,000 participants at June 2024, before the impact of any initiatives. The RFO initiatives are then expected to reduce the number of participants with developmental delay by about 2,700 and increase the number of participants leaving by about 4,000. This reduces the roll forward population to 684,216 as noted above.

The rollout of the PACE system commenced on 30 October 2023. We understand there have been changes in the number of new entrants since January. It is unclear the extent to which these changes are due to the system maturing and the extent to which this is due to RFO initiatives. If it is the former, there may be a backlog of new entrants forming. This adds uncertainty to the participant numbers that we expect to see at 30 June 2024.

The impact of the RFO initiatives is a material adjustment to this part of the projection. An increase of 4,000 non-mortality exits over the balance of the year requires the exit rate to more than double (2.25 times) from 1 January. This is material. Whilst exits did increase in the month of November, meeting this assumption requires the November experience to be sustained and increase further over the balance of the year.

The starting population depends on the timing of RFO initiatives being as assumed by the Scheme Actuary (i.e., commencing in January 2024). Should the initiatives be delayed, the starting population in this projection could understate the actual population on 30 June 2024. This would result in the projection being more likely to understate (rather than overstate) future experience.

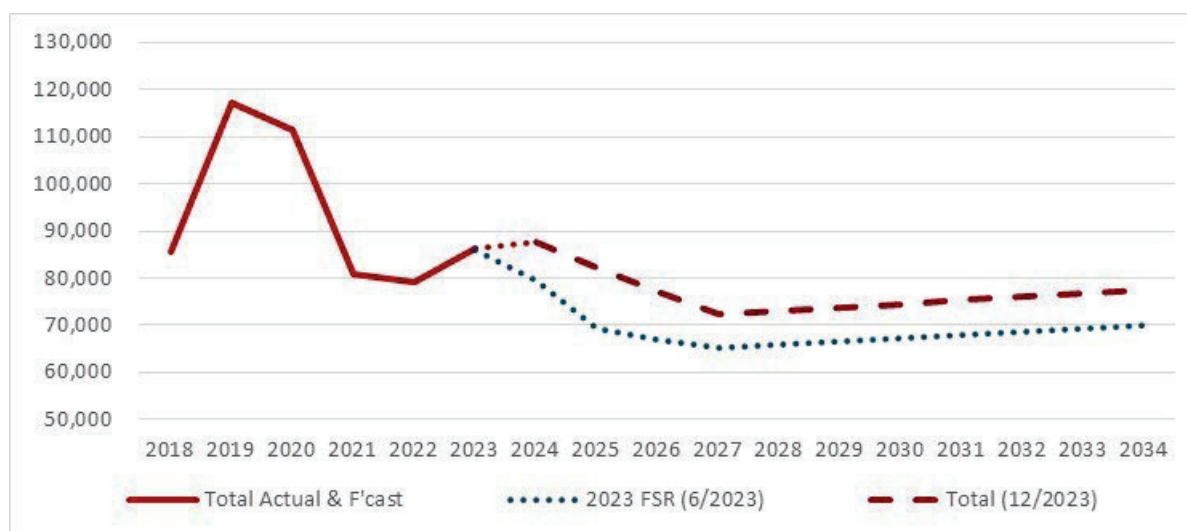
New entrants

The number of new entrants between 1 July 2023 and 30 November 2023 exceeded that which was expected in the 2023 FSR. Attachment A shows this is attributable to new entrants below age 14 with developmental delay. The number of new entrants in these age groups has consistently increased in recent years. The 2023 FSR expected that the number of new entrants aged below 14 in 2023-24 would reduce compared with 2022-23. (Whilst Figure 7 in Attachment A shows that the rate of growth appears to be slowing up to age 6 in 2023-24, some of this is attributable to the expected impact of RFO initiatives due to commence in January 2024. Caution must therefore be taken in interpreting this graph as this is still an assumed future change in experience over the balance of 2023-24.)

Figure 1 shows that new entrants are expected to reduce over the three years to 2025-26, one year later than assumed in the 2023 FSR. This is attributed to assumptions limiting the projected number of new entrants with a previously unmet need and the effect of RFO initiatives. A significant proportion of this reduction is projected to occur amongst children aged 0-14. The 2023 FSR expected new entrants aged 0-14 will reduce from 55,890 in 2022-23 to 45,034 in 2025-26. The December 2023 projection moderates that reduction to 52,513 in 2025-26.

Long term new entrant assumptions in the December 2023 projection have been increased over those in the 2023 FSR. Figure 1 compares the actual experience, the 2023 FSR and the revised projection. Based on the experience to date, increasing the long-term assumptions is prudent. After these increases, it is less likely that actual new entrant numbers will be higher than projected, relative to the June FSR. However, material uncertainty remains in the new entrant assumptions due to the uncertain effect of RFO initiatives and assumed longer-term moderation in new entrant numbers.

Figure 1: Actual & projected total number of new entrants.



Leaving the scheme

The projection assumes a proportion of participants will leave the scheme to live independently. Attachment B compares recent and projected experience.

The 2023 FSR assumed the rate of exits would increase materially in 2023-24 due to an RFO initiative to resource eligibility reassessments. Recruitment is still underway for this activity. YTD non-mortality exits have increased marginally but are materially lower than what was assumed in the 2023 FSR in all categories of disability.

I am advised that resources are being recruited to process the eligibility reassessments required for the 2023 FSR assumptions to be realised. The time required to recruit and train staff to resource eligibility reassessments has led the Scheme Actuary to amend the projection so that exit rates gradually increase over the short term. Progress towards this assumption should be monitored closely. The assumed mature exit rates and the timing of achieving those rates should be adjusted as experience emerges.

Deaths

The projection incorporates assumptions regarding the proportion of participants that will die. Attachment B compares recent and projected experience. This shows that the rate of exits due to mortality is close to that which was expected in the 2023 FSR. The December 2023 projection makes no change to the mortality assumptions. I agree with this approach.

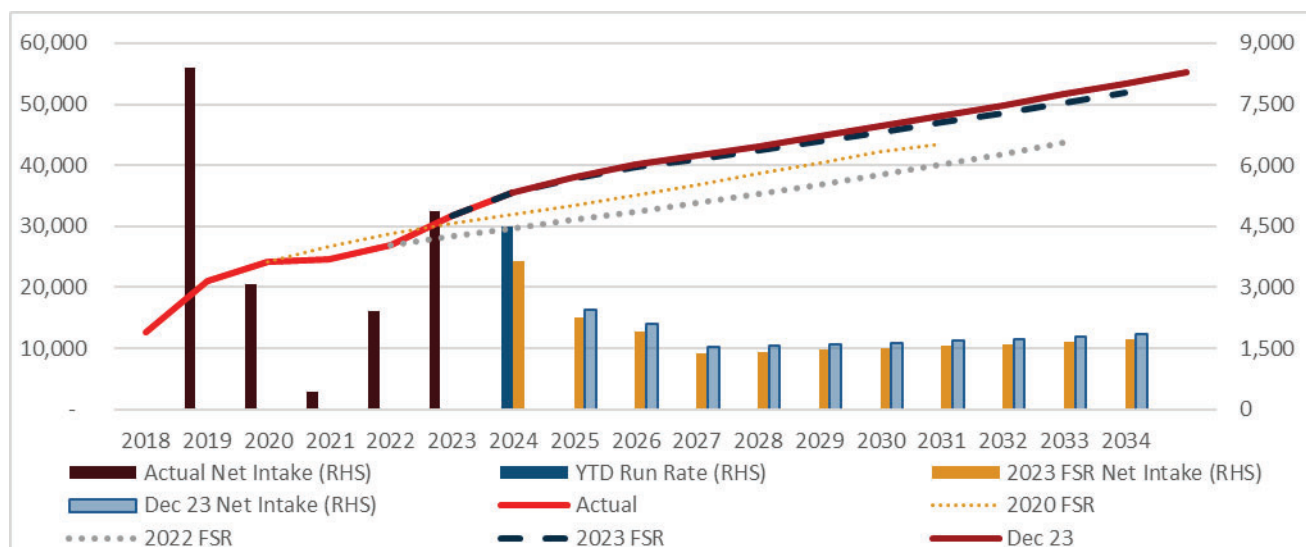
Supported Independent Living (SIL) population projection

Participants receiving SIL account for around 30% of scheme outlays, despite comprising only 5% of participants. Small changes in the SIL population have a material impact on costs.

The number of SIL participants at 31 December 2023 is within 0.3% of the 2023 FSR. Comparing the net intake based on the YTD Run Rate with the 2023 FSR (Figure 2) shows that the SIL net intake is expected to moderate over the balance of the year. This is supported by Agency initiatives to improve the SIL approval process. The Scheme Actuary has maintained the overall SIL projection at similar numbers to the 2023 FSR. I concur with this approach but note the dependency on uncertain future moderation in the net intake.

There are differences between actual and expected SIL participants when this is examined by age and disability type. For the December 2023 projection, the Scheme Actuary has reviewed SIL transition rates so that the total number of transitions are broadly similar to those adopted in the 2023 FSR, but the transitions by age and disability more closely reflect the actual experience. I concur with the approach of recalibrating the SIL transitions to better match the distribution of new SIL participants.

Figure 2: Projected SIL population (LHS) and net intake (RHS).



The main cause of exit for SIL participants is death. 644 SIL participants died in 2021-22 and 909 died in 2022-23. 440 SIL participants died in the first five months of this year. The 2023 FSR assumes 786 deaths will occur in the full year 2023-24. Given the expected volatility from year to year, I regard it as reasonable to maintain the same mortality assumptions as in the 2023 FSR. Closely monitoring the mortality experience of this cohort is prudent.

It is encouraging that the number of SIL participants at 31 December 2023 is close to that which was expected in the 2023 FSR. As historical experience has been volatile, some caution is required when interpreting the results. The projection is a scenario. Until the new approval process matures, there remains a high level of uncertainty in this part of the forecast.

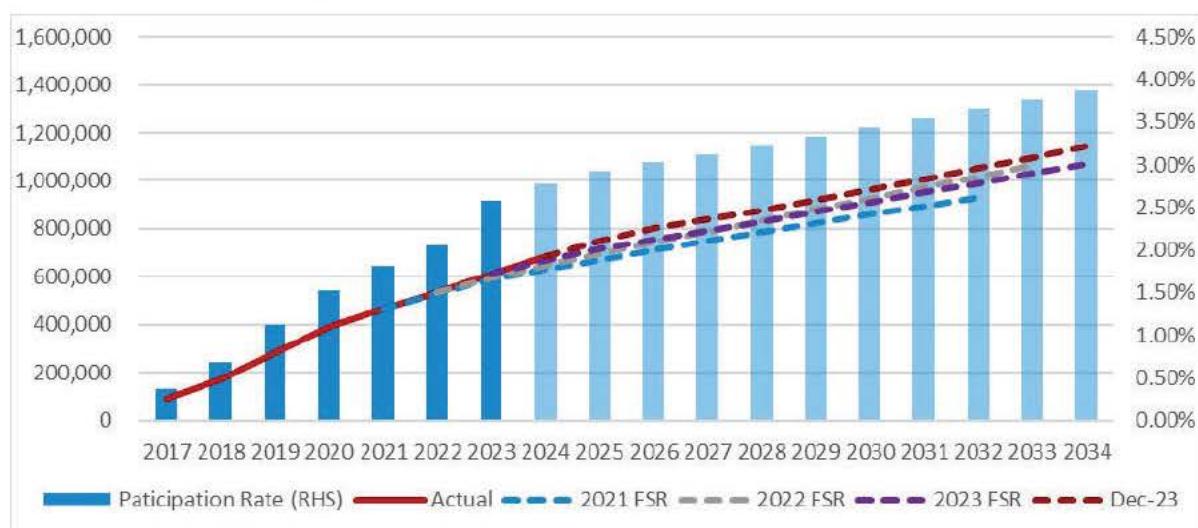
Comment on the overall population projection

The projected number of participants in successive FSR projections is set out in Figure 3. The number of participants has consistently exceeded expectations in successive projections. This has occurred again this YTD. The projected population has been increased accordingly.

Key areas of uncertainty in the population projection are similar to those in the 2023 FSR:

- The starting population, particularly for children and participants with SIL;
- Assumptions regarding the rate at which new entrants will moderate;
- Assumptions regarding the rate at which participants leave the scheme;
- Assuming the net increase in SIL participants will moderate over the next three years;
- Assumptions regarding the timing and effectiveness of the RFO initiatives.

Figure 3: Actual & projected number of participants over time.



Note: Participation rate = NDIS participants expressed as a percentage of the Australian population

Noting the above areas of uncertainty, my view is that the December 2023 projection is closer to a central estimate than the 2023 FSR projections.

Comment on key participant spend assumptions.

Average spend

The average participant spend in the six months to December 2023 was 2.1% higher than in the 2023 FSR on a mix adjusted basis. Average payments in the December 2023 projection for 2024-25 are assumed to be about 2.1% higher than in the 2023 FSR.

Inflation

Payments increase with inflation over time. Inflation is modelled in two components. The first is the effect of normal wage and price inflation. The second represents additional growth that is scheme specific. Inflation assumptions compound year on year. As a result, the projection results are increasingly sensitive to the inflation assumptions with each projection year.

The projection models the impact of inflation on each payment type. Assumptions quoted in this letter are averages and are provided to assist the reader understand the trends in the projection.

The projection assumes that normal inflation reflects the scheme's price increases and then follows broader economic forecasts. This is set out in Table 1. This shows that expected normal inflation has been increased marginally over the 2023 FSR.

Table 1: Comparison of normal inflation assumptions

	2023-24	2024-25	2025-26	2026-27	2027-28
2023 FSR	4.4%	3.2%	4.0%	3.5%	3.5%
Dec 2023		3.1%	4.1%	3.7%	3.9%
Change		-0.1%	0.1%	0.2%	0.4%

Selecting assumptions for additional growth has been challenging in successive projections. Figure 4 illustrates past volatility in this component of inflation. This is a key source of uncertainty.

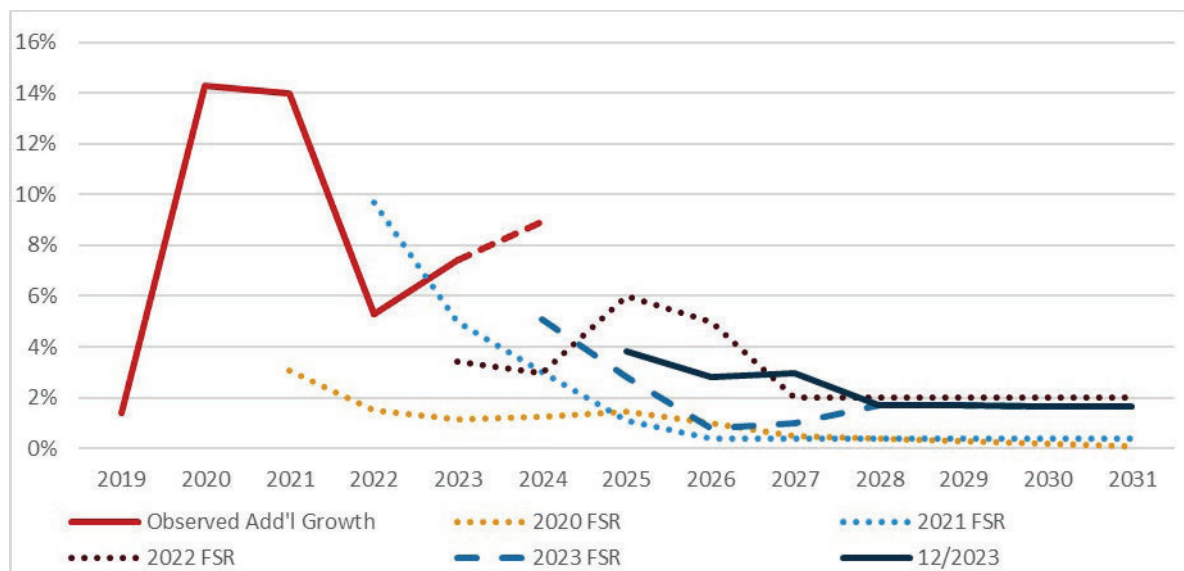
Figure 4 shows that the 2023-24 YTD additional growth is higher than assumed in the 2023 FSR. The 2023 FSR expected a substantial reduction in additional growth in 2023-24. This has not yet occurred. Intra-plan inflation¹ (which contributes to additional growth) has also been flat (around 7.6%) since December 2022.

The Scheme Actuary expects additional growth will reduce in 2024-25 and thereafter. This expectation is underpinned by RFO initiatives. These aim to lower plan inflation by:

- Setting plan growth to equal normal inflation unless a participant has a change in circumstances, resulting in a reduction in plan inflation by 50% in 2023-24;
- Reducing intra-plan inflation by 50% in attendant care, therapy and other supports; and
- Ensuring plans better reflect best practice reasonable and necessary supports. It is understood this initiative is in pilot mode.

Further, plan outlays are expected to reduce by 0.7% in 2024-25, and then by 1.4%, 2.2% and 2.6% in the following three financial years, from increased surveillance of suspicious provider conduct. This may further help ease additional growth in average payments.

Figure 4: Observed & projected additional growth.



The rate of additional growth was expected to moderate from 2023-24. It is yet to do so. The Scheme Actuary has started to lift the rate of additional growth in the projection to reflect a less rapid

¹ Intra-plan inflation occurs when plans are increased within the life of a current plan.

reduction, relative to the 2023 FSR. I concur with his approach but note that significant uncertainty remains in this aspect of the projection.

SIL

Over the two years to June 2023, the average SIL payment in the 6-months to June of each year increased by 9.7% per annum.

This projection assumes the rate of growth in average payments will slow to around 5% per annum by 2028-29. This assumed long-term rate of growth is lower than observed in any of the last five years. Whilst the RFO initiatives should also act to support this assumption, until the reduction in growth is evident in the data, there is a risk that this projection understates the expenditure that may arise.

