Australian Government
Australian Government Actuary

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JUNE 2021 FINANCIAL SUSTAINABILITY REPORT

This letter summarises my review of the 30 June 2021 Annual Financial Sustainability Report (FSR), prepared by the Scheme Actuary.

THE FSR

Subsection 180B(1) of the *National Disability Insurance Scheme (NDIS) Act 2013* requires the Scheme Actuary to prepare a FSR, at least annually. The FSR provides a long-term projection of the Scheme's expected costs, using assumptions that are informed by the experience of the Scheme. Part 3 of the *NDIS Rules for the Scheme Actuary* sets out requirements for the content of the FSR.

I have been provided with the FSR (version 0.1), the projection model used to undertake the 30 June 2021 projection presented in the FSR and supplementary information summarising the experience of the scheme to date. The Agency has taken the steps necessary for me to undertake this review, in accordance with subsection 180E(3) of the NDIS Act.

The last projection I reviewed was the 31 December 2020 projection. This review focusses on the reasonableness of the 30 June 2021 projection. Where changes between projections are considered this letter focusses on changes since the 31 December 2020 projection.

THE PROJECTION

The projection model is described in section three of the FSR. The model adopted is consistent with that used for the December 2020 projection. The starting population and projection assumptions have been updated.

In this projection, accrued participant costs in FY21-22 of $29.2bn are $1.1bn (3.9%) higher than the December projection. The amount by which the projection has increased reduces over time and is $1.2bn (2.0%) lower in FY29-30.

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Part of the short-term increase is due to the higher-than-expected starting point for this projection. This arises from higher average costs per participant, slightly offset by lower than anticipated participant numbers. The FSR discusses how recent experience has varied from that which was expected.

Part of the short-term increase is attributable to updated assumptions relating to the future experience of the Scheme. This allows for the emerging experience of the scheme, in conjunction with judgement about how future experience may evolve. The most significant assumption change impacting short-term results is higher assumed short-term inflation. The effect of this is moderated in the first three projection years by fewer expected participants who are ‘new to support‘. Assumptions regarding the assumed incidence of new disabilities (increased in December) have been further reviewed and these assumptions have remained constant for this projection. This projection reasonably represents the emerging experience of the scheme. This is appropriate.

The long-term reduction in the projection is a result of lower assumed average costs for new entrants, lower SIL numbers and the lower population projection for the wider Australian population, given the impacts of COVID-19.

Participant costs are forecast to be 1.37% of GDP in FY20-21, increasing to 1.95% in FY29-30. Costs increase as a percentage of GDP due to the combined effect of the assumed ongoing rates of new entrants, relatively lower assumed rates of exit, the effects of ageing in the scheme and superimposed inflation. Given the young age of many new entrants, it will take many years before the scheme reaches a stable population. Whilst there is higher uncertainty for longer term projection results, the mathematical outcome of these assumptions is that costs continue to grow as a percentage of GDP beyond 2040.

UNCERTAINTY

There is considerable uncertainty when setting some of the assumptions for the projection. This is particularly relevant when considering the ultimate prevalence of disabilities in the general population, the rates of new incidence of disabilities and whether these rates are stable over time, non-mortality exit rates from the scheme, long term SIL numbers and costs, the ultimate rate of utilisation of participant plans and future superimposed inflation. This uncertainty continues to be present for this projection. The immaturity of the scheme also contributes to this uncertainty.

Uncertainty means that the actual future experience will vary from the central projection in this FSR. Uncertainty in all projections is generally greater in the longer term, compared to the shorter term.

This projection assumes that the rate of new entrants will reduce, and the rate of exits will increase, as the scheme matures. In addition, the projection assumes that the rate of superimposed inflation will reduce. Whilst I believe the Scheme Actuary has taken reasonable steps to set “best estimate” assumptions, future experience could vary more considerably in respect of these assumptions. Appropriately, the FSR highlights the assumptions where there is greater risk that projected costs may be understated. Should these changes in experience fail to materialise then actual future costs would be higher, all else being equal.

Section Six of the FSR provides scenarios that illustrate the uncertainty in scheme outcomes. I commend this section of the report to the reader. This uncertainty also highlights the importance of updating the projection on a regular basis, as experience emerges.

SUSTAINABILITY

Forecast costs are significantly higher than what was originally expected and increase (as a percentage of GDP) for many years. What is sustainable needs to balance meeting participants’ needs by achieving positive outcomes at a level that is, and is expected to remain, affordable. The Scheme Actuary has made a number of recommendations to support the sustainability of the scheme over time.

CONCLUSION

The projection is based on emerging scheme experience. There is uncertainty around a number of the assumptions which is exacerbated due to the immaturity of the scheme. Whilst noting this uncertainty, I am satisfied that the results of the projection are within a range of reasonably likely outcomes.

The projection incorporates changes in the future experience. Should this not occur, future costs will be higher than projected. This is articulated in the report and should be noted.

The sustainability of the scheme remains exposed to a number of risks. I believe that these risks are understood by the Board.

Yours sincerely

Guy Thorburn
Australian Government Actuary