IMPACT ECONOMICS AND POLICY

Summary of Supported Worker Wages Transition Model

Developed by Impact Economics and Policy for Inclusion Australia
December 2022

Impact Economics and Policy was engaged by Inclusion Australia in late-2022, to develop independent economic modelling for the purpose of informing Inclusion Australia's work and submission to the Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability.

Impact Economics and Policy has developed a model designed to estimate income outcomes of people with disability who are employed and being paid under the Supported Employment Services Award 2020[1] and/or the Supported Wage System[2]. For the purposes of the model and this document, these workers are referred to as "supported workers".

The majority (more than 80%) of supported workers in Australia work at an Assisted Disability Enterprise (ADE), but some also work in what is referred to as open employment i.e. employment that is open to all workers and is not necessarily designed to employ people with disability. Of people working in open employment, the Supported Worker Wages Transition Model only includes those with disability who are being paid under the Supported Employment Services Award 2020 and/or the Supported Wage System.

Under the Supported Employment Services Award 2020 and the Supported Wage System, supported workers tend to earn sub-minimum wages. That is an hourly rate of pay that is lower than the national minimum wage, which as of 1 July 2022 was $21.38 per hour.[3]

The Supported Worker Wages Transition Model (the model) estimates expected income outcomes of supported workers under multiple scenarios on an annual basis over the five forward financial years, 2023-24 to 2027-28. It incorporates income taxes as well as the interactions between employment income and the Disability Support Pension (DSP), as well as Commonwealth Rent Assistance (CRA), in order to estimate take home incomes. Take home incomes are the incomes that workers are left with after accounting for all relevant taxes and income supports.

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[1] Fair Work Ombudsman, Supported Employment Services Award 2020, https://awardviewer.fwo.gov.au/award/show/MA000103

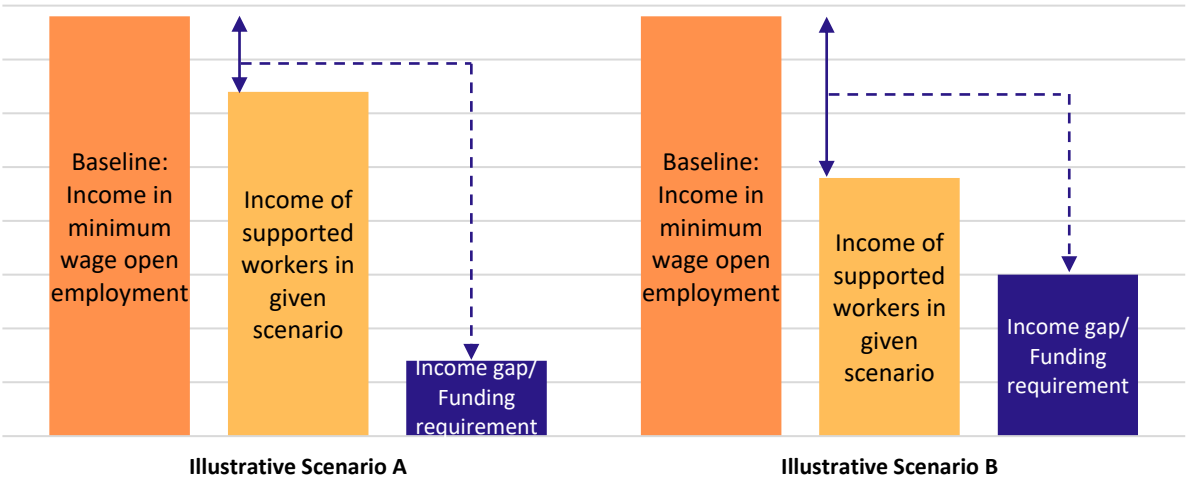
[2] Department of Social Services 2021, Supported Wage System, https://www.jobaccess.gov.au/supported-wage-system-sws

[3] Fair Work Ombudsman 2022, Minimum Wages, https://www.fairwork.gov.au/tools-and-resources/fact-sheets/minimum-workplace-entitlements/minimum-wages

The estimated income outcomes are used in the model to estimate differences in the take home incomes of supported workers (under multiple scenarios) from take home incomes that would be earned if they were paid the minimum wage in open employment. The scenario where workers are paid the minimum wage in open employment is referred to as Scenario 0, as it is the scenario against which all others are compared.