RFO Initiatives

Limited modelling of the impact of RFO initiatives has been made available to me. It is recommended that the Scheme Actuary consider if more detailed modelling of the effect of the initiatives might be possible. By way of an example, this could involve modelling the progress from staff recruitment and training until staff are productive at various levels, to show the expected number of processes (eligibility reassessments) to support the assumed level of change in experience.

Operating Expenses

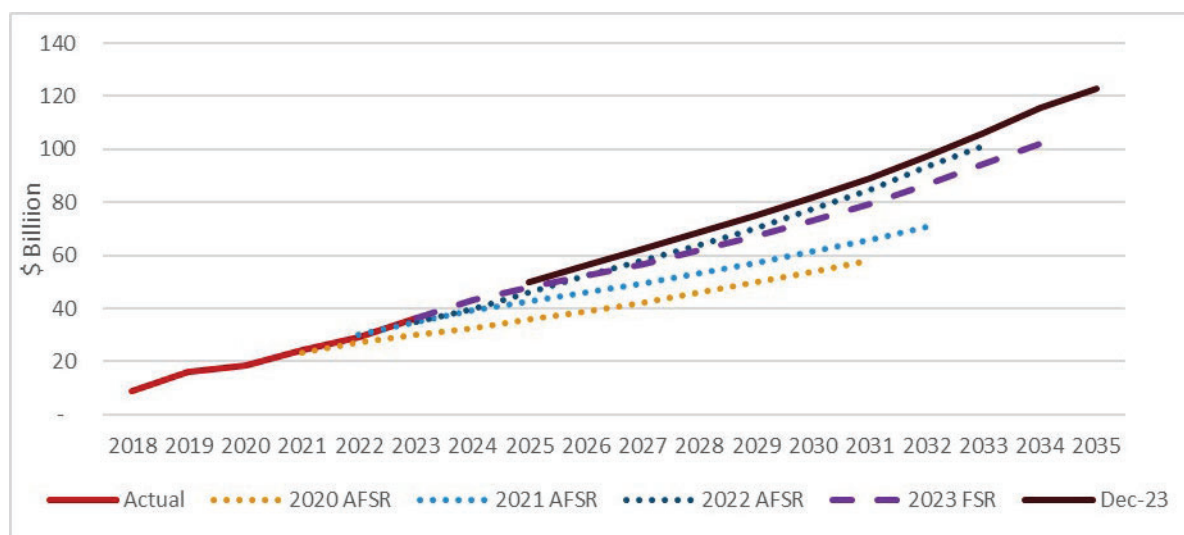
This component has not been updated for this Projection and has therefore not been considered further for this interim review.

Overall results

Figure 5 shows that the resulting projection (solid black line) is higher than the projections in all earlier FSRs.

This projection does not incorporate the effect of any further recommendations from the NDIS Review.

Figure 5: Actual & projected total participant spend and agency expenses.



Uncertainty

Future experience will differ from, and may exceed, that which has been projected. Uncertainty in the projection is, in part, demonstrated by variations on successive projections in recent years.

Key areas of risk in this projection include reducing rates of additional growth, new entrants, and transitions to SIL, coupled with increased rates of exit. Further, the impacts of RFO initiatives are yet to fully emerge in the experience. In line with recommendations in the 2023 FSR, a governance structure has been established to monitor the implementation of these initiatives.

Conclusion

Recent Financial Sustainability Reports have consistently assumed that scheme experience would moderate in the short term. As this moderation is yet to fully materialise, the current Projection has been increased to reflect this.

This Projection assumes that the number of new entrants, transitions to SIL and additional growth reduce in the short term. It also assumes the rate of non-mortality exits will increase. Each of these acts to reduce projected scheme costs. The RFO initiatives support the Scheme Actuary's rationale for expecting experience to moderate over time. Recent experience, coupled with the program of RFO initiatives, provides support to the view that the Projection is within the range of reasonably likely outcomes. However, the Scheme Actuary should consider whether more detailed modelling of the RFO initiatives is possible.

It is too early for the effect of the RFO initiatives to be seen in the experience. As a result, there remains a risk that future moderation will not materialise to the level assumed. Until the assumed moderating experience shows a greater presence in the data, the risk that the Projection understates what might occur remains.

The Projection does not incorporate any allowance for changes that may arise from the NDIS Review.

Yours sincerely



Guy Thorburn
Australian Government Actuary

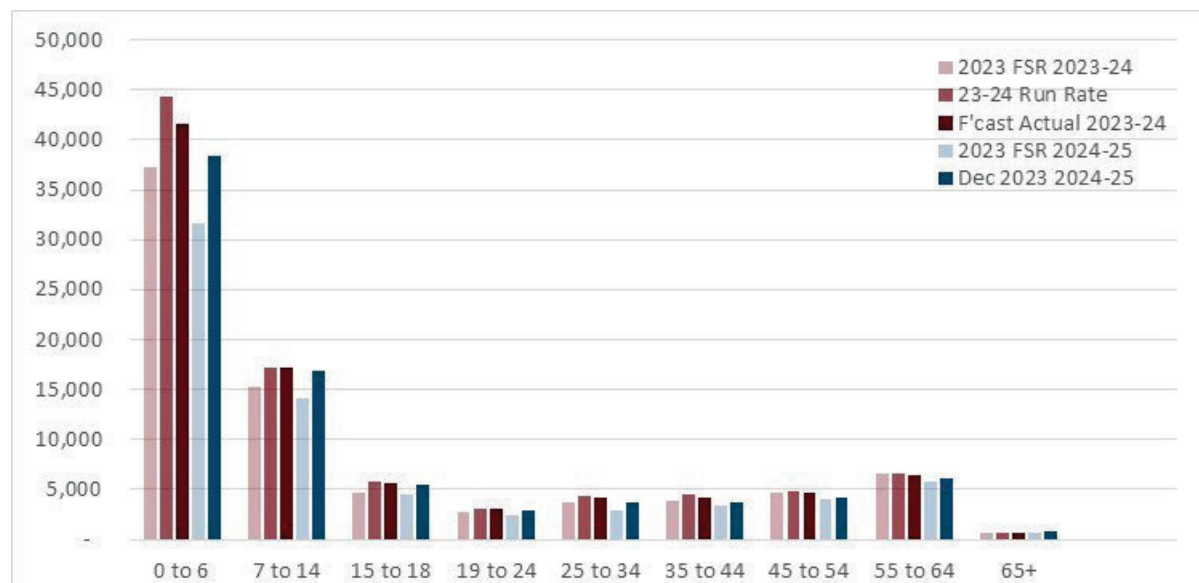
Attachment A: Distribution of new entrants in the Baseline projection

Distribution by age

Actual and expected experience.

The Scheme Actuary calculated that the YTD number of new entrants exceeded that which was projected. Figure 6 compares the 2023-24 forecast from the 2023 FSR with the annualised YTD run rate, and the Scheme Actuary's full year forecast for 2023-24. It also compares the 2024-25 year from the 2023 FSR with the 2024-25 projection from the December 2023 model.

Figure 6: Actual and expected new entrants by age.



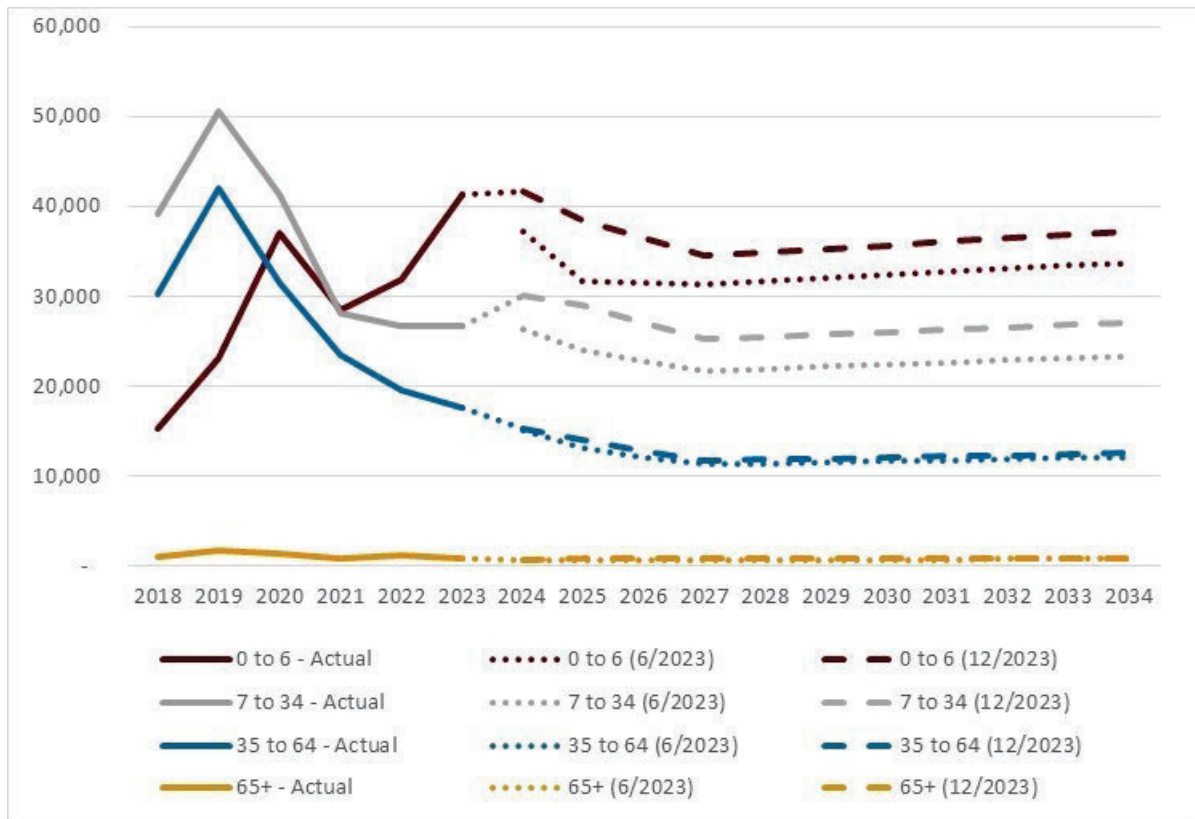
Comparing the first three bars in Figure 6 shows that the YTD monthly rate of new entrants aged 0-6 is broadly assumed to reduce by around 15% in the second half of 2023-24. This reflects a RFO initiative. It is not possible to validate the impact of the initiative based on the information provided. The further reduction in new entrant numbers in 2024-25 reflects a full year of this initiative.

The forecast for 2024-25 assumes new entrants aged 7 to 24 enter the scheme at a rate that is similar to the current monthly run rate. Ages 25-64 are all expected to moderate in 2024-25, relative to the YTD experience.

The Scheme Actuary has reviewed the projected number of new entrants to reflect recent experience more closely. This is appropriate.

Figure 7 sets out the trends in actual and projected numbers of new entrants by age, for this projection and as projected in the 2023 FSR. This shows that the directional change in the projection illustrated in Figure 6 persists through the projection period.

Figure 7: Actual and projected new entrants by age.



New entrants, age 0-6.

New entrants aged 0-6 were expected to reduce up to 2024-25 and remain broadly consistent thereafter. In the December 2023 projection, numbers are expected to stabilise in 2023-24 at a comparable level to last year due to RFO initiatives taking effect in the second half of the 2023-24.

As YTD new entrants aged 0-6 are trending at a higher rate than assumed in the 2023 FSR, the projected number of new entrants aged 0-6 has been increased from those in the 2023 FSR. The decline over the next three years is attributed to improvements in early childhood intervention. As new entrant numbers aged 0-6 are yet to stabilise, there is a continued risk that this projection will understate the actual numbers of future new entrants aged 0-6.

New entrants, age 7-34.

The numbers of new entrants aged 7-34 had been relatively stable over the three years to June 2023, at around 27,000 per year. This stability has ended this year as the number of new entrants in this age group is expected to increase to around 30,000 in 2023-24, above the 26,400 expected in the 2023 FSR.

New entrants in this age group are now assumed to reduce to around 25,200 over the next three years, before growing in line with population. For these ages, long term new incidence rates have been increased from those used in the 2023 FSR.

The reduction in the first three projection years assumes new participants with a previously unmet need (PUN) reduce to nil over three years. My previous review noted that the hypothesis that this group will reduce to zero is a matter of judgement. This remains the case, as does the resulting risk that this projection will understate the actual numbers of future new entrants in this age group.

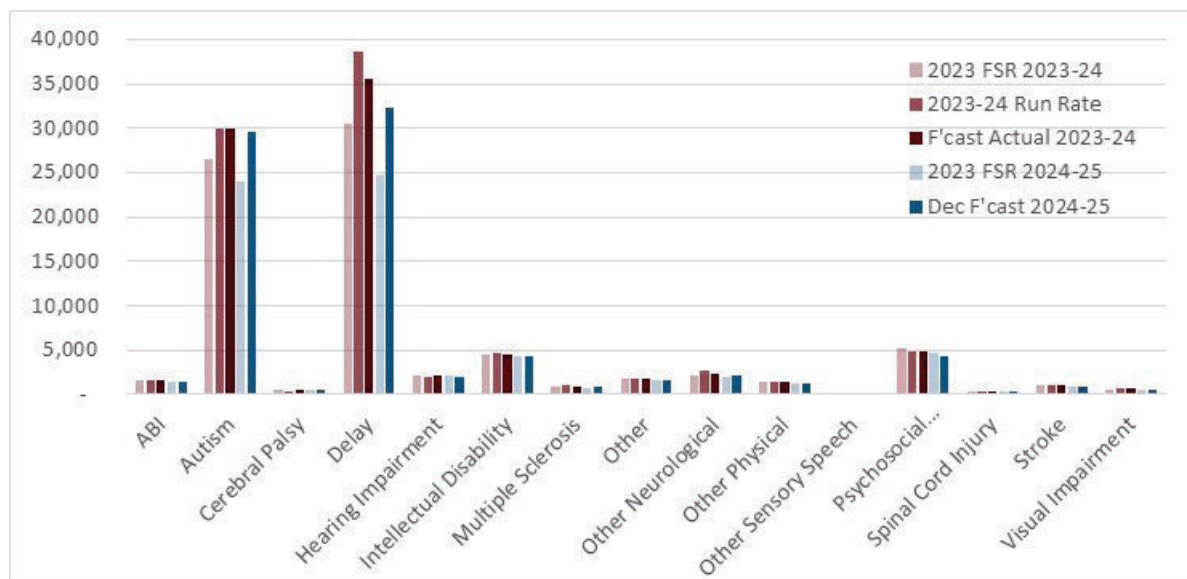
New entrants, age 35-64 and 65+.

The YTD number of new entrants aged 35-64 and 65+ are close to that which was expected in the 2023 FSR. The projected number of new entrants for these age groups are similar to the previous projection.

Distribution by disability

Figure 8 shows that the higher-than-expected new entrants in 2023-24 are participants with autism or developmental delay, offset slightly by participants with psychosocial disabilities.

Figure 8: Actual and expected new entrants by disability.



The starting population at June 2024 broadly assumes that these trends will continue for the balance of 2023-24, with the exception of participants with developmental delay.

Figure 9 sets out trends in actual and projected numbers of new entrants by disability, for this projection and as projected in the prior FSR.

Figure 9: Actual and projected number of new entrants for major disability types.

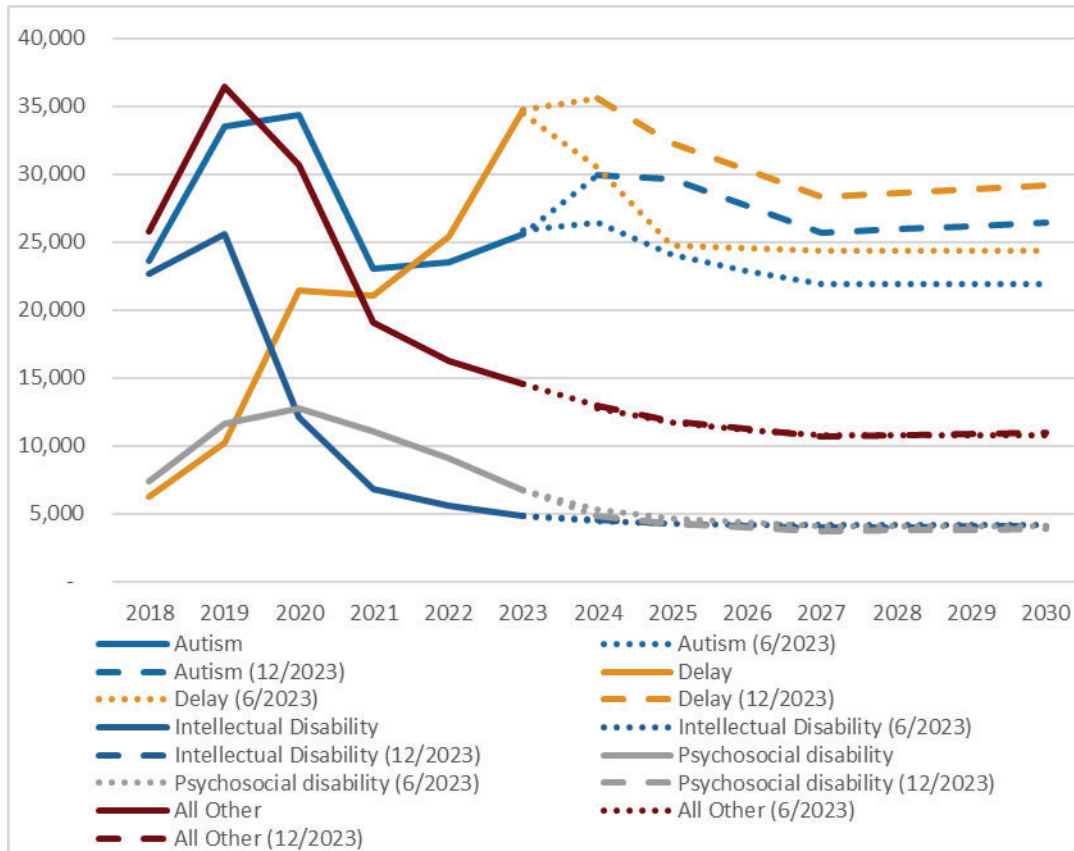


Figure 9 shows that more new participants with autism and developmental delay presented to the scheme than were expected in the 2023 FSR. Consequently, the projected number of new entrants have been increased in these categories. There is a high level of uncertainty in establishing a long-term new entrant rate for these groups as numbers have persistently exceeded expectations. Both categories have seen increasing new entrants in recent years.

