

# Report on the sustainability of the scheme

1 July 2013 to 31 March 2014

Prepared by the Scheme Actuary

## Introduction

This section presents analysis on the first three quarters of scheme experience, including:

- trends in the number of eligible participants and participants with approved plans
- trends in the amount of support committed to these participants and the distribution of these packages
- actual payments made to date
- participant satisfaction.

Overall the experience of the scheme to date is positive, with committed support packages and the number of participants eligible largely in line with expectations. Participant satisfaction with the Agency is also very high.

## The first three quarters of scheme experience

### *Participant satisfaction*

Participant satisfaction with the Agency is very high. Satisfaction is reported on a scale of extremely dissatisfied (-2) to