For scenarios where the estimated take home incomes of supported workers are lower than the incomes they would earn in Scenario 0 (minimum wage open employment), the gap in incomes represents the amount of funding that would be required to provide supported workers with the equivalent of at least minimum wage open employment income. This is illustrated below in Figure 1.

Figure 1: Illustrative examples of the estimation the funding required for supported workers to receive the same income as they would in minimum wage open employment



The focus of the model results summarised in this document is on the value of funding that would be required to increase the take home income of supported workers (accounting for DSP and CRA payments as well as the income from their wages) to at least the value of income they would earn in open employment getting paid the minimum wage i.e. the dark blue bars in Figure 1.

This document also provides the methodology and assumptions underpinning the model and its estimated results.

Model Results

The first results presented from the model in Table 1 are the estimated income results under Scenario 0. This provides estimates of income outcomes for supported workers if instead of working under the Supported Employment Services Award 2020 or the Supported Wage System, they were paid the minimum wage in an open employment setting.

These Scenario 0 results provide an important context, because they are the income outcomes against which all other income outcomes for supported workers are compared to in the model. The Scenario 0 results assume that workers would be working the same number of hours per week as they currently do in supported employment. Most supported workers do not work full-time, so the model results are based on part-time working hours (more detail on this can be found in the method and assumptions sections of this document).

Table 1: Estimated annual income outcomes for the average supported worker if they were paid the minimum wage in open employment (Scenario 0 income estimates)

	2023-24	2024-25	2025-26	2026-27	2027-28
Gross wage income	$24,375	$24,984	$25,609	$26,249	$26,905
Net (post-tax) wage income	$23,111	$23,610	$24,121	$24,644	$25,181
Disability Support Pension (DSP)	$16,261	$16,667	$17,084	$17,511	$17,949
Commonwealth Rent Assistance (CRA)	$0	$0	$0	$0	$0
Take home net income	**$39,372**	**$40,277**	**$41,204**	**$42,155**	**$43,130**

Source: Impact Economics and Policy December 2022, Supported Worker Wages Transition Model

Table 1 shows that if supported workers were earning in the minimum wage in an open employment setting, on average they would earn a take home income of $39,372 in 2023-24 which would grow slightly each year as the minimum wage increases.

The model estimates that almost 60% of the average take home income amount under Scenario 0 would be coming from post-tax employment income, while the remaining 40% would come from DSP payments. The estimated amount of income coming from the DSP under Scenario 0 is less than the full amount of the annual DSP (which would be more than $25,000), because DSP payments taper as income grows. The estimated annual amount of rent assistance in Table 1 are all $0 because average annual wages income is estimated to be higher than the level at which rent assistance payments taper to 0.

The model results presented later in this section, are estimates of the amount of additional payment/income that supported workers would need to be paid to bring their take home income each year up to the same amount as presented in Table 1 for Scenario 0.

To compare against take home incomes under Scenario 0, the model estimates the income outcomes of supported workers under each of the scenarios described in Table 2.

Table 2: Scenario descriptions

Scenario	Description
Scenario 1	Supported workers continue to receive current Business As Usual (**BAU**) **wages** and their Disability Support Pension (DSP) and Rent Assistance (CRA) payments **taper** as income grows.
Scenario 2	Supported workers continue to receive current **BAU wages** and they also receive **full** DSP and CRA payments (i.e. there is no taper to income support as income grows).
Scenario 3	Supported workers continue to receive current **BAU wages** and their DSP and CRA payments **taper** but under a higher than usual threshold due to the implementation of a **Work Bonus.**
Scenario 4	Supported workers' wages **increase** over 5 years to equal the minimum wage by 2027-28. Their DSP and CRA payments **taper** as income grows.
Scenario 5	Supported workers' wages **increase** over 5 years to equal the minimum wage by 2027-28. They receive **full** DSP and CRA payments for the **first two years** after which payments **taper** as income grows.
Scenario 5B	Supported workers' wages **increase** over 5 years to equal the minimum wage by 2027-28. They receive **full** DSP and CRA payments for the **first two years**. After the first two years, DSP and CRA payments **taper** but under a higher than usual threshold due to a **Work Bonus**.
Scenario 6	Supported workers' wages **increase** over 5 years to equal the minimum wage by 2027-28. Their DSP and CRA payments **taper** but under a higher than usual threshold due to the implementation of a **Work Bonus**.