Figure 9 also shows that the number of new entrants with psychosocial disabilities may be tapering faster than expected. The number of new entrants expected in the next two years has been reduced accordingly.

Attachment B: Mode of departure

Leaving the scheme

Participants can leave the scheme for reasons other than mortality. Figure 10 compares recent rates of leaving the scheme with recent projections. The current years' experience is a forecast based on the roll forward methodology. The increase in exit rate in 2024 is entirely dependent on the impact of RFO initiatives in the second half of the year. The rate of exit has not yet increased over last year and is below that which was projected in the 2023 FSR.

Figure 10: Actual and projected crude rate of leaving (for reasons other than death).

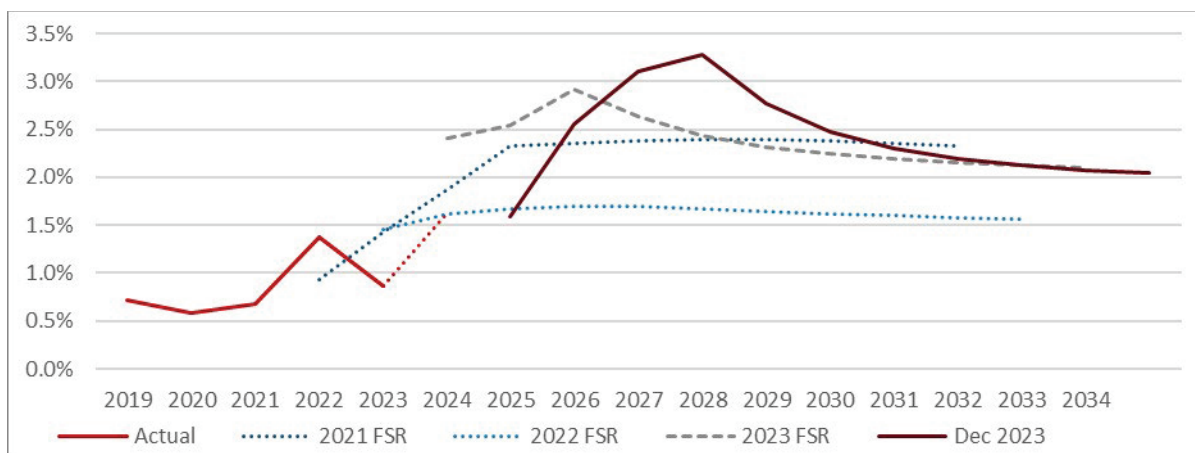
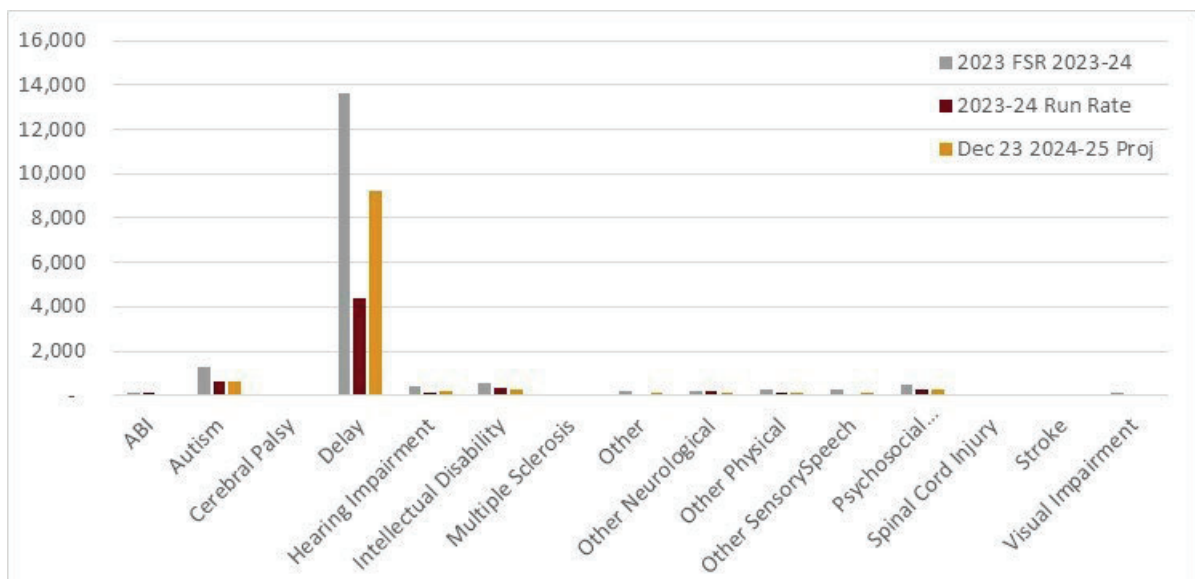


Figure 11 shows that the difference between actual and expected non-mortality exits is greatest for participants with developmental delay.

Figure 11: Actual and expected number of exits.



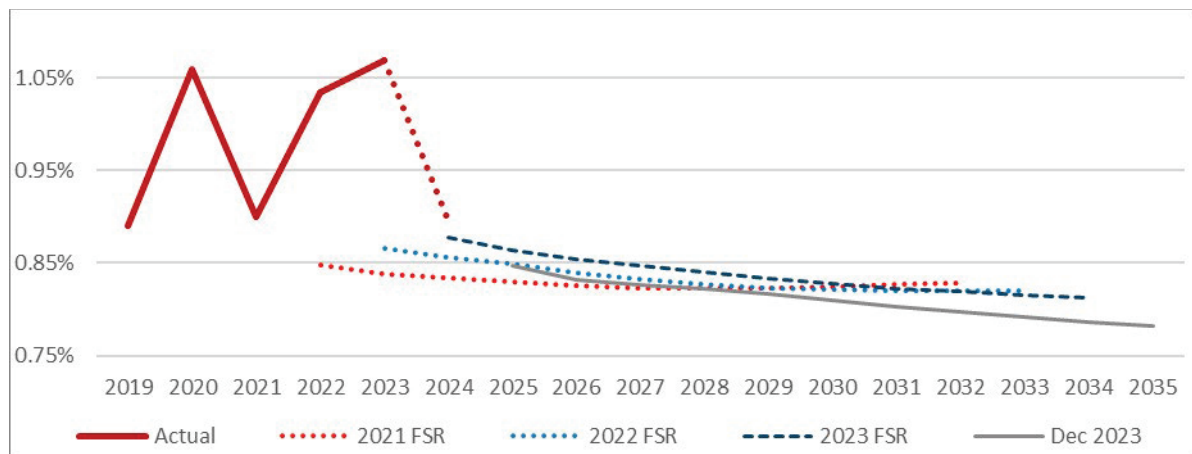
Rates of exits have been reviewed in this Projection to allow for a more gradual increase in the numbers exiting the scheme, across all disability types.

Mortality

Participants may also cease to participate in the scheme due to their death. The actual number of deaths to 30 November 2023 suggest there may be around 5,800 deaths in this financial year. This is close to the expected number in the June FSR.

Figure 12 compares the recent crude mortality rate for the scheme to recent projections. Historical experience will exhibit significant volatility in a population of this size.

Figure 12: Actual and projected crude mortality exit rate.



Mortality assumptions are set by age, disability type, level of function and SIL status. The mortality assumptions themselves have not changed from those adopted in the 2023 FSR, but the resultant average projected mortality rate is a little lower due to the change in adopted mix of future participants.

The aggregate result illustrated in Figure 12 masks variations within individual cohorts. Whilst the total number of deaths in the scheme is relatively small, the distribution of deaths is important. For example, very few participants receiving SIL leave for reasons other than mortality. As a result, the mortality of participants receiving SIL has a material impact on projected SIL costs.

Figure 13: Actual and projected crude mortality rate for SIL participants.



Figure 13 shows that mortality rates for SIL are more closely aligned to recent experience than for the scheme as a whole. Actual experience over the last 17 months has been slightly above that which was projected. This variance acts to reduce scheme costs, relative to the projection. Should this experience persist, it may justify a small increase in mortality assumptions for participants receiving SIL in the future.

Mortality assumptions have not been altered for this projection. I concur that there is insufficient new evidence to justify a review at this time.



Telephone: s 22
E-mail: guy.thorburn@aga.gov.au

11 September 2024

s 22

Director
NDIS Finance and Performance Branch
Department of Social Services

Email: s 22 [@dss.gov.au](mailto:s 22@dss.gov.au)

RFQ Reference: 70018514

Dear s 22

REQUEST FOR QUOTATION TO PROVIDE SERVICES TO SUPPORT NDIS REFORMS

Thank you for your email of 23 August inviting the Australian Government Actuary (AGA) to submit a proposal to support DSS in two areas:

1. The design and development of new access and budget setting tools, processes and estimates modelling for the NDIS, and
2. Foundational Supports.

Capability and experience of the AGA

Key personnel

Appointing the AGA provides access to Senior Actuaries with unique experience in the actuarial management of the NDIS.

- **Reviewing Actuary:** The current Australian Government Actuary, Guy Thorburn, has been the Reviewing Actuary for the NDIA since 2020. The role of the Reviewing Actuary is to review the advice of the Scheme Actuary. In this capacity, I have reviewed all annual Financial Sustainability Reports, several interim projections and other advice provided by the Scheme Actuary. Having reviewed the projection models underpinning the Scheme Actuary's advice, I am familiar with the projection models utilised to inform this advice and the drivers of Scheme costs. s 47F
- **Senior Actuary:** Bridget Browne is a Senior Actuary at the AGA, having joined us in August 2024. Bridget has a variety of experience in disability and broader health and human services whilst at her previous organisation, including:
 - leading the development of a microsimulation projection model used by the NDIA
 - supporting the Tune Review of NDIS Forecasting commissioned by DSS

- supporting a number of Annual Pricing Reviews, the Therapy Price Research and the Supported Disability Accommodation Pricing Review and research into Resource Allocation systems for the NDIA
- supporting DSS during the current reform of Disability Employment Services, specifically the development of a new Performance Framework and associated measurement and preparation of Budget model inputs reflecting the proposed new program.
- leading the development of an aged care demand and supply model for DoHAC, followed by the adaptation of that model to support modelling of GP demand and supply.

s 47F

All staff at the AGA hold a security clearance of Baseline or higher.

AGA resources

In addition to the specialist resources noted above, the Office of the AGA has multiple staff who have worked on the NDIS over time. This brings a diversity of skills to benefit the role. Since 2020, this has assisted our work with the NDIS on multiple levels. For example:

- We have drawn on actuaries in the AGA who are experienced in other accident compensation schemes provided by the Government. At a minimum, all AGA advice is subject to internal peer review by at least one other qualified actuary.
- We have brought our experience of modelling techniques applied to other government schemes to explore whether the principles applied in other programs could be of benefit to the NDIA. This includes microsimulation techniques applied to the social security payments scheme and education loan schemes. This is increasingly relevant for the new models being implemented at the NDIA.
- Our analysts are skilled in the use of SAS and R, the modelling platforms utilised by the NDIA.
- Our analysts are familiar with the structure and operation of the projection models utilised by the NDIA. We are currently completing our review of the latest versions of these models for the 2024 Financial Sustainability Report.

In our role as Reviewing Actuary, we have demonstrated we can work flexibly and constructively whilst reviewing the Scheme Actuary's advice. We would employ this same approach to this work. This is essential as models are typically updated progressively throughout the development of the Scheme Actuary's advice and written reports are only produced at the end of the process. A review needs to be undertaken alongside the finalisation of the work that is being reviewed. We have developed good working practices to ensure regular communication throughout any assignment.

However, we are a relatively s 47E(d)

s 47E(d)

What we are tendering for

What the AGA is offering to undertake in response to this RFQ is guided by my existing role as Reviewing Actuary and availability of resources in the Office of the AGA.

The role of the Reviewing Actuary is to review the advice of the Scheme Actuary on behalf of the Board. Elements 1 & 2 of Service One are tasks that the Reviewing Actuary will need to undertake at some stage, irrespective of who DSS appoints. It will be more efficient for this work to be done by the Reviewing Actuary at this time, rather than by a third party. DSS may wish to consult with the Scheme Actuary when deciding on a provider for these services.

Service Two has a number of elements. Demand modelling for Foundational Supports is a critical first step. This will help inform the Scheme Actuary assess the impact of these supports on the NDIS. When the Scheme Actuary amends projections for the Scheme, these will then be reviewed by the Reviewing Actuary (the AGA). s 47E(d)

s 47E(d)

s 22

s 47E(d)

Service One

Understanding of the agency and supporting people with disability

The AGA, and staff at this Office, understand the crucial role the NDIS plays in supporting people with disability in Australia. This understanding is not simply through observing scheme projections over time, but through the lived experience of family members of AGA employees who are supported by the scheme. Whilst some may perceive the role of Reviewing Actuary as being focussed on demographic and financial models that are somewhat removed from the benefit provided to people with disability, the AGA does not view it this way. We are acutely aware of the importance of the NDIS to delivering the supports people with disability rely upon every day.

The way the NDIA is supporting people with disability is changing. This is due to initiatives arising in response to the sustainability framework and the NDIS Review. Through my work as the Reviewing Actuary, I am also acutely aware of the importance of the NDIS achieving a level of financial sustainability whilst delivering good outcomes for participants in an equitable manner. Successfully designing and implementing new budget setting tools and foundational supports are crucial to meeting these outcomes.

Services Required

The NDIA is leading the work on new assessment processes and the development of budget models. This RFQ is seeking a provider to:

- Evaluate technical aspects of the assessment and budget models, providing actuarial analysis and independent verification that the budget model produces intended results consistently between participants.
- Validate the modelling of the overall financial outcomes to the reforms. This could be done by reviewing the revised projections of the Scheme Actuary, or by leveraging existing NDIS projection models to produce the same. It is suggested that the former approach would be the most efficient. Where multiple options are provided for budget setting, the financial evaluation of multiple options may be required.
- Provide ongoing actuarial advice to DSS as well as training and capacity building for the ongoing analysis of scheme access and budget setting tools.

A key risk to the development of new budget setting tools will lie in the scope and reliability of the data available to support budget setting decisions. This risk may ultimately manifest itself in the level of community acceptance of the outcomes of the budgeting process. This risk will need to be considered by examining the sources of variation between outcomes from the budget tool and actual plans for areas of potential bias. The risk presented by limitations in the data may be more challenging to overcome in the short term.

It should not be assumed that the budget setting tools recommended in this project will remain suitable year on year. I expect that a program that regularly monitors and improves the budget setting tools will be required, as experience emerges. This would include considering the scope and quality of data collected. This would help ensure the tools support the sustainability of the NDIS over time and support improving participant outcomes.

Capability and capacity to provide the services to a high standard and within timeframes.

The specialist resources and experience of wider staff in acting as Reviewing Actuary to the NDIS are outlined above and demonstrate our capability to provide the services required to a high standard.

We will commence Service One in the short term. I would expect this commence by building an understanding of the Scheme Actuary's approach to this task to establish the scope of the review. We would then commence reviewing the data and initial outputs being used. This would allow us to commence setting up the outputs required to support the review. I expect that the bulk of this service would be completed later in 2024 or early 2025, when the Scheme Actuary's work developing new models is further advanced.

Organisational experience

As Reviewing Actuary, the AGA is familiar with the operation of the NDIS and has reviewed all major projection models utilised by the scheme as recently as June this year. We are therefore also across

the expected outcomes from the range of reforms currently being undertaken and their expected impact on the sustainability of the Scheme.

We have established working relationships with the Scheme Actuary that would be applied to this review. DSS would benefit from and could be a part of this process.

Professional and other standards

Actuarial and APSC professional standards

We will maintain high standards throughout the term of the contract by ensuring that the staff responsible for the actuarial reports are qualified Fellows, public servants, and are part of Treasury.

We will ensure that staff:

- Meet the requirements expected of the Actuaries Institute. All actuarial staff meet the Code of Conduct of the Actuaries Institute, comply with any relevant professional standards. The most relevant of standard for this role being *Professional Standard 103*. Staff also maintain the minimum level of CPD required by the Actuaries Institute.
- Have regard to *ISAP 2 (Financial Analysis of Social Security Programs)* of the International Actuarial Association. This standard has not been adopted by Actuaries Institute at this time, but elements of this standard provide some guidance to actuaries working in this space.
- Meet the requirements expected of the APSC. are subject to the APSC Code of Conduct and broader standards expected of members of the public service.
- Follow the APSC Code of Conduct.
- Follow all Treasury policies. This includes being subject to annual compulsory training to maintain their knowledge of Treasury and public service policies.
- Undertake continuing professional development in line with the requirements of the Institute of Actuaries of Australia

Scheme rules

The Scheme rules and legislation set out requirements of actuaries that support the scheme. We would have regard to s180E of the National Disability Insurance Scheme Act 2013, which sets out the requirements of the Reviewing Actuary. We would also have regard to any rules relating to the role of the Scheme Actuary and the Reviewing Actuary.

Conflicts of interest

We do not believe that there is any actual, potential or perceived conflict of interest which would prevent AGA from proceeding with Service One. We are not tendering for the component of Service Two that would result in a conflict.

AGA operates wholly within the public sector. This ensures that AGA is free from any commercial conflict of interest.

Fees and value for money

You have requested fees set out on a time and materials basis. s 47E(d)

s 47E(d)

Level	Hourly Rate (GST Incl)	Daily Cap (GST Incl)
Senior Actuary / AGA	s 47E(d)	
Actuary or Senior Advisor		
Senior Actuarial Data Specialist		
Actuarial Data Specialist		
Actuarial Data Analyst		
Analyst		

Whilst fees will be charged on a time and materials basis, s 47E(d)

s 47E(d)

The proposed fees provide value for money to the Commonwealth for the following reasons:

s 47E(d)

Disability commitment

Treasury is committed to providing an accessible, inclusive work environment that enables people with disability to participate fully in all aspects of employment.

We recognise the valuable and unique contributions people with disability make to our workforce and society - disability is not a barrier to people joining or progressing their careers. This is evidenced by our inclusion networks, training, workplace adjustments, supplier diversity strategy and Koomarri team.

Additional Information

Subcontractors

s 47E(d)

Confidential information

We acknowledge the confidential information set out in the request for quotation. Information supplied in the course of this assignment will remain confidential indefinitely.

We are not providing confidential information in this response.

Protection of Electronic Information and Management of Cyber Risk

s 47E(d)

As part of the Department of Treasury, we are under the Department's Agency Security Framework. This Framework satisfies the requirements of the Protective Security Policy Framework (PSPF), which articulates the Government's expectation for protective security as a business enabler that allows Government agencies to work together in a secure environment of trust and confidence. The PSPF provides policy, guidance and better practice advice for governance, personnel, physical and information security. The Treasury applies the PSPF as it pertains to its specific risk environment. The PSPF references other related mandatory whole-of-government documents such as the Australian Signals Directorate Information Security Manual (ISM).

The PSPF requires agencies to protect all official information to maintain its confidentiality, integrity and availability by applying security controls so that:

- Only authorised individuals access information through approved processes (Information Security - Policy 8 Policy Sensitive and classified information, and Access to Information);
- Information is only used for its official purpose, retains its content integrity and is available to satisfy operational requirements (Information Security - Policy 9 Access to Information);
- Information is classified and labelled as required (Information Security - Policy 8 Sensitive and classified information); and

- Information is stored in accordance with requirement in the PSPF (Information Security – Policy 8 Sensitive and classified information, and Policy 9 Access to Information; Governance - Policy 3 Security planning and risk management, and Policy 6 Security governance for contracted goods and service providers).

All Treasury information is classified in accordance with the Australian Government Security Classification System and protected in accordance with its classification. All Treasury information, whether in hard copy or electronic form, is protected in accordance with relevant legislative and regulatory requirements.

The PSPF mandates that government information created, stored, processed or transmitted by government information and communication technology (ICT) systems is properly managed and protected throughout all phases of a system's life cycle. This includes meeting the requirements of the Australian Government ISM produced by the Australian Signals Directorate (Information Security - Policy 9 Access to information, Policy 10 Safeguarding information from cyber threats, and Policy 11 Robust ICT systems).

s 47E(d)

In summary, the AGA operates on the Treasury IT platform. In doing so, we meet all requirements of government in respect of the protection of electronic information and management of cyber risk.

Insurance

The AGA is a part of Treasury and are insured under policies issued by Comcover to the Department of the Treasury. s 47E(d)

Contact details

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Service Provider	Australian Government Actuary (AGA)
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ABN	92 802 414 793
Email address	guy.thorburn@aga.gov.au
Telephone	s 22

Mobile

s 22

Service Two

Further discussion of the work required under Service Two may be useful. The RFQ does not clearly articulate how Service Two will be completed in conjunction with the Scheme Actuary. However, ultimately the Scheme Actuary will need to incorporate the impact that the establishments of Foundational Supports will have on the NDIS into projections, and these will need to be reviewed.

Whilst DSS may have a different project structure in mind, it appears that this work might follow the following broad structure:

s 47C, s 47E(d)

Conclusion

Thank you for the opportunity to respond to this Request for Quotation. Please feel free to contact me on s 22 , or s 22 , if you wish to discuss any aspect of this proposal.

Yours sincerely

A large grey rectangular box redacting the signature of Guy Thorburn FIAA. The text 's 22' is visible on the left side of the box.

Guy Thorburn FIAA

Australian Government Actuary

The Treasury, Langton Crescent, Parkes ACT 2600
ACN/ABN: 92 802 414 793

Attachment A: About the AGA

The AGA is the only actuarial provider dedicated to providing advice to government agencies

The Australian Government Actuary (AGA) has served the Australian Government for 100 years, since 1924. We are a respected source of impartial, independent actuarial advice to over 40 departments and agencies. Over the last 5 financial years the AGA has completed around s 47E(d) projects with the Commonwealth Government. s 47E(d)

The breadth of government schemes we work on is unique. s 47E(d)

The AGA supports DSS in a number of areas; working collaboratively as part of the Priority Investment Approach, s 47E(d) and undertaking the actuarial monitoring and financial reporting of numerous schemes led by DSS.

s 47E(d)

The AGA is an independent agency of Treasury. s 47E(d)



20 February 2026

Mr Kurt Fearnley AO
Chairman
National Disability Insurance Agency
GPO Box 700
CANBERRA ACT 2601

Dear Kurt

DECEMBER 2025 INTERIM PROJECTION

I am writing as the Reviewing Actuary of the NDIS to summarise my review of the December 2025 Interim Projection (Projection), set out in materials prepared by the Scheme Actuary. This Projection updates the projection included in the June 2025 Financial Sustainability Report (2025 FSR). This Projection will be used to inform the 2026-27 Budget.

Subsection 180E(1) of the *National Disability Insurance Scheme (NDIS) Act 2013* (the Act) requires that I must, on request by the Board, review and report to the Board on actuarial reports and advice received by the Board.

Context

The Scheme is undertaking a significant program of Scheme Reforms¹, aimed at improving the sustainability of the Scheme. These include:

- Reforms that impact the profile of new entrants. This includes strengthening evidence requirements for children with developmental delay (from 1 October 2024) and an allowance for Foundational Supports, which I understand will be updated to allow for the timing² and design of the Thriving Kids program as further information becomes available;
- Operational measures and reforms aimed at reducing inflationary plan growth. This includes increasing planning consistency on reassessments, strengthening evidentiary standards for plan change requests, building staff capability to ensure a greater focus on Scheme sustainability, and the introduction from 1 July 2026 of New Framework Planning;
- Resourcing that impacts the numbers of people leaving the Scheme by processing the backlog of eligibility reassessments; and

¹ In this letter, references to Scheme Reforms also include the Sustainability Initiative that the Agency launched in May 2025.

² The projection allows for Foundational Supports to commence on 1 July 2026, with full effectiveness by 1 July 2027. Recent National Cabinet agreements have delayed the commencement of Thriving Kids to 1 October 2026, with full effectiveness by 1 January 2028.

- Reforms that impact the rate at which participants utilise their plans. This includes the list of approved supports implemented in October 2024, the roll out of Funding Periods from May 2025, and the Scheme Integrity measures (of which Crack Down on Fraud (CDoF) is a part).

The reforms are in various stages of planning, design and implementation.

The effect of New Framework Planning is assumed to be slower in this Projection than in the 2025 FSR, due to the prioritisation of cohorts moving to New Framework Planning focussing on lower cost cohorts. This highlights the uncertainty around timing of this initiative.

Further, the design of the Thriving Kids program is not reflected in the scenario assumed for Foundational Supports. Therefore, projections related to Foundational Supports should be updated when the design of the Thriving Kids program is sufficiently certain.

The Agency implemented a new computer system (PACE) in late 2023. As a result, fewer new entrants joined the Scheme in the 2024 calendar year. This was an outcome of changes to processes and operational disruption, rather than a real feature of the experience. In addition, as the Agency manages resources across a range of processes according to demand, the resources applied to process new entrants and eligibility reassessments have not been consistent over time. The combined impacts of the new computer system and constraints on processing capacity have distorted the underlying experience of the Scheme and make interpretation of trends more difficult.

Key Findings

For this Projection, the Scheme Actuary has reflected the experience that has emerged in the six months since the 2025 FSR. In the main, I am satisfied that the Scheme Actuary has responded appropriately to the latest experience. Two areas that are of concern are:

- While the Sustainability Initiative has been somewhat effective in reducing inflation on unscheduled reassessments, inflation has not reduced to the level assumed in the 2025 FSR. In this Projection, the Scheme Actuary increased inflation assumptions, however they remain lower than the lowest experience observed since the Sustainability Initiatives were introduced;
- The Scheme Actuary has increased the new entrant assumptions for the 2025-26 year to respond to the higher-than-expected experience. However, the Scheme Actuary has not increased the new entrant assumptions for future years, thus assuming demand for the Scheme will reduce from 2025-26 levels.

These two areas may result in a Projection that errs on the side of being too low rather than a central estimate. With the timing of the Budget still several months away, I recommend that the Scheme Actuary continue to monitor these key assumptions, with the possibility of updating the Projection should the experience in the next three months warrant it. This may also allow for further changes to be incorporated as, for example, the rules for New Framework Planning and the Thriving Kids program become more clearly defined.

The two areas mentioned above are in addition to several other components of the Projection that may also result in more upside rather than downside risk, including:

- Little allowance has been made in the Projection for potential behavioural change of Scheme participants, with the most likely possibility being that downward pressure on plan amounts, combined with greater flexibility to “switch” funding between different types of supports, results in higher plan utilisation than that assumed in the Projection. This could mean that the reforms do not have the effect that is assumed.
- No allowance for the Fair Work Commission’s gender-based undervaluation decisions. The Scheme Actuary has not allowed for these decisions as they are not yet finalised (hence quantum uncertain), however, it is more likely than not that they will result in higher normal inflation than is included in the Projection. We understand that the Scheme Actuary’s current expectation is that the impact will be relatively minor.

Considering these observations, taken as a whole, my view is that the Projection has greater potential for upside rather than downside risk.

As for the 2025 FSR, the Projection is heavily dependent on the assumptions adopted to reflect the expected impact of Scheme Reforms, bringing additional uncertainty to this Projection. This is because most of the reforms have either recently commenced or are yet to commence. Further, some reforms are still being designed. This means there is only limited, or no, Scheme experience to support the expected impact of the reforms.

In this Projection, the Scheme Actuary has made two key changes to the Scheme Reform assumptions, namely reducing the assumed effectiveness of the Sustainability Initiative and allowing for a slower rollout of New Framework Planning. The slower rollout of New Framework Planning highlights that the implementation timetable is under increasing pressure. If the implementation of initiatives is delayed, future moderation may not materialise to the level assumed or may not materialise in the timeframes included in the Projection.

We note this projection relies on two models, the Original Cohort Model (OCM) and the Plan Reassessment Model (PRM). We recommend continued investment in model harmonisation to improve visibility of drivers of experience and better understand any discontinuity in projection results at the point the short term PRM projection ends and reliance on the OCM commences in full.

I reinforce my comments made at the time of the 2025 FSR of the value of, and need for, very close monitoring of the impact of all initiatives.

Scope

The Projection presents a scenario of the expected costs of the Scheme over the next 10.5 years (from 1 January 2026 to 30 June 2036). The projection methodology is the same as that which was used in the 2025 FSR. For clarity, this letter provides a review of the projection models. It is not a review of the Scheme Actuary’s advice set out in his Board paper.

I have been provided with [1] Excel models used to derive the Projection, both the OCM (supplied 30 January 2026) and the PRM (supplied 28 January 2026)³; [2] information summarising the experience of the Scheme to 31 December 2025 that enables me to examine the reasonableness of some assumptions underpinning the Projection; [3] a presentation given to the SLT Scheme Projections Forum on 20 January 2026, covering participant projections and inflation for unscheduled reassessments; [4] the December 2025 Financial Sustainability Dashboard; [5] the December 2025 Scheme Monitoring; [6] the Draft December 2025 Scheme Projections Paper, presented to the Sustainability Committee meeting on 29 January 2026; [7] the December 2025 Scheme Projections included in the 5 February 2026 Board Papers, and the Board paper itself. I have discussed these materials with members of the Agency's actuarial team.

The last projection I reviewed was the projection underpinning the 2025 FSR. This review focusses on the changes made in the December 2025 Projection. Commentary in this letter on changes between projections refer to changes since the 2025 FSR projection.

In this letter, the short term refers to the four-year Budget period; the medium term refers to the balance of the ten-year projection; the long term refers to the period beyond ten years. Graphs are constructed on a financial year basis, with, for example, 2025 representing the 2024-25 financial year.

My letter reviews the main judgments taken by the Scheme Actuary in the Projection. I have not undertaken a full technical review of the models used. Spot checks have been carried out.

Projection

Comment on key population assumptions

Starting population

The starting population is the actual population at 31 December 2025, projected forward to 30 June 2026. The projected population of 783,313 on 30 June 2026 is 0.5% (around 3,600 participants) higher than the population that was expected on that date in the 2025 FSR.

While the net change in participant numbers since the 2025 FSR is small, in the six months to 31 December 2025 there were substantially more new entrants (across most cohorts) and fewer exits of those aged 9+ years, offset by substantially more exits of those aged 0 to 8 years. This results in 2.8% fewer participants aged 0 to 8 years and 1.4% more participants aged 9+ at 30 June 2026 in the Projection compared with the 2025 FSR. This is discussed in more detail below.

New entrants

For the 2025 FSR, the Scheme Actuary estimated "remediated" numbers of new entrants i.e. the number of new entrants and their expected timing if not for the new computer system and processing

³ Refer to my letter *June 2025 Financial Sustainability Report* dated 20 October 2025 for a discussion of the various models used

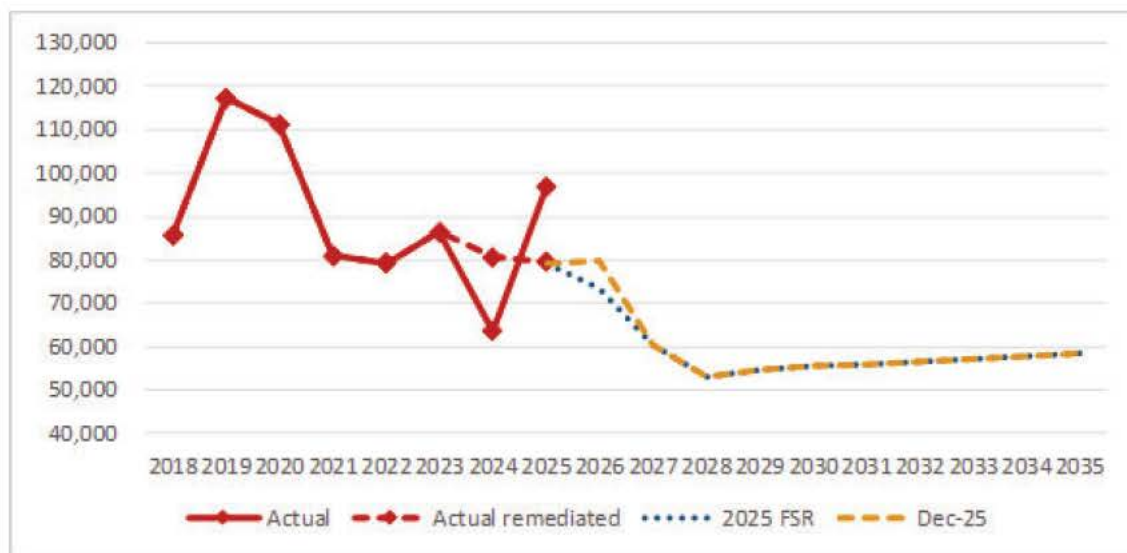
capacity constraints. New entrant assumptions were primarily set having regard to the remediated data over the period November 2023 to October 2024, by disability type. I regarded these data adjustments and assumptions as appropriate but note that the remediation process was not repeated for this Projection. I have been advised that repeating the remediation process was not expected to result in a material change in the remediated numbers of new entrants in 2023-24 or 2024-25.

The number of new entrants in the six months to December 2025 has exceeded those expected in the 2025 FSR. Attachment A shows that this higher-than-expected experience is present in almost all age groups and disability types.

Figure 1 shows the actual number of new entrants, remediated numbers for the 2023-24 and 2024-25 financial years, and projections for the 2025-26 and later years taken from both the 2025 FSR and this Projection. The higher-than-expected new entrant experience in the last six months is projected to impact the 2025-26 financial year only, with projections for the 2026-27 and later years at the same level as in the 2025 FSR. There is a risk that not adjusting the 2026-27 and later years results in new entrant projections that are more likely to be too low rather than too high.

The projection still assumes that Foundational Supports will commence on 1 July 2026, with full effectiveness by 1 July 2027. Recent National Cabinet agreements have delayed the commencement of Thriving Kids to 1 October 2026, with full effectiveness by 1 January 2028. It is unrealistic to expect this delay to be incorporated into this Projection, given that the announcement regarding the delay was only made very recently. Ideally, there will be an opportunity to further refine the projection before the Budget is finalised.

Figure 1: Actual & projected total number of new entrants.



End of Figure

The same material uncertainties in the new entrant assumptions that were identified in the 2025 FSR remain, i.e. in the assumed numbers of participants with developmental delay and autism, particularly the moderation in the number of new entrants with a PUN and the impact of the Thriving Kids program. Uncertainty has also materialised in respect of the number of adults joining the scheme, noting that the new entrant assumptions for 2026-27 and later years have not been adjusted in this Projection in response to the latest emerging experience.