To explain some of the concepts used to define each scenario in Table 2:

- **Wages growth:**
  - **BAU wages:** Scenarios 1 to 3 assume that wages paid to supported workers remain at current levels i.e. Business As Usual (BAU). The only growth in wages paid to supported workers in BAU wages scenarios come from growing at the same pace as annual growth in the minimum wage.
  - **Increasing wages:** Scenarios 4 to 6 assume that wages paid to supported workers transition over the course of five years, to become equivalent to the minimum wage. In these scenarios, wages paid to supported workers are assumed to remain at current levels in the first year of the model, and then grow by a constant amount each year until reaching equivalency with the minimum wage in the fifth year of the model.
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- **Income support (DSP and CRA):**
  - **Full amount:** Scenarios 2, 5 and 5B are scenarios where supported workers receive the full amounts of DSP and CRA (at least for the first two years of the model), even if their income from employment surpasses the level at which income support payments would typically start to reduce.
  - **Taper**: In typical settings, when a person earns above a specified threshold of fortnightly income, the amount of DSP and CRA they are eligible for starts to reduce (taper) by a specified amount for every $1 of income earned above the threshold.

- **Work Bonus:** A Work Bonus policy has recently been implemented for Australia's Age and Veterans Pensioners.[4] The Work Bonus effectively increases the threshold of income able to be earned before the value of pension payments starts to taper. Consistent with the current Work Bonus applied to Age and Veterans Pensioners[5] the Work Bonus assumed to apply in Scenarios 3, 5B and 6, allows for an additional $4,000 of income to be earned over a financial year before the value of the DSP starts to taper.

Table 3 and Table 4 (overleaf) present the estimated results from the model of the value of additional payment/income that would be required under each scenario and in each year to bring the incomes of supported workers up to at least as much as their incomes would be if earning the minimum wage in open employment.

Table 3 provides these results in terms of the average value per supported worker, and Table 4 provides the total values for the whole supported worker cohort.

This means that the values in Table 3 represent the value of additional payment/income that the average supported worker would need to receive each year, to bring their total take home income up to the same amounts as presented for Scenario 0 in Table 1.

It is estimated that in 2023-24, the average supported worker would require between $3,569 and $5,704 (depending on the scenario) in additional payment/income, in order to bring their total take home income up to a value of $39,372 (what it would be in minimum wage open employment).

Table 4 shows that a total value of between about $75.8 million and $121.1 million (depending on the scenario) would be required to bring the take home income of all supported workers up to at least that of minimum wage open employment.

In Scenarios 1 to 3, there is a persistent gap in incomes (relative to Scenario 0 outcomes) because the wages paid to supported workers are assumed to remain at current BAU levels throughout the five years. While BAU supported worker wages and the minimum wage are both assumed to grow at the same rate each year, this results in a slightly larger dollar value increase in the higher minimum wage relative to BAU supported worker wages each year. This is what leads to the slight widening of the estimated income gaps from Scenario 0, for each of Scenarios 1 to 3.

[4] Department of Social Services 2022, Work Bonus, https://www.dss.gov.au/seniors/programmes-services/work-bonus

[5] Prime Minister of Australia September 2022, Giving older Australians the option to work and earn more, https://www.pm.gov.au/media/giving-older-australians-option-work-and-earn-more

Table 3: Estimated value of additional payment/income required to bring supported worker income up to at least as much as under minimum wage open employment
Average per supported worker

	2023-24	2024-25	2025-26	2026-27	2027-28
Scenario 1: BAU wages with standard income support taper	$5,704	$5,775	$5,847	$5,922	$6,002
Scenario 2: BAU wages with full DSP and CRA payments (i.e. no taper)	$3,569	$3,603	$3,638	$3,674	$3,711
Scenario 3: BAU wages with Work Bonus taper for DSP	$4,650	$4,694	$4,740	$4,786	$4,838
Scenario 4: Wages increase towards minimum wage with standard income support taper	$5,704	$3,834	$2,568	$1,241	$0
Scenario 5: Wages increase towards minimum wage, full DSP and CRA payments for first 2 years, then standard taper	$3,569	$1,001	$2,568	$1,241	$0
Scenario 5B: Wages increase towards minimum wage, full DSP and CRA payments for first 2 years, then Work Bonus taper	$3,569	$1,001	$647	$0	$0
Scenario 6: Wages increase towards minimum wage with Work Bonus taper for DSP	$4,650	$2,209	$647	$0	$0

Source: Impact Economics and Policy December 2022, Supported Worker Wages Transition Model