Leaving the Scheme

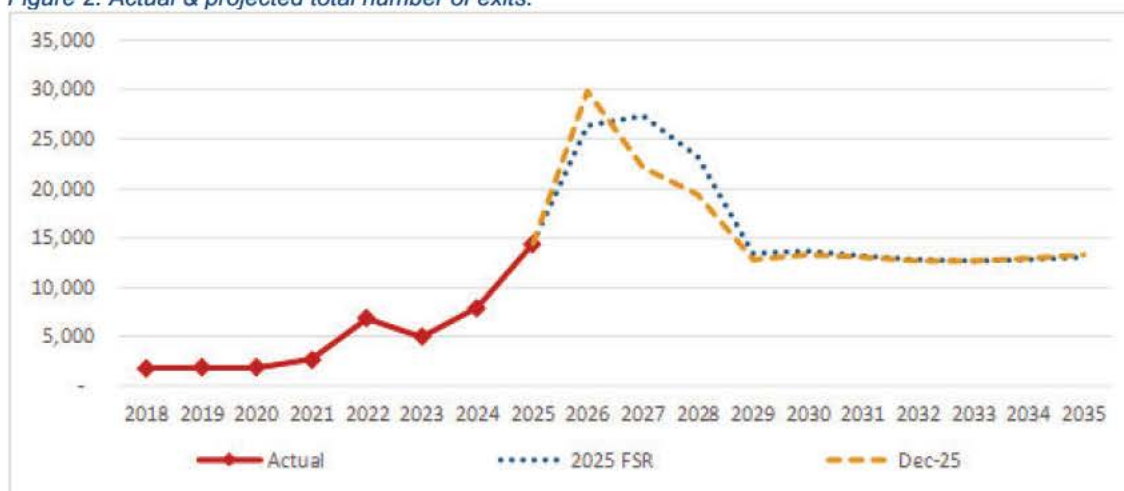
The Projection assumes a proportion of participants will leave the Scheme to live independently. Attachment B compares recent and projected experience.

Processing capacity has impacted the ability to undertake eligibility reassessments in a timely manner over the last few years. While the number of eligibility reassessments conducted has increased greatly in the last six months, there remains a substantial backlog awaiting reassessment (around 24,000 participants at 31 December 2025, down from around 43,000 at 30 June 2025, noting the “business-as-usual” level is around 8,000 awaiting reassessment). For the 2025 FSR, the Scheme Actuary modelled the number of exits arising from eligibility reassessments in line with the expected resourcing of this activity. Exit rates were assumed to increase over the short term, with the projected number of exits in 2025-26 expected to be around 80% higher than 2024-25.

Even with this large increase in the expected number of exits in 2025-26, experience in the six months to December 2025 has exceeded expected levels. The main cohort with higher-than-expected exits were those below age 8 with developmental delay. The higher exits are primarily due to increased staffing within the Eligibility Reassessment team compared with the 2025 FSR forecast levels. This has resulted in a higher than anticipated proportion of exits with development delay (89% in the six months to December 2025 compared with an assumption of 79% adopted for the June 2025 FSR).

This higher-than-expected experience is projected to continue for the next six months with staffing focussed on eligibility reviews expected to remain above that allowed for in the 2025 FSR for the remainder of the year. With higher staffing levels, the eligibility reassessment backlog is expected to clear more quickly than was assumed in the 2025 FSR, hence, compared with the 2025 FSR, there are projected to be more exits in 2025-26 followed by fewer in 2026-27 and 2027-28 as shown in Figure 2. This appears reasonable.

Figure 2: Actual & projected total number of exits.



End of Figure

Deaths

The projection incorporates assumptions regarding the proportion of participants that will die. Attachment B compares recent and projected experience. This shows that the rate of exits due to mortality is close to that which was expected in the 2025 FSR. This Projection makes no change to the mortality assumptions, noting that the assumptions were increased in the 2025 FSR. I agree with this approach.

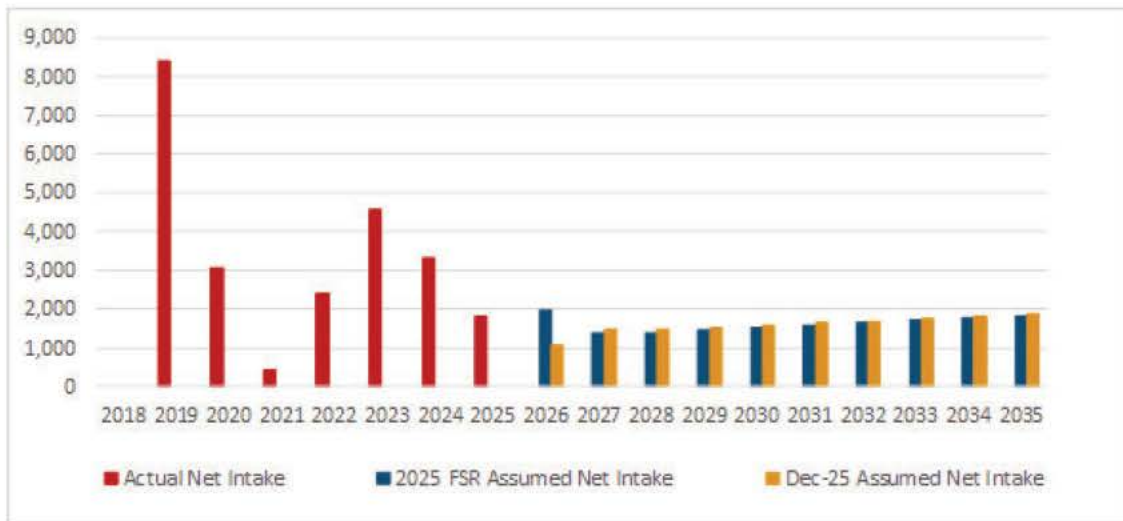
Supported Independent Living (SIL) population projection

Participants receiving SIL account for around one third of Scheme outlays, despite comprising only 5% of participants. Small changes in the SIL population can have a material impact on costs.

The number of SIL participants at 31 December 2025 (at 36,751) is similar to the number at 30 June 2025 (36,659, or only 0.3% higher). This compares with an expected increase of around 2.7% in the six months. I have been advised that this lower than anticipated experience is due to data issues associated with counting SIL participants rather than a real feature of the experience. I understand that there have been changes in how SIL supports are recorded within participant plans and the current business rules for identifying participants accessing SIL have become less reliable. As a result, not all participants accessing SIL are being identified in the data.

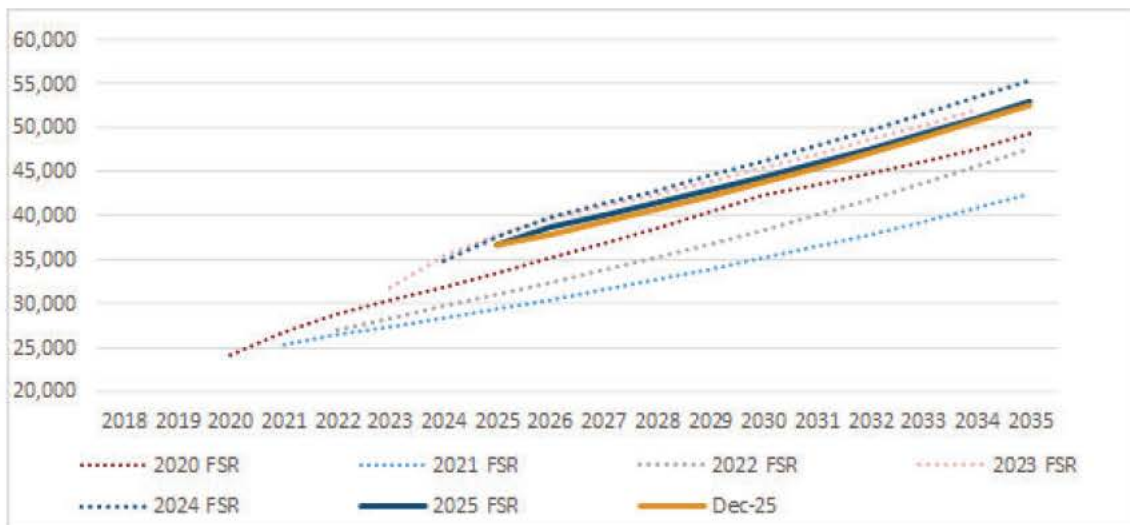
I understand that the Scheme Actuary has examined other metrics associated with those with high support needs, and these metrics indicate that the number of new SIL participants in the six months to December 2025 were likely broadly in line with allowances in the 2025 FSR. In response, the Scheme Actuary has maintained the same future numbers of net transitions into SIL as in the 2025 FSR. Further, average committed support assumptions have been adjusted to reflect the participants accessing SIL in the six months to 31 December 2025 but who are not being recorded as such.

Figure 3: Projected SIL net intake



End of Figure

Figure 4: Projected SIL population



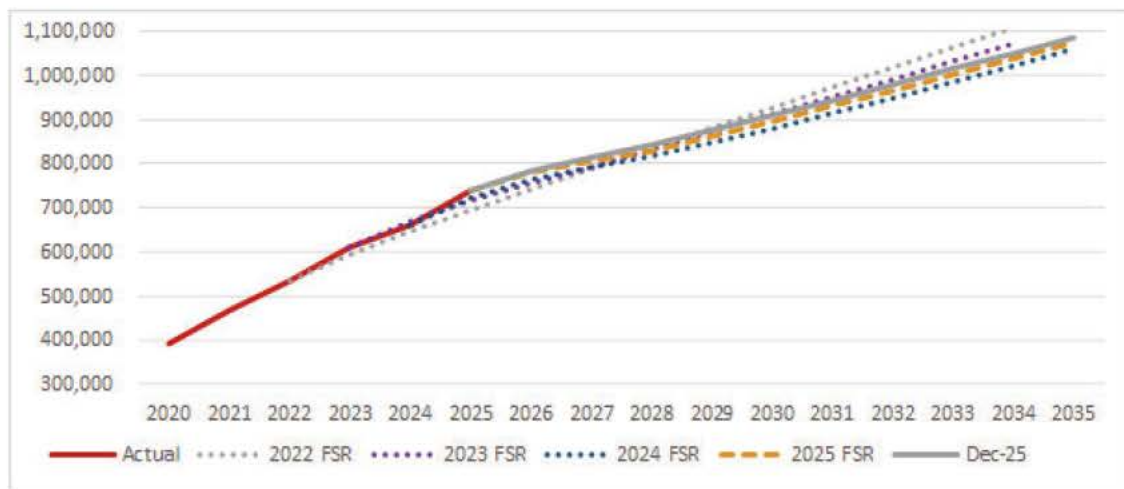
End of Figure

The main cause of exit for SIL participants is death. In the 2022-23 to 2024-25 financial years, there were 909, 1,050 and 1,329 SIL participant deaths respectively. In the first six months of 2025-26, there were 687 SIL participant deaths, close to half of the expected number of 1,313 deaths of SIL participants in 2025-26 assumed in the 2025 FSR. Given the experience in the six months was close to expected (and considering the expected volatility from year to year), it is reasonable to maintain the same mortality assumptions as in the 2025 FSR. Closely monitoring the identification of this cohort, along with their mortality experience, is prudent.

Comment on the overall population projection

Figure 5 shows the projected number of participants in successive FSR projections and this Projection. The higher-than-expected number of new entrants in the last six months has largely been offset by the higher-than-expected number of exits of those aged 0 to 8 years, resulting in the projected number of participants in this Projection being largely unchanged from the 2025 FSR. This Projection includes 0.5% higher numbers of participants at 30 June 2026 compared with the 2025 FSR. Participant numbers are projected to be 1.5% higher on 30 June 2030.

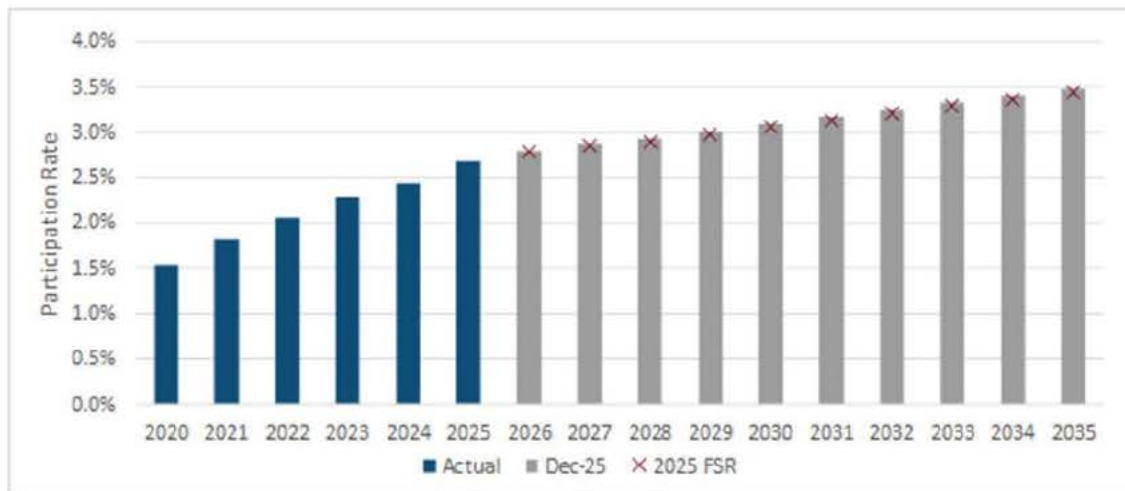
Figure 5: Actual & projected number of participants over time



End of Figure

Figure 6 shows the recent and projected participation rates. The participation rates are projected to grow from the current level of around 2.7% of the population to almost 3.5% of the population by 30 June 2035. This growth in prevalence is almost entirely due to projected increasing prevalence of those with a primary disability of autism diagnosis, and to a lesser extent an intellectual disability, offset slightly by projected reduced prevalence of those with developmental delay. The medium to longer term participation rates remain an area of some uncertainty which should continue to be monitored and analysed closely.

Figure 6: Projected participation rate



Note: Participation rate = NDIS participants expressed as a percentage of the Australian population
End of Figure

Key areas of uncertainty in the population projection are similar to those in the 2025 FSR:

- Assumptions regarding the rate at which new entrants with developmental delay and autism will moderate, including, but not limited to, the timing and impact of diversions from the Scheme to Foundational Supports/Thriving Kids program.
- Assumptions regarding participants leaving the Scheme, which are dependent on resourcing to undertake eligibility reassessments; and
- Assuming the net increase in SIL participants will moderate over the next two years.

Further uncertainty arising at this review is the possibility that new entrant numbers are understated for the 2026-27 and later years, given that the Scheme Actuary has only reflected the recent higher-than-expected new entrant experience at all ages in the 2025-26 projection year. There is also additional uncertainty surrounding the projected number of SIL participants, given the data issues around identification of these participants in the last six months.

Comment on key participant spend assumptions

Committed supports

The starting committed supports used in this Projection are, in aggregate, the 2024-25 projected ultimate committed supports from the 2025 FSR, increased by 0.6% to reflect that accrual payments in the six months to 31 December 2026 were 0.6% higher than expected (i.e. it was assumed that utilisation in the six months was as expected and that all of the higher-than-expected payments were due to higher committed supports). The Scheme Actuary assumed that all of the increase in committed supports was in non-SIL participants aged over 25, to allow for the unidentified SIL participants mentioned earlier. This approach was adopted as a pragmatic way of adjusting starting

committed supports in the absence of a robust actual-versus-expected methodology for the new CS x U method (introduced for the 2025 FSR). I encourage the Scheme Actuary to develop a more robust approach for adjusting starting committed supports as this pragmatic approach does not enable transparency around which cohorts may be driving the increases in committed supports.

The assumed “shape” of committed supports by participant cohort is the same as adopted in the 2025 FSR (i.e. the actual committed supports in April 2025), with the adjustment to non-SIL participants aged over 25 mentioned above. Committed supports are then increased in each future year and spent at the assumed rate of utilisation. These two factors are discussed below, with additional discussion in Attachment C.

Future Normal Inflation plus Additional Growth in Committed Supports

Future committed supports are increased to allow for normal plan inflation, modelled transitions (including ageing), additional growth in plans beyond these factors, and the impact of Scheme Reforms. Modelled transitions and ageing are examined as part of the population projection and are not considered further in this section. Normal inflation plus additional growth is termed Inflationary Growth in Committed Supports in this letter. As Inflationary Growth in Committed Supports compound year-on-year, the projection results are increasingly sensitive to these assumptions with each projection year. Assumptions quoted in this letter are averages and are provided to assist the reader understand the projection trends.

As noted above, Inflationary Growth in Committed Supports is modelled in two parts:

1. Normal plan inflation, which reflects increases in prices and wages. The Projection includes normal inflation assumptions that vary by payment type; the overall Scheme-wide assumptions adopted are shown in Attachment C. These have only changed marginally (increased by 0.1%) in the first two projection years since the 2025 FSR, in response to the latest Government forecasts.

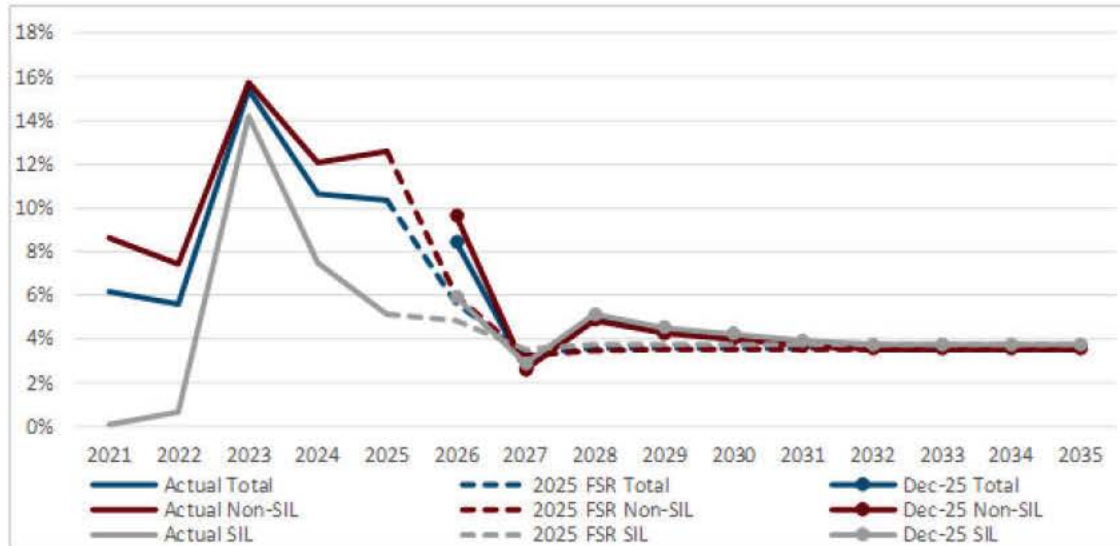
One factor that may impact future rates of normal inflation is the Fair Work Commission’s proposed a new minimum wages arrangement to address gender-based undervaluation across five awards, including the SCHADS Award, with the potential to impact on the NDIS. While the Scheme Actuary has not yet factored these decisions into the Projection (as they are not yet final), they provide another source of potential upside risk to the Projection.

2. Additional Scheme-specific plan growth. Apart from differentiating by SIL status, the Projection assumes additional plan growth that is uniform across all payment types, age bands and disability types. Different rates of plan growth are assumed for unscheduled reassessments, scheduled reassessments and variations/rollovers, which are an input to determining the assumed rates of additional plan growth.

Figure 7 shows historical and assumed future Inflationary Growth in Committed Supports for the Scheme as a whole, and for SIL and non-SIL participants, while Table 1 shows the Scheme-wide

assumptions adopted for future years. Inflationary Growth in Committed Supports is assumed to be higher in this Projection than in the 2025 FSR.

Figure 7: Inflationary Growth in Committed Supports (normal inflation and additional plan growth)



End of Figure

Actual Inflationary Growth in Committed Supports has exceeded 10% for each of the last three years, with Inflationary Growth in Committed Supports for SIL participants consistently lower than for non-SIL participants.

Table 1: Comparison of projected Inflationary Growth in Committed Supports assumptions (normal inflation and additional plan growth)

	2025-26	2026-27	2027-28	2028-29	2029-30
2025 FSR	5.6%	3.3%	3.6%	3.6%	3.6%
Dec 2025	8.4%	2.7%	4.9%	4.3%	4.1%
Difference	2.8%	-0.7%	1.3%	0.8%	0.5%

End of Table

For the 2025-26 year, in the 2025 FSR, Inflationary Growth in Committed Supports was assumed to moderate to 5.6%, attributable to the Agency's Sustainability Initiative (see Attachment C). In this Projection, Inflationary Growth in Committed Supports is now assumed to be significantly higher, at 8.4%, as the Sustainability Initiative has not achieved the reduction in additional plan growth that was assumed in the 2025 FSR. The 2025 FSR assumed that inflationary plan growth on unscheduled reassessments would be 15%; in the six months to 31 December 2025, actual inflationary plan growth was 20%, with the lowest month of October 2025 showing inflationary plan growth of 17%. The Agency also carried out 4% more unscheduled reassessments than expected. In response, the Scheme Actuary has increased the assumed number of unscheduled reassessments and the additional plan growth assumptions in this Projection. However, the selected assumptions for inflationary plan growth on unscheduled reassessments (which inform additional growth assumptions)

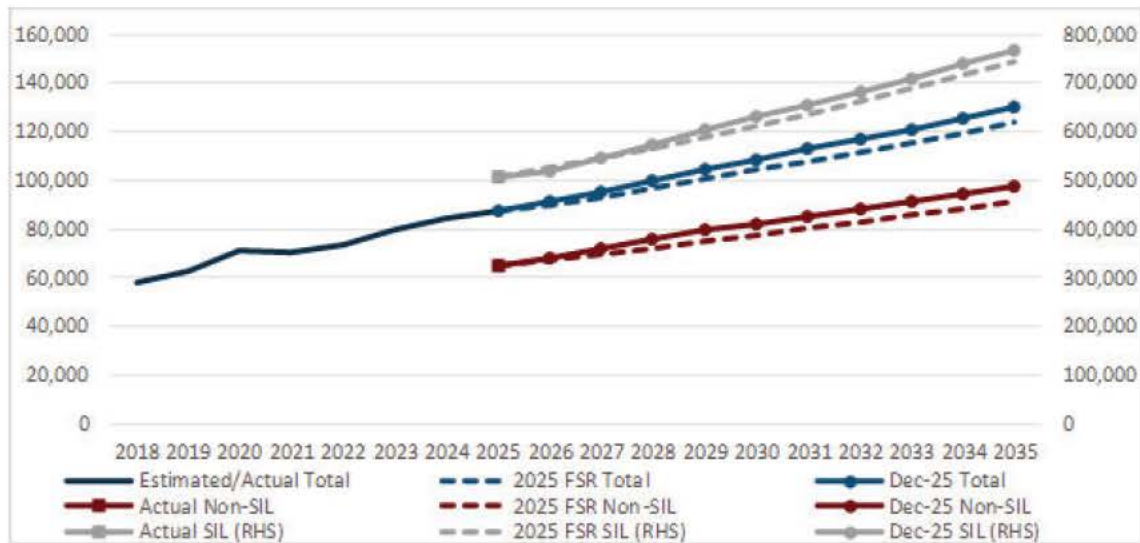
start at 17% (the lowest inflationary plan growth achieved in the last six months) and are assumed to further reduce over the next 18 months. There is a risk that the assumed effectiveness of the Sustainability Initiative remains optimistic. I recommend that further investigations be carried out to understand the sources of inflationary plan growth on unscheduled reassessments (e.g. by support category, by plan size, for those subject to Funding Plans versus not), to try to understand how realistic future inflationary plan growth assumptions may be. We have been advised that investigations have commenced.

For the 2026-27 year, in the 2025 FSR, Inflationary Growth in Committed Supports was assumed to further moderate to 3.3%, attributable in part to New Framework Planning, expected to commence on 1 July 2026. At this Projection, Inflationary Growth in Committed Supports in 2026-27 is assumed to be lower (at 2.7%). This is primarily due to the assumed reduced effectiveness of the Sustainability Initiative; in this Projection, both the 2025-26 and 2026-27 years are expected to have higher committed supports than in the 2025 FSR, however the increase for 2025-26 year is greater than the increase for 2026-27, resulting in a lower rate of growth between the two years. As per the 2025 FSR, I note that Inflationary Growth in Committed Supports for 2026-27 is assumed to be lower than normal inflation (3.5% per annum), implying negative additional plan growth for this year.

For the 2027-28 and later years, in the 2025 FSR, Inflationary Growth in Committed Supports was assumed to be 3.6% per annum, only marginally higher than normal inflation of 3.5%, with the low level of additional plan growth in these years also attributable to New Framework Planning. At this Projection, Inflationary Growth in Committed Supports is assumed to be higher than in the 2025 FSR in 2027-28 to 2030-31. This is due to a combination of the assumed reduced effectiveness of the Sustainability Initiative, coupled with the slower rollout of New Framework Planning; with the slower rollout, a larger proportion of the Scheme is impacted by the (assumed less effective) Sustainability Initiative relative to New Framework Planning.

There is no experience upon which to base the assumptions regarding the impact of New Framework Planning, that is still subject to co-design, and the Sustainability Initiative is immature with some elements are still being developed. The reasonableness of this Projection depends on these reforms being implemented in the time frame, and with the effect, that is assumed. I note that monitoring of some Scheme Reforms has commenced, and the Board should continue to seek enhancement of the monitoring of the key assumptions underpinning each reform as further measures are implemented.

The projected average committed supports for the Scheme as a whole, for SIL and for non-SIL participants, are shown in Figure 8, for both the 2025 FSR and the Projection. SIL average committed supports are shown against the right axis. Projected average committed supports have increased since the 2025 FSR.

Figure 8: Average Committed Supports⁴

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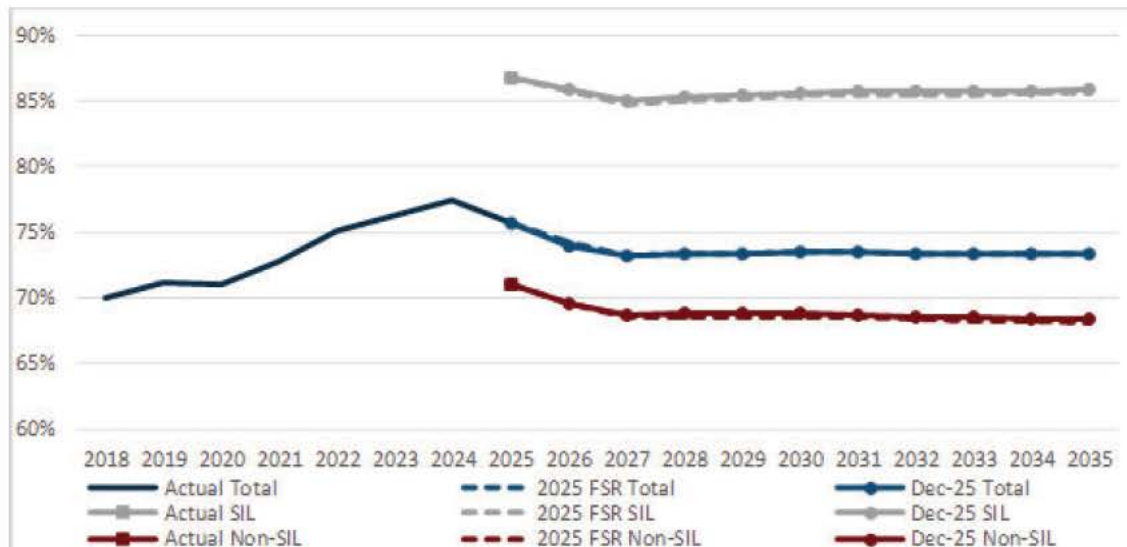
Utilisation

Utilisation is defined as payments (on an accrual basis) divided by committed supports. The overall starting utilisation used in the Projection is the same as adopted for the 2025 FSR, adjusted for actual experience in the six months to December 2025. I have been advised that utilisation was 0.5% lower in the six months to December 2025 and in line with expectations. The “shape” by participant cohort is the same as adopted for the 2025 FSR.

Actual and projected utilisation for the Scheme as a whole, and for SIL and non-SIL participants, is shown in Figure 9. The projected future utilisation rates are largely unchanged from those adopted for the 2025 FSR.

⁴ Committed supports for 2018 to 2024 are estimated using actual average spend and actual utilisation, noting that these actual figures are taken from different sources; 2025 is an actual figure

Figure 9: Utilisation



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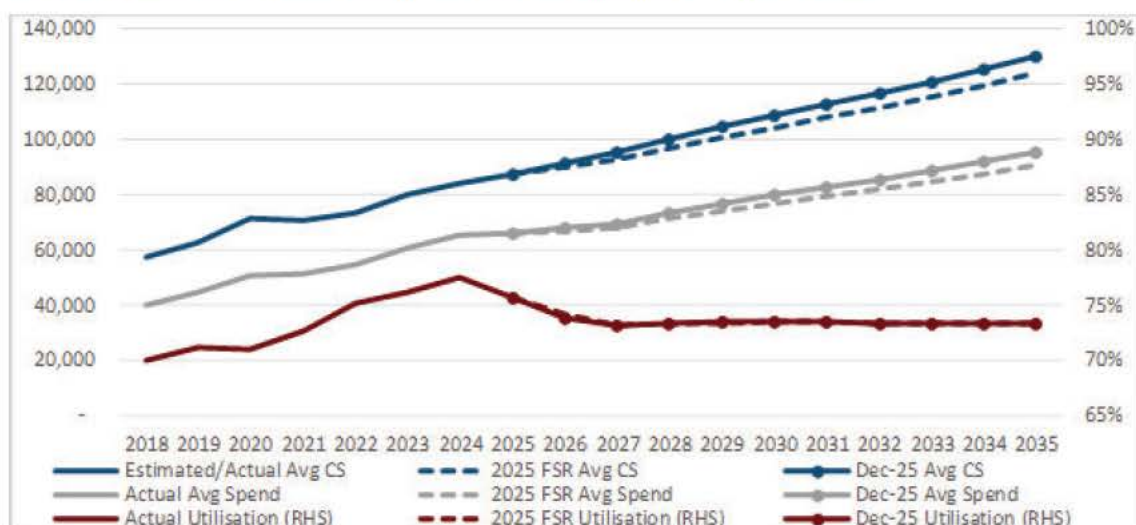
Future utilisation rates are assumed to moderate because of integrity measures that reduce fraudulent and unauthorised payments. The introduction of funding periods is assumed to further reduce utilisation, by reducing the capacity of participants to over-spend. These moderating impacts are assumed to be partially offset in the medium term (in a small manner) by behavioural factors arising from lower plan inflation and flexible budgets (i.e. participants can more easily switch budgets from one support to another if one budget is exhausted).

As for the assumptions regarding changes in inflationary plan growth, the reasonableness of this projection will depend on these reforms being implemented in the time frame, and with the effect that is assumed. They will also depend on behavioural change remaining negligible. Specifically, utilisation will need to remain flat whilst reforms increase the flexibility in how a plan is spent. Enhancing the monitoring of progress towards key assumptions is also recommended for these initiatives and reforms.

Summary of participant spend assumptions

Figure 10 summarises the trend in committed supports and utilisation (both historical and projected). The change since the 2025 FSR is also shown.

Figure 10: Actual and projected committed supports, utilisation and average spend⁵



End of Figure

Growth in average committed supports is projected to reduce from 10.5% in 2024-25 to 8.4% in 2025-26, with additional growth in plans reducing from 8.3% to 5.2% over the same timeframe. The main mechanism for achieving this significant reduction in additional growth is through the Sustainability Initiative, particularly a slower inflationary growth in committed supports for unscheduled reassessments.

The average inflationary growth in committed supports is expected to be 3.6% per annum over the medium term (0.1% higher than normal inflation). This is close to nil additional plan growth. I understand that the Scheme Actuary is relying on the ongoing effectiveness of New Framework Planning to achieve this low level of additional growth. There is a risk that will not be achievable in the medium term.

Average utilisation steadily increased from 2017-18 until 2023-24 and then fell a little in 2024-25. This projection expects that utilisation will reduce by 1.7% and 0.6% over the next two years, from 75.6% in 2024-25 to 73.2% in 2026-27. Average utilisation is then expected to remain flat over the medium term. There is a risk that this does not happen as it contrasts with the experience of the Scheme over the longer term.

Operating Expenses

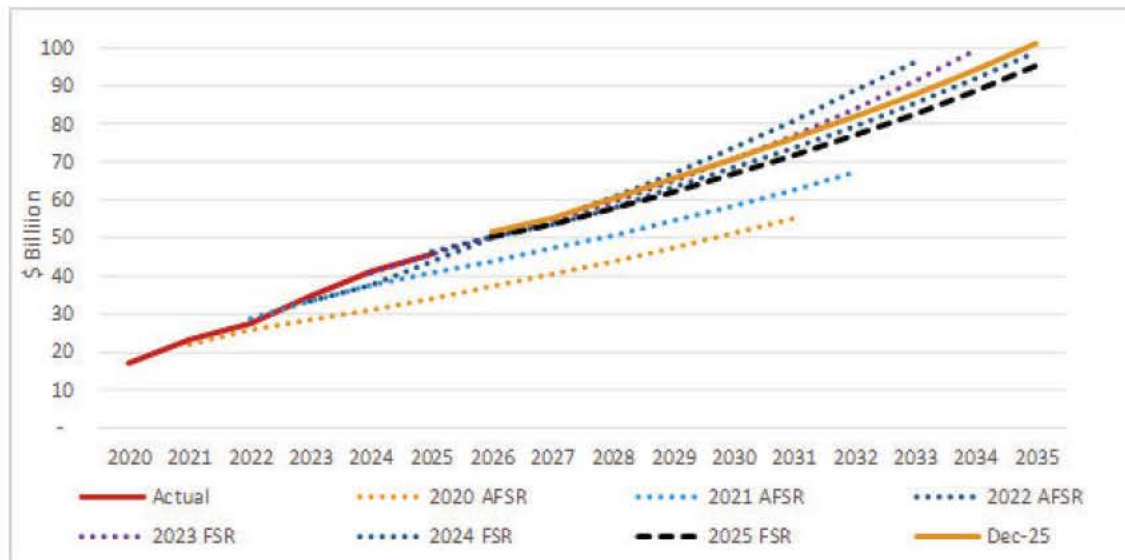
This component has not been updated for this Projection and has therefore not been considered further for this interim review.

⁵ Committed supports for 2018 to 2024 are estimated using actual average spend and actual utilisation, noting that these actual figures are taken from different sources; 2025 is an actual figure

Overall results

Figure 11 shows that the resulting Projection (solid gold line) is higher than the 2025 FSR projection. At 30 June 2026, the Projection is 1.6% higher than the 2025 FSR and by 30 June 2030, the Projection is 6.0% higher.

Figure 11: Actual & projected total participant spend and agency expenses



End of Figure

Figure 11 also shows how projections have varied over time, providing some illustration of the uncertainty in projections from year to year. "Pre-reform" projections increased materially up to the 2023 FSR. Since that time, the projection outcomes have been more stable. Noting that the underlying projections (without reforms) are likely to have been more volatile as the assumed scope and impact of the reforms has offset increases in experience since that time. For example, the reductions between 2023 and 2024, and between 2024 and 2025, were driven by the increasing scope and impact of reforms.