Table 4: Estimated value of additional payment/income required to bring supported worker income up to at least as much as under minimum wage open employment
Total for the whole supported worker population

	2023-24	2024-25	2025-26	2026-27	2027-28
Scenario 1	$121,104,019	$122,607,329	$124,148,220	$125,727,635	$127,435,565
Scenario 2	$75,770,280	$76,500,013	$77,247,989	$78,014,665	$78,800,507
Scenario 3	$98,718,956	$99,662,639	$100,629,913	$101,621,370	$102,726,644
Scenario 4	$121,104,019	$81,407,960	$54,532,805	$26,355,523	$0
Scenario 5	$75,770,280	$21,259,356	$54,532,805	$26,355,523	$0
Scenario 5B	$75,770,280	$21,259,356	$13,731,978	$0	$0
Scenario 6	$98,718,956	$46,905,045	$13,731,978	$0	$0

Source: Impact Economics and Policy December 2022, Supported Worker Wages Transition Model

Under Scenarios 4 to 6, the estimated gap in incomes relative to minimum wage open employment shrinks over time and completely closes (i.e. the estimated values required to boost supported workers' wages reach $0) by at least 2027-28. This is because each of these scenarios assume annual increases in the wages paid to supported workers such that by 2027-28 their wages and resulting incomes are equal to those earned in minimum wage open employment.

The results demonstrate that a Work Bonus policy reduces the gap between supported worker incomes and those earned in minimum wage open employment by about $1,000 per person, by allowing employment income to reach a higher level before DSP payments taper than under the standard taper system.

The scenarios under which supported workers are permitted to receive the full amount of the DSP (and CRA for those eligible) for at least the first two years, reduce the gap between supported worker incomes and minimum wage open employment incomes by more than $2,000 per person, on average. In these cases, slightly higher values of the DSP (and to a lesser extent the CRA) able to be retained fill part of the gap with minimum wage open employment incomes, leaving less of a gap for an additional payment/income to fill.

Scenario 5 provides a slightly unusual result. While the estimated income gap falls to zero over the course of the five years, there is a blip where the gap increases in 2025-26. This occurs due to moving from receiving the full amount of DSP (and CRA for eligible workers) in 2024-25 to DSP and CRA payments then becoming tapered (under the standard income taper threshold) in 2025-26.

Another finding from the model, is that under settings where DSP payments taper as income grows (be it under the standard income taper threshold or a higher Work Bonus taper system) there is no hourly wage value below the minimum wage level at which take home incomes are as much as minimum wage take home incomes. At the levels of income being modelled, the value that ends up in take home income out of a higher hourly wage, outweighs the impacts of slightly higher income tax and slightly tapered income support payments.

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Methodology

Rather than model supported workers as one homogenous group, the Supported Worker Wages Transition Model builds up to the final results by modelling income outcomes for 9 different cohorts of supported workers. The characteristics used to differentiate each cohort are their average hours worked per week and their average hourly wage rate.

Each cohort contains a different number of supported workers. The size of each cohort is determined by first estimating the number of total supported workers in Australia. This is estimated at 21,232 which is a combination of 17,232 people with disability working at ADEs with 4,000 people with disability working in open employment under the Supported Wage System. These values come from the National Disability Insurance Agency (NDIA) and the Department of Social Services, as detailed in the assumptions and sources section of this document.

The number of supported workers captured by each cohort is estimated by applying their assumed share of the total supported worker population to the 21,232 size of the total population. See

Assumptions and Sources for detail underpinning each cohort's share of the supported worker population.

Table 5 provides a summary of each of the model's 9 cohorts, including their estimated size and defining hours worked and hourly wage characteristics.

Table 5: Descriptions and defining characteristics of each cohort included in the model

Cohort	Description	% of total supported workers	Number of people	Average hours worked per week	Average hourly wage*
Cohort 1	Average wage and average hours worked	12%	2,543	19.6	$7.75
Cohort 2	Average wage, fewer than average hours worked	15%	3,279	12.0	$7.75
Cohort 3	Average wage, slightly more than average hours worked	10%	2,053	27.0	$7.75
Cohort 4	Average wage, close to full time hours worked	12%	2,625	35.4	$7.75
Cohort 5	Lower than average wage, fewer than average hours worked	17%	3,629	12.0	$4.12
Cohort 6	Lower than average wage, average hours worked	13%	2,798	19.6	$4.12
Cohort 7	Higher than average wage, average hours worked	7%	1,499	19.6	$14.01
Cohort 8	Higher than average wage, slightly more than average hours worked	6%	1,269	27.0	$14.01
Cohort 9	Higher than average wage, close to full time hours worked	7%	1,537	35.4	$14.01