Sustainability

Assuming all projection assumptions occur in line with the projection (which is unlikely) the Scheme is projected to grow on an accrual basis at 11.2% in FY25-26, 9.3% in FY27-28 and 8.2% in FY29-30. This is above the 5% to 6% per annum growth rates that have been recently announced as being more likely to be sustainable. In my previous advice I have stated that growth in line with GDP is more likely to be sustainable. The 5% to 6% range is closer to expected GDP growth rates in the longer term. For this growth rate to occur, further reforms will be required.

In the short term, growth in expenditure on most disability types is expected to persist above 6%. In the medium term, growth rates above 6% are projected to persist for participants with Autism, spinal cord injury, stroke and other disabilities. Participants with Autism have the highest projected growth in expenditure in the medium term. The number of participants aged 19-34 is also projected to grow at

rates above 6%. Those aged 65+ are also expected to grow at a higher rate as the scheme population ages.

This projection does not include the costs of the Foundational Supports/Thriving Kids program that will be provided in future. It is envisaged that these costs are separate to the NDIS. Whilst this is appropriate for this projection, broader financial sustainability pressures may arise from the costs of all supports that are provided. Further, the use of linked data sets to better inform future participation in the Scheme (transitions from the Foundational Supports/Thriving Kids program) are likely to be required.

Uncertainty

Future experience will differ from, and may exceed, that which has been projected. Uncertainty in the projection is, in part, demonstrated by variations in successive projections in recent years.

Key areas of risk in this projection are the same as those in the 2025 FSR. These include assumptions of low rates of additional plan growth (resulting from sustainability initiatives and new framework planning), the design of Foundational Supports/Thriving Kids and its impact on new entrants, whether utilisation will remain flat throughout the medium term, and the resourcing of eligibility reassessments that result in the assumed increased rates of exit. As the impacts of many of the Scheme Reforms are yet to emerge in the data, and in line with recommendations in the 2024 FSR, a report to monitor the implementation of all these initiatives has commenced.

I believe there is additional uncertainty in the projection of participants aged 65 and over. This group is modelled as a single cohort. This cohort has exhibited one of the highest rates of growth in average spend per participant (10.8% increase in the 2024-25 year, on a cash basis, with rates in the prior three years all higher). The growth in the average spend is projected to reduce to below 4% in each of the projection years. It is not clear that modelling this group as a single cohort enables the Scheme Actuary to capture all the effects of ageing in the Scheme.

I would be pleased to answer any questions you may have on this advice.

Yours sincerely

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Guy Thorburn
Australian Government Actuary

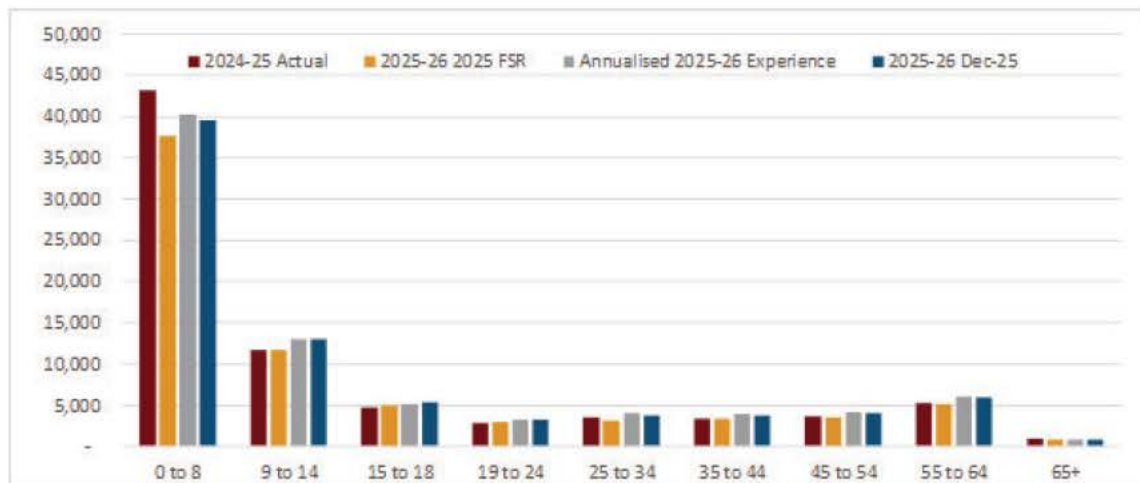
Attachment A: Distribution of new entrants in the interim projection

Distribution by age

Actual and expected experience

Figure 12 compares the 2025-26 forecast from the 2025 FSR with the annualised experience for the first six months of 2025-26, and the Scheme Actuary's full year forecast for 2025-26 in this Projection. It also shows the (remediated) actual experience from the 2024-25 year.

Figure 12: 2024-25 Actual and 2025-26 expected new entrants by age



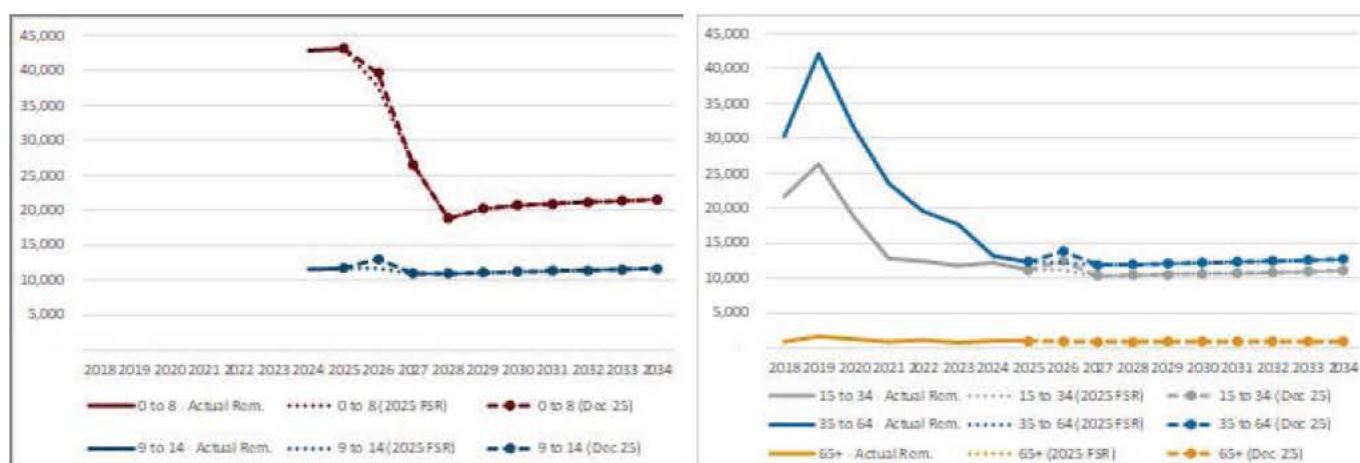
End of Figure

The (grey) bar showing annualised experience for the last six months is higher than the (gold) 2025 FSR projection for all age bands. In the full year projection for 2025-26 in this Projection (dark blue), the Scheme Actuary makes allowance for this to moderate slightly, with the total number of new entrants for the year projected to be 1% lower than the annualised six months' experience but 9% higher than the 2025 FSR projection. This appears reasonable.

Figure 13 sets out the trends in (remediated) actual⁶ and projected numbers of new entrants by age, for this Projection and as included in the 2025 FSR. This shows that while the projected number of new entrants for the 2025-26 year is higher than in the 2025 FSR, the numbers are the same for the 2026-27 and later years for all age groups.

⁶ We do not have actual figures for the 0 to 8 and 9 to 14 years age groups prior to 2023-24

Figure 13: Projected new entrants by age



End of Figure

New entrants, age 0-8 years

In the 2025 FSR, new entrants aged 0-8 years were expected to reduce considerably over 2025-26 to 2027-28 and then increase gradually with population growth. In the December 2025 projection, new entrant numbers are assumed to be 5% higher in 2025-26 than in the 2025 FSR, before returning to the same level as the 2025 FSR in later years.

At the 2025 FSR, the sharp decline over 2025-26 to 2027-28 was attributed to an expected reduced incidence of children on the Scheme because of declining numbers with a previously unmet need, improved quality of evidence for those with developmental delay, and diversions from the Scheme with the establishment of Foundation Supports. As the new entrant projections are unchanged for 2026-27 and later years, this implies that these reductions are expected to have a greater impact than assumed at the 2025 FSR.

Uncertainty in the underlying rate of child new entrants is currently elevated due to the uncertain impact and timing of the Reforms that effect children joining the Scheme.

New entrants, age 9-14, 15-34 and 35-64

The YTD numbers of new entrants aged 9-14, 15-34 and 35-64 are substantially higher than that which was expected in the 2025 FSR. The projected numbers of new entrants for these age groups in 2025-26 are expected to be 11%, 11% and 14% higher than in the 2025 FSR respectively, reflecting the most recent six months of experience. As for the 0-8 year age group, for 2026-27 and later years, the projected number of new entrants are the same as in the 2025 FSR projection which may be somewhat optimistic.

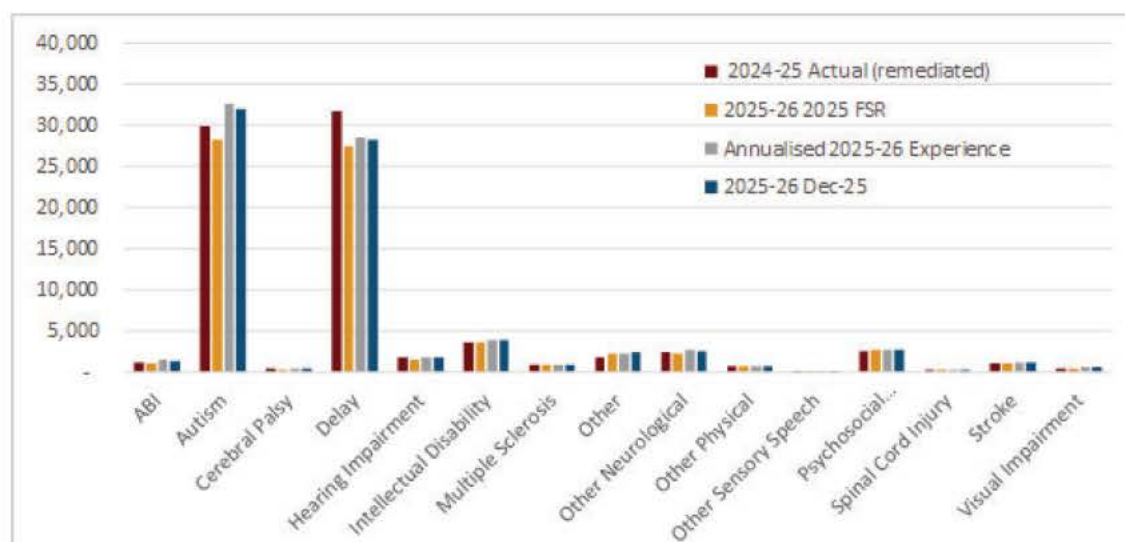
New entrants, age 65+

The number of new entrants aged 65+ is small and the current Projection is similar to the 2025 FSR projection.

Distribution by disability

Figure 14 shows that the higher-than-expected new entrants in 2025-26 are, by volume, mainly due to participants with autism, and to a lesser extent, development delay. However, almost every disability type had higher than expected experience (psychosocial disability, multiple sclerosis and other sensory speech being the exceptions).

Figure 14: Actual and expected new entrants by disability

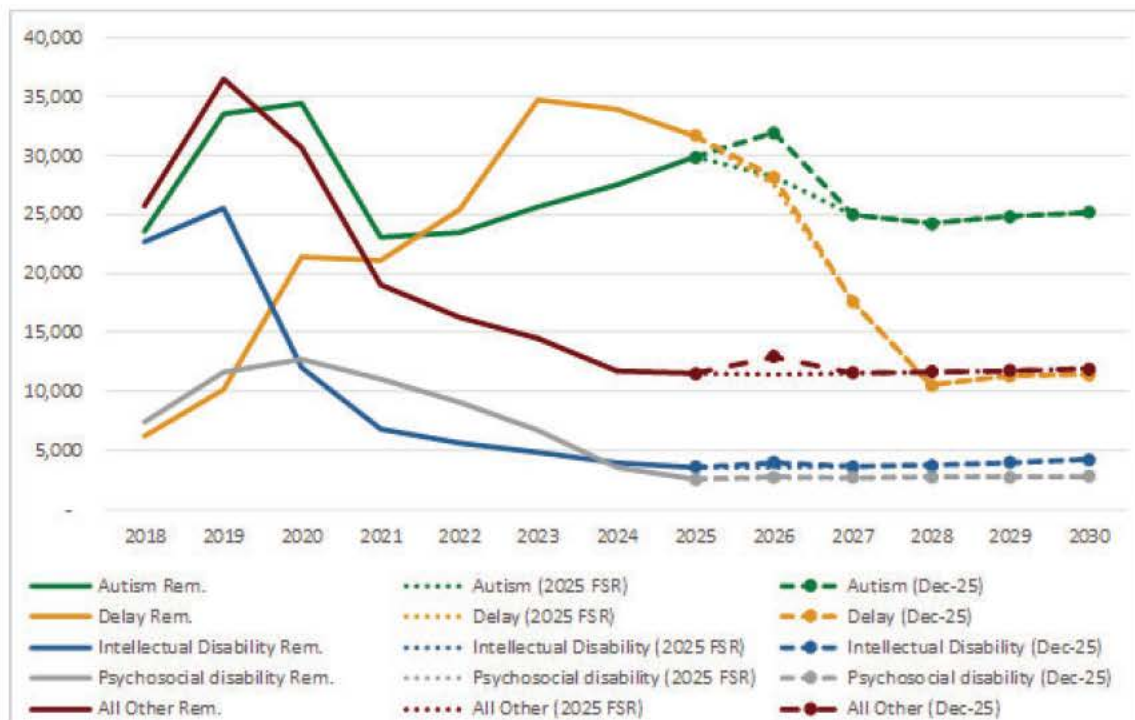


End of Figure

Since 2022, the number of new entrants with autism has been less than the number with development delay. In the six months to December 2025, this has reversed and the number of new entrants with autism was 14% higher than the number with developmental delay. This is the result of both increasing numbers of new entrants with autism and declining numbers with developmental delay. Some behavioural change may be contributing to this substitution as improved quality of evidence are sought from children approaching the scheme.

Figure 15 sets out trends in actual (remediated) and projected numbers of new entrants by disability, for this Projection and as included in the 2025 FSR.

Figure 15: Actual and projected number of new entrants for major disability types



End of Figure

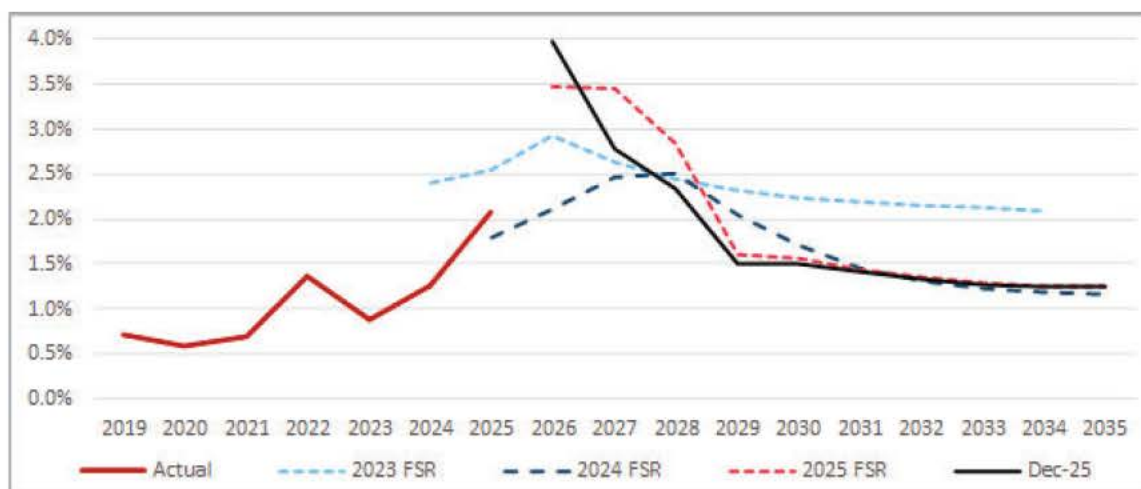
Figure 14 showed that more new participants have presented to the Scheme than were expected in the 2025 FSR for most disability groups. Figure 15 shows the projected numbers of new entrants in 2025-26 have been increased in all categories shown except for psychosocial disability. For 2026-27 and later projection years, the number of new entrants is the same as in the 2025 FSR, which again looks optimistic, particularly for autism and the "all other" category.

Attachment B: Mode of departure in the interim projection

Leaving the Scheme

Participants can leave the Scheme for reasons other than mortality. Figure 16 compares recent rates of leaving the Scheme with recent projections. For this Projection, the rates of leaving the Scheme in 2025-26 are higher than adopted for the 2025 FSR but are lower for 2026-27 and 2027-28. This mainly reflects the additional staffing of the Eligibility Reassessment team compared with allowances in the 2025 FSR, and an expectation that the eligibility reassessment backlog will be cleared more quickly than was assumed in the 2025 FSR.

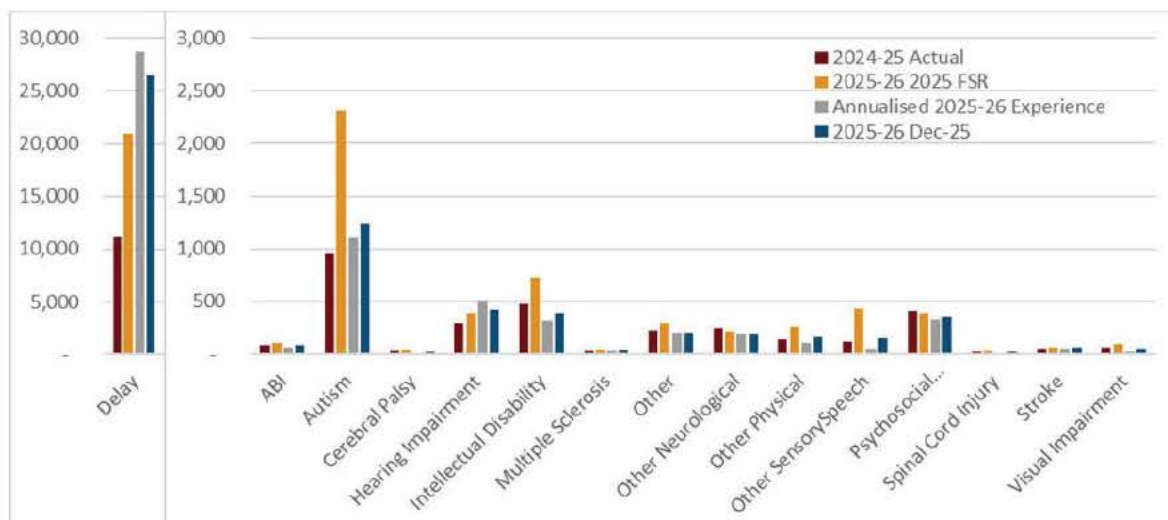
Figure 16: Actual and projected crude rate of leaving (for reasons other than death)



End of Figure

Figure 17 shows that most participants exiting the Scheme are those with development delay, noting that the developmental delay figures are shown on a different y-axis scale from the other disability types.

Figure 17: Actual and expected number of exits



End of Figure

For developmental delay, exits in the six months have been well above expected. Exits in the second half of 2025-26 are expected to moderate slightly for this disability type compared with the first half of the year (the full year 2025-26 projection is lower than the annualised six months' experience).

Exits for those with autism are the second-most numerous. Exits in the six months were only around half of the level assumed in the 2025 FSR. The Scheme Actuary has responded by reducing the assumed number of exits in this Projection.

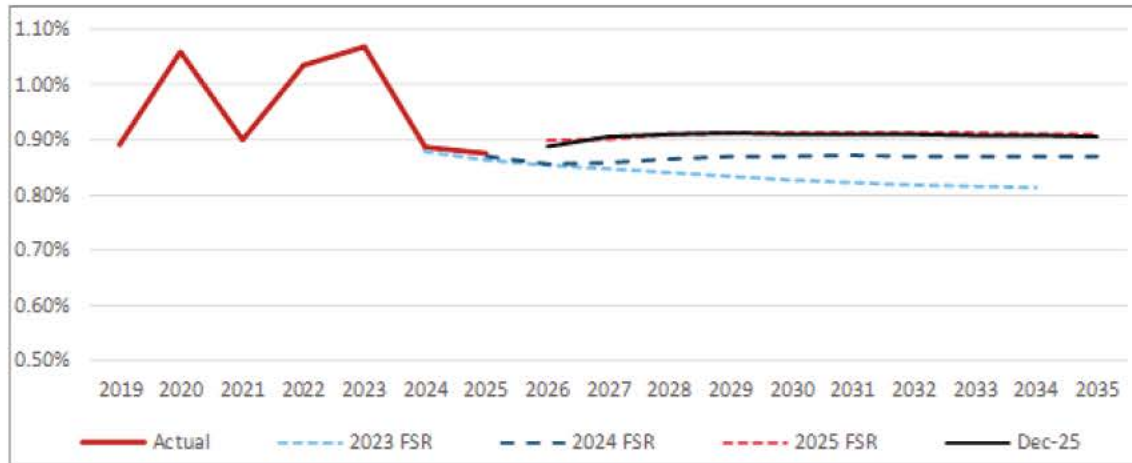
For all other disability types with the exception of hearing impairment, exits in the six months were substantially fewer than assumed in the 2025 FSR. Again, the Scheme Actuary has responded by reducing the assumed number of exits in this Projection.

Mortality

Participants may also cease to participate in the Scheme due to their death. The actual number of deaths to 31 December 2025 suggests there may be around 6,500 deaths in this financial year. This is close to the expected number in the 2025 FSR (5% lower).

Figure 18 compares the recent crude mortality rate for the Scheme to recent projections. Historical experience will exhibit significant volatility in a population of this size. I also note that the COVID-19 pandemic resulted in higher than usual levels of mortality in Australia in 2021-22 and 2022-23 in particular.

Figure 18: Actual and projected crude mortality exit rate

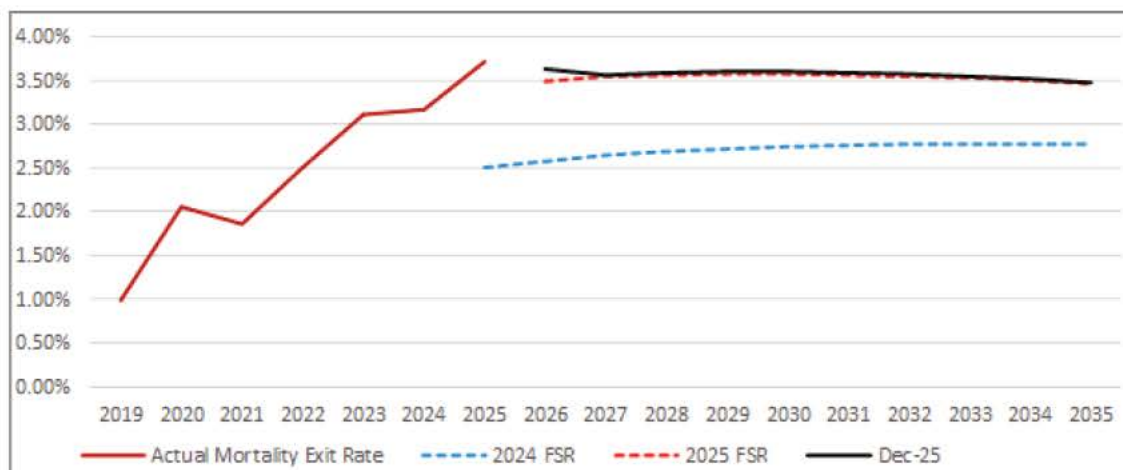


End of Figure

Mortality assumptions are set by age, disability type, level of function and SIL status. The mortality assumptions themselves have not changed from those adopted in the 2025 FSR, and the resultant average projected mortality rate is very similar, suggesting limited change in adopted mix of future participants.

The aggregate result illustrated in Figure 18 masks variations within individual cohorts. Whilst the total number of deaths in the Scheme is relatively small, the distribution of deaths is important. For example, very few participants receiving SIL leave for reasons other than mortality. As a result, the mortality of participants receiving SIL has a material impact on projected SIL costs.

Figure 19: Actual and projected crude mortality rate for SIL participants



End of Figure

Figure 19 shows that the mortality rate for SIL participants in 2025-26 in this Projection is expected to be close to that assumed in the 2025 FSR. Actual experience over the last 6 months has been close to that which was projected.

I note that a review of mortality, particularly for SIL will likely be required as the SIL indicator becomes less reliable, suggesting that the cohort identified as SIL may change over time, and hence the mortality experience of that cohort may also change.

Mortality assumptions have not been altered for this projection. I concur that there is insufficient new evidence to justify a review at this time.

Attachment C: Participant spend

The process for determining the participant spend commences with the current committed supports. Future committed supports are increased to allow for normal economic inflation, modelled transitions and ageing in the Scheme, additional growth in plans beyond these factors (such as inflation from unscheduled reassessments and variations) and the impact of Scheme Reforms. Committed supports are then multiplied by utilisation rates to determine the participant spend on an accrual basis.

Modelled transitions and ageing in the Scheme are examined as part of the population projection and are not considered further in this attachment. Normal inflation plus additional growth is termed Inflationary Growth in Committed Supports. Projected utilisation factors are based on recent utilisation, adjusted for Scheme Reforms. These assumptions are discussed below.

Inflationary Growth in Committed Supports

Normal inflation

Normal inflation is that which is occurring in the broader economy and impacts prices and wages. Normal inflation is one factor that informs price movements in the Scheme. In turn, price movements inform plan increases. Normal inflation experienced by the Scheme is therefore an important factor that underpins assumptions about total plan growth. Reflecting this importance, inflationary growth is modelled by way of an assumption relating to normal inflation, plus an allowance for additional plan growth. This section relates to the component referred to as normal inflation.

The projection assumes that normal inflation reflects the Scheme's price increases and then follows broader economic forecasts. The Projection models the impact of inflation on each payment type. The overall normal inflation assumptions are set out in Table 2, comparing the current assumptions to those used in the 2025 FSR. This shows that expected normal inflation has increased marginally in the first two projection years. I understand this is in response to the latest Government forecasts and reflects the inflation figures included in the most recent MYEFO.

Table 2: Comparison of normal inflation assumptions

	2025-26	2026-27	2027-28	2028-29	2029-30
2025 FSR	3.0%	3.7%	3.5%	3.5%	3.5%
Dec 2025	3.1%	3.7%	3.5%	3.5%	3.5%
Difference	0.1%	0.1%	0.0%	0.0%	0.0%

End of Table

The Scheme Actuary has explained the rationale for the normal inflation assumptions. I regard them as reasonable.

The Fair Work Commission (FWC) has proposed a new minimum wages arrangement to address gender-based undervaluation across five Awards, including for Home Care Employees within the SCHADS Award (who provide personal care and support services at home, noting this is not the part of the award that covers the majority of Disability Support Workers) and Therapists within the HPSS Award. While the FWC's decision on the HPSS Award is final, their decision on the SCHADS Award

remains provisional. These decisions are more likely than not to increase the wages for these workers beyond what is assumed in the normal inflation component, with the SCHADS award having a greater potential impact on the NDIS. I understand the Agency will consider the impact of these decisions on relevant supports once the final decision is made by the FWC.

Additional Growth

Inflationary Growth in Committed Supports includes both normal inflation and additional growth in plan sizes. Table 3 shows the adopted future Inflationary Growth in Committed Supports assumptions, decomposed into normal inflation (as per Table 2) and the implied additional growth in plans. The implied additional growth included in the 2025 FSR projections is also shown. Note the 2025-26 figures shown for this Projection are annualised assumptions applicable to the second half of the year.

Table 3: Adopted Future Inflationary Growth in Committed Support assumptions

	2025-26	2026-27	2027-28	2028-29	2029-30
Inflationary Growth in Committed Supports	8.4%	2.7%	4.9%	4.3%	4.1%
<i>Comprising</i>					
Normal inflation	3.1%	3.7%	3.5%	3.5%	3.5%
Additional growth	5.2%	-1.0%	1.4%	0.8%	0.6%
Additional growth included in 2025 FSR	2.5%	-0.3%	0.1%	0.1%	0.1%
Change in additional growth	2.7%	-0.7%	1.3%	0.7%	0.5%

End of Table

We saw in Figure 7 of the main letter that Inflationary Growth in Committed Supports has been very high in the recent past; this has mostly been driven by additional growth, rather than normal inflation. While the Projections assume that additional growth will be higher than assumed in the 2025 FSR (with the exception of the 2026-27 year), the projections continue to assume that additional growth will be lower than recent experience in 2025-26, negative in 2026-27, and then low in 2027-28 and later years. These assumptions regarding additional growth in plans are due to the assumed impacts of Scheme Reforms as discussed below.

The moderating effect of Scheme Reforms

The Agency has commenced, or is planning, several reforms that are expected to deliver the moderating effect on assumed Inflationary Growth in Committed Supports shown in the previous section.

- Sustainability Initiative – the Agency is in the process of implementing 18 “actions” under four pillars (building capability of staff, quality first plans and reassessments, supporting participants to spend in accordance with their plans, practice and process improvement) to address sustainability. The actions are expected to impact both the number of requests for plan changes and the level of plan inflation. Some of these actions are likely to have a direct impact

on inflation (such as introducing quality checks on plans with high increases), while others are supporting actions that encourage “cultural change” to maintain sustainability (such as targeted sustainability awareness campaigns for frontline staff).

The 2025 FSR assumed that the Sustainability Initiative would result in 20% fewer unscheduled plan reassessments per month in 2025-26, and that plan inflation on those unscheduled reassessments would be 15% (lower than the experience in the six months to April 2025 of 22.6%). Actual experience that has emerged in the six months to December 2025 showed that the number of unscheduled reassessments were 4% higher than assumed in the 2025 FSR, and plan inflation on unscheduled reassessments was 20% rather than the assumed 15%. So while the Sustainability Initiative has resulted in lower inflation, the experience has not been as favourable as assumed in the 2025 FSR.

The Scheme Actuary has responded to the recent experience by increasing assumptions around both the expected number of unscheduled reassessments and the level of plan inflation. However, the plan inflation assumptions adopted start from the most favourable experience observed in the last six months and assume a continued improvement over the next 18 months. Whether these assumptions bear out in practice will need close monitoring.

- **New Framework Planning** – As part of the Scheme Reforms announced in the 2024-25 Budget, the Agency is in the process of implementing New Framework Planning informed by a support needs assessment. Under New Framework Planning, participant budgets will be determined based on a new process to establish funding based on assessed support needs. The new process is expected to achieve greater consistency across the Scheme.

As for the 2025 FSR, New Framework Planning is expected to commence on 1 July 2026, with a 4.5-year implementation period. However, the rollout is now expected to be slower than assumed in the 2025 FSR, and the prioritisation of cohorts moving to New Framework Planning has also changed. As a result, the proportion of Scheme costs transferring to New Planning Framework is expected to be considerably slower than assumed in the 2025 FSR.

Plan inflation is assumed to be 6.5% lower with New Framework Planning compared with the Old Framework from the point of transition. Although significant work has been undertaken over the last eighteen months, the Agency is yet to finalise the support needs assessment or budget model rule sets for New Framework Planning hence the savings assumed are the same as used in the 2025 FSR (but with the slower rollout). In the absence of the final design and modelling of this reform I am unable to comment further on the reasonableness of these assumptions.

Summary

Significant reductions in the rate of Inflationary Growth in Committed Supports are required for these projections to occur in practice. The projection assumes that the rate of Inflationary Growth in Committed Supports will be very close to normal inflation through the medium term. Whilst the rate of Inflationary Growth in Committed Supports has been slowing in recent times, consistently maintaining the rate of Inflationary Growth in Committed Supports within 0.1% of normal inflation has not yet occurred in the life of the Scheme.

Utilisation

Utilisation assumptions are based on recent experience, adjusted for the expected impact of initiatives and reforms. Considerations that help assess the reasonableness of plan utilisation assumptions are discussed below.

The moderating effect of initiatives and reforms

The NDIA has planned initiatives that are expected to have a moderating effect on future utilisation. These include the *Crack Down on Fraud* and related integrity measures and the introduction of funding periods.

- Integrity measures – The Crack Down on Fraud initiative commenced in February 2024, focused on developing new IT platforms and systems to enhance the Agency's prevention and detection capabilities.

Estimated savings are based on four components: savings from providers that are banned or subject to payment reviews; manual payment reviews by the Payment Integrity Team; system enhancements, in particular the implementation of invoice matching; and automated cancellations and system prompts expected to influence behaviour. Allowances are also made for re-utilisation – i.e. that a proportion of payments avoided or cancelled will subsequently be spent on legitimate supports. The estimated savings in the Projection are very similar to those included in the 2025 FSR.

While the Agency has plans for further integrity measures, allowance in the projections has only been made for programs that are already underway and resourced. Further savings that may arise from future programs that are not yet resourced have not been included. This is appropriate.

- Section 33 funding periods – The Scheme Actuary estimates that the total cost of plan overutilisation in the Scheme is around \$2 billion per annum. The introduction of funding periods is expected to help participants to spend in line with their plan and reduce the risk of funds being exhausted early in the plan. As such, overutilisation of plans is expected to reduce.

Funding periods are being phased in over time as participant plans are reassessed (either scheduled or unscheduled). The plans' funds are released progressively for periods of either 1, 3, 6 or 12 months. In the 2025 FSR, it was assumed that 76% of participants (representing 91% of Scheme payments) would have funding periods in their plans by June 2027. At 31 December 2025, 22% of participants were on funding periods, a little behind the expected level of 27%. While fewer participants are on funding plans, a greater proportion of them are on 1- or 3-months funding periods, compared with what was assumed at the 2025 FSR.

Funding periods are not expected to fully eliminate overutilisation. It is assumed that 75% of over-utilised payments are removed from plans with funding periods attached.

Historically, utilisation has steadily increased over time. If inflationary plan growth slows in the manner that is assumed, then it is also reasonable to assume that this will further contribute to increases in utilisation. Further, supports being able to be used more flexibly in New Framework Planning is also likely to contribute to higher utilisation. Reflecting this, the Scheme Actuary has assumed an increase

in plan utilisation by a factor of 1.005, 1.0075 and 1.01 in 2027-28, 2028-29 and from 2029-30 respectively. These factors result in small increases in three specific years. I am concerned that these allowances, followed by an assumption that utilisation will remain flat thereafter, may not sufficiently allow for future utilisation increases.

Summary

Utilisation assumptions reflect recent experience, reduced for the expected effect of initiatives that are underway. These initiatives have only recently commenced and there is limited experience upon which to set assumptions.

There is also the potential for the Scheme to experience behavioural change that results in plans being utilised differently in the future in ways that diminish the assumed reduction in utilisation. The Scheme Actuary has allowed for a small increase in utilisation in the short term.

Historically, utilisation rates have increased steadily over time. Some of this increase is thought to reflect participants maturing in the Scheme. Some of it may have been attributable to factors related to the *Crack Down on Fraud* initiative and overspending in plans. Beyond 2030, utilisation is now assumed to remain flat. The degree to which this occurs is uncertain.