**Average hourly wages are provided in 2022-23 dollars*

Source: Impact Economics and Policy December 2022, Supported Worker Wages Transition Model

For each of the 9 cohorts of supported workers, the model estimates the following income outcomes for an average person in the given cohort, on an annual basis from 2023-24 to 2027-28:

- Gross (pre-tax) income from employment (this is simply a combination of hourly wage rates with assumed hours worked per week).
- Income tax paid, including accounting for the Low Income Tax Offset (LITO), the Medicare levy, and the Medicare levy exemption for low-income earners.
- Net (post-tax) income from employment
- Value of DSP received
- Value of rent assistance received
- Take home income (this is equal to net employment income plus DSP plus rent assistance)

These income outcomes are estimated for each of the 9 cohorts and for each of the scenarios described in

Model Results. This means the model estimates a total of 72 sets of income outcomes (9 cohorts multiplied by 8 scenarios – including scenario 0).

Within each cohort, the estimated take home incomes under scenarios 1 to 6 are compared to those for that cohort under scenario 0. This provides the estimated income gap relative to minimum wage open employment for each cohort in each scenario. Note that the estimated income outcomes under scenario 0 vary by cohort. Even though everyone in scenario 0 is assumed to be receiving the minimum hourly wage regardless of their cohort, assumed hours worked per week still vary, as provided in Table 5.

For each scenario, the estimated take home income gap from minimum wage open employment is aggregated across all of the cohorts, being weighted by the share of the total supported worker population that each cohort represents. This provides final model results that are representative of the full population of supported workers.

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Assumptions and Sources

This section details the assumptions and sources of information underpinning the model. These are grouped depending on the part of the model they relate to.

Population and cohorts

Total supported worker population

As provided in

Methodology, the total population of support workers in Australia is assumed to be 21,232 people. This is a combination of:

- 17,232 people with disability working at ADEs as provided in item 19c of witness statement STAT.0523.0002.0001 made to the Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability on behalf of the NDIA in April 2022.[6]
- 4,000 people with disability working in open employment but under the Supported Wage System, as provided in item 9a of submission made to the Fair Work Commissions by the Department of Social Services.[7]

As the following section demonstrates, data relating to supported workers employed at ADEs is used as the basis for the distribution of supported workers from the total population into the different cohorts as well as for the hours worked and hourly wages used to define each cohort.

Thus, by grouping the 4,000 supported workers in open employment working under the Supported Wage System into the total supported worker population and then splitting out cohorts from there, the model assumes that these 4,000 workers share the same working hour and hourly wage rate characteristics as supported workers employed at ADEs.

The total population of supported workers (is not assumed to grow over time, meaning the model provides estimated results for a total population of 21,232 people in every year. This is based on Exhibit 22-007.07 provided to the Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability by National Disability Services (NDS).[8] This exhibit demonstrates that the number of supported workers employed at ADEs (by a sample of 73 surveyed ADEs), did not grow between 2020 and 2021 and if fact very slightly contracted.

Cohorts

The data and information used to determine the sizes and characteristics of all cohorts included in the model has been drawn from the following two sources:

- NDS Survey: NDS provided analysis of the results of its 2020-21 Vision Survey of Supported Employment Services in Exhibit 22-007.07 to the Royal Commission into Violence, Abuse, Neglect and Exploitation of People with Disability.[9] This survey provides responses from 73 ADEs employing more than 7,000 supported workers, with data current as at 2020-21.
- ARTD Report: Following a decision by the Fair Work Commission, ARTD Consultants conducted a trial and evaluation of a new wage assessment structure for ADEs and the supported workers they employ. The Fair Work Commission has published the report produced by ARTD Consultants detailing the trial and evaluation results.[10] This report includes data relating to the 379 supported workers included in the trial, with the data believed to be current at 2020-21.

The NDS Survey covers a much larger number of supported workers than the ARTD Report, so is used as the preferred source of data regarding average outcomes of supported workers (in terms of

[6] https://disability.royalcommission.gov.au/system/files/exhibit/STAT.0523.0002.0001.pdf
[7] https://www.fwc.gov.au/documents/sites/awardsmodernfouryr/am2014286-sub-dss-220422.pdf
[8] https://disability.royalcommission.gov.au/system/files/exhibit/NDS.9999.0001.0036.pdf
[9] https://disability.royalcommission.gov.au/system/files/exhibit/NDS.9999.0001.0036.pdf
[10] https://www.fwc.gov.au/documents/sites/awardsmodernfouryr/am2014286-report-dss-241121.pdf

hours worked and hourly wages). However, the ARTD Report provides a greater level of information relating to the distribution of supported workers, as opposed to single point averages.

The following outlines how Impact Economics and Policy combined data available from these two sources to reach the set of cohorts used in the model.

Hours worked per week

The NDS Survey suggests that supported employees work for an average of 19.6 hours per week.

Data from Table A35 of the ARTD Report, provides the following:

- 33% of supported employees work fewer than the average hours per week
- 24% of supported employees work about the average number of hours per week
- 18% of supported employees work a bit more than the average number of hours per week
- 25% of supported employees work close to or at full time hours

Using the distribution of supported workers across different categories of hours worked, and centring it around the average 19.6 hours worked as reported in the NDS Survey, provided Impact Economics and Policy with the splits presented in Table 6 of the supported worker population by hours worked.

Table 6: Split of supported worker population based on hours worked per week

Share of supported workers	Average hours worker per week
33%	12.0
24%	19.6
18%	27.0
25%	35.4

Hourly wages

The NDS Survey suggests that supported employees earned an average wage of $7.19 per hour in 2020-21.

Data from Table A37 of the ARTD Report, implies the following:

- 22% of supported employees earn substantially less than the average hourly wage
- 43% of supported employees earn about the average hourly wage or less
- 17% of supported employees earn about the average hourly wage or a small amount more
- 18% of supported employees earn substantially more than the average hourly wage

Condensing this distribution of supported workers across different categories of hourly wages down from four groups into three (to avoid over complicating and over specifying), and centring it around the average $7.19 hours worked as reported in the NDS Survey, provided Impact Economics and Policy with slits of the supported worker population into three different groups of hourly wage levels.

The average hourly wages for each group were inflated from 2020-21 dollars into 2022-23 dollars using the 7.8% growth that has occurred over that period in the national minimum wage. The resulting groupings of supported workers by hourly wages are presented in Table 7.

Table 7: Split of supported worker population based on hourly wage level

Share of supported workers	Average hourly wage, 2022-23
44%	$4.12
39%	$7.75
18%	$14.01

Combining hours worked and hourly wages to develop model cohorts

No information or data suggesting how hourly wages and the number of hours worked per week correlate for supported workers was available at the time of model development. Thus, it cannot necessarily be assumed that the 18% of supported workers in the $14 hourly wage group (Table 7) are the same 18% in the 27 hours worked per week group (Table 6). Nor could it be assumed that all 33% of supported workers in the fewer than average hours worked group also fall into the group of 44% of supported workers earning the lower than average hourly wage.

Table 8 combines the split of supported workers across the four groups of hours worked with the split across the three groups of hourly wages. This combination provides the share of supported workers in each group representing all possible combinations of hours worked and hourly wage levels. This assumes no relationship between hours worked and hourly wage rates.

Table 8: Initial cohort shares of total supported employment

		Split of employees by average hours worked			
Split of employees by average hourly wage		**12.0**	**19.6**	**27.0**	**35.4**
		33%	**24%**	**18%**	**25%**
$4.12	**44%**	14.4%	10.4%	7.8%	10.9%
$7.75	**39%**	12.7%	9.2%	6.9%	9.6%
$14.01	**18%**	5.9%	4.3%	3.2%	4.5%

However, while there is no firm data to inform the precise relationship between supported workers' hourly wage rate and their hours worked, there are still some assumptions that can reasonably be made:

- Supported workers who are earning a lower than average hourly wage are unlikely to be working more than the average number of hours per week.
- Supported workers who are earning a higher than average hourly wage are most likely to be working more than the average hours per week.

Making these two assumptions informs to a slightly condensed set of cohorts, each assigned shares of the total supported worker population as per Table 9.

Table 9: Initial cohort shares of total supported employment

	Split of employees by average hours worked			
	12.0	**19.6**	**27.0**	**35.4**

Split of employees by average hourly wage		33%	24%	18%	25%
$4.12	**44%**	17.1%	13.2%		
$7.75	**39%**	15.4%	12.0%	9.7%	12.4%
$14.01	**18%**		7.1%	6.0%	7.2%

The set of 9 cohorts that results from the combinations and population shares presented in Table 9 are described in Table 5w within the Methodology section.

Nature of employment

The nature of employment for supported workers is assumed to be permanent, which includes full-time and part-time workers. The alternative to permanent employment is casual employment. Hours worked under casual employment come with a 25% loading onto the base hourly wage. In the Support Worker Wages Transition Model, if all supported workers are assumed to be casual workers rather than permanent, the average impact of the estimated results is a 7% increase in the value of additional payments/income required.

The model assumes that each cohort's average weekly hours worked are consistent throughout each financial year. It does not incorporate potential extended and unpaid breaks from employment.

Growth and indexation

The model covers a period of 5 years, from 2023-24 to 2027-28. Over this period, the national minimum wage is assumed to grow annually by 2.5% each year. Under scenarios in the model where hourly wages of supported workers are assumed to remain at current levels, they are still assumed to grow at the same rate as the national minimum wage each year.

A separate indexation rate is applied in the model to the following:

- Maximum values of DSP payments
- The fortnightly income threshold at which DSP begin to taper
- The fortnightly income threshold at which DSP payments would begin to taper under a Work Bonus policy
- Maximum values of Commonwealth Rent Assistance (CRA) payments
- The annual income threshold at which the Medicare levy exemption for low-income earners applies

Informed by Federal Government Budget Papers, and information from the Department of Social Services, the rate of indexation applied to the model elements listed above is assumed to be 3.5% for 2023-24, reverting to 2.5% per year thereafter.

Indexation has not been applied to the following:

- Income tax brackets
- Income thresholds for the Low Income Tax Offset (LITO)

Calculating taxation

Income tax amounts for each cohort under each scenario are calculated by applying income tax brackets and rates to the estimated income earned from employment by supported workers. For the

first year of the model (2023-24), current income tax brackets and rates provided by the ATO[11] are assumed to apply. For 2024-25 onwards, new tax thresholds often referred to as the 'stage 3 tax cuts'[12] are assumed to apply, given these changes are currently planned Federal Government policy.

The income tax calculations in the model incorporate the Low-Income Tax Offset (LITO), as currently described by the ATO.[13] The 2% Medicare levy[14] is also applied, as is the Medicare levy exemption for low-income earners[15]. As described above in Growth and indexation, the income threshold below which the Medicare levy exemption applies is assumed to increase each year in line with indexation.

While the Medicare levy *exemption* for low-income earners is applied in the model, it does not incorporate the Medicare levy *reduction* for low-income earners. It is assumed that the inclusion of the Medicare levy reduction for low-income earners would not have a significant impact on the model's estimated results.

Calculating DSP and rent assistance payments

Values of full DSP and rent assistance payments

Disability Support Pension (DSP) and Commonwealth Rent Assistance (CRA) amounts vary depending on age (younger than 21 versus 21 and older) and partnership status. There are two main ways in which the differences in these rates based on demographics could be incorporated into the model:

- **Additional cohorts:** The differences in DSP and CRA payments for people of varying ages and partnership status could be incorporated by splitting out additional demographic-based cohorts in the model, and then for the calculations in each cohort just apply the full DSP and rent assistance payments relevant to the given demographic group.
  However, the demographic cohorts would need to be overlayed on top of the existing 9 cohorts based on working hours and wages. This means each one additional demographic group would require an additional 9 cohorts to be added to the model.
  Further, data from the ARTD Report[16] suggests that hourly wages of supported workers do not vary significantly by age group. This means there would be no reason other than the differences in available DSP and CRA payments to split out cohorts by demographic characteristics in the model.
  Therefore, this method is not used in the model.

- **Weighted averaging:** The other method for applying differences in DSP and CRA payments based on age and partnership status within the context of the model is to take a weighted average of the payment levels available to each demographic group. Rather than taking a simply average giving equal weight to each demographic group, the weighted average accounts for the shares of

[11] https://www.ato.gov.au/rates/individual-income-tax-rates/
[12] https://archive.budget.gov.au/2018-19/factsheets/lower-simpler-fairer-taxes.pdf
[13] https://www.ato.gov.au/Individuals/Income-and-deductions/Offsets-and-rebates/Low-and-middle-income-earner-tax-offsets/
[14] https://www.ato.gov.au/Individuals/Medicare-and-private-health-insurance/Medicare-levy/
[15] https://www.ato.gov.au/Individuals/Medicare-and-private-health-insurance/Medicare-levy/Medicare-levy-reduction-for-low-income-earners/
[16] https://www.fwc.gov.au/documents/sites/awardsmodernfouryr/am2014286-report-dss-241121.pdf

the supported worker population falling into each demographic group. This method provides larger weightings to the values of payments available to people in the demographic cohorts that make up the largest shares of the supported worker population.
The one resulting weighted average value of DSP payment (or CRA payment) can then be used in the income support calculations for all cohorts in the model.
This is the method used in the model.
The weights used to construct the weighted average values of the DSP and the CRA, are based on data capturing the demographic profile of DSP recipients as at June 2022.[17] This data provides that 2.82% of all DSP recipients are under the age of 21, and 20.6% are 'partnered' in terms of marital status.

The application of the weighted averaging method as opposed to the additional cohorts method means that calculated values of income support payments will not necessarily represent a specific individual of a certain age and partnership status. However, calculated values will still be representative of the average and when added up for the whole supported worker cohort.

As per the Growth and indexation section, the weighted average value of DSP and CRA payments are assumed to grow each year in line with indexation.

Eligibility

The model assumes that all supported workers meet the medical rule eligibility requirements for receiving the DSP. The following section, Tapering with income, describes how non-medical eligibility rules are applied in the model.

In the case of CRA payments, not everyone receiving the DSP automatically receives rent assistance. Data from the Department of Social Services provides that in June 2022, 35.3% of all DSP recipients also received CRA.[18]

Therefore, when calculations are applied in the model to estimate the value of CRA received by each cohort under each scenario, the estimated value of CRA is multiplied by 35.3% to weight it for the share of the population assumed to be receiving it.

Tapering with income

The non-medical requirements for receiving DSP payments relate to age (recipients must be at least 15 years and 9 months old), Australian residency and income and asset tests. The model assumes that all supported workers meet the age and residency requirements.

The income test is accounted for in the model by applying DSP income taper thresholds and rates, described in further detail below. In the absence of information about the value of assets owned by supported workers, the assets test is unable to be incorporated in the model. This is deemed to be a viable omission given Department of Social Services data for June 2022 shows that only 1.2% of all DSP recipients receive a partial rate of the DSP as a result of the assets test.[19]

[17] Department of Social Services, DSS Demographics – June 2022, https://data.gov.au/data/dataset/dss-payment-demographic-data/resource/1188c950-542a-4ca6-9e3e-9f91f53d9314
[18] https://data.gov.au/data/dataset/dss-payment-demographic-data/resource/1188c950-542a-4ca6-9e3e-9f91f53d9314
[19] https://data.gov.au/data/dataset/dss-payment-demographic-data/resource/1188c950-542a-4ca6-9e3e-9f91f53d9314

Therefore, DSP payments are calculated in the model for each cohort by assuming the full value as a starting point and then applying the rules of the income test for pensions.[20] These rules provide that DSP recipients can receive the full value of DSP payments until their income exceeds $190 per week, after which their fortnightly DSP payment is reduced by 50 cents for each dollar above $190 they are earning.

In the model, this income test rule is applied to the estimates of gross (pre-tax) income from employment for each cohort under each scenario, except in scenarios where supported workers are enabled to receive full DSP payments irrespective of their income. For scenarios where a Work Bonus is assumed to be implemented, the same taper rate (50 cents for every additional dollar of income) is assumed to apply to DSP payments, but the income threshold at which this taper begins is a higher one (enabled by the value of the Work Bonus).

For both the standard income text threshold and the higher threshold under the Work Bonus, income thresholds are assumed to increase each year in line with indexation.

CRA payments are also subject to an income test, but in the absence of reliable data about how CRA payments taper as income grows, the model assumes that the same income test rules that apply to DSP payments also apply to CRA payments.

Under the model scenarios involving a Work Bonus, the impact of the Work Bonus on lifting the income threshold at which income support payments start tapering is assumed to apply only to DSP payments and not to CRA payments. As such, estimated CRA payments are unaffected by Work Bonus scenarios.

The way in which the model calculates DSP and CRA payments assumes that supported workers have no sources of income beyond that which they derive from employment and income support payments.

[20] https://www.servicesaustralia.gov.au/income-test-for-pensions?context=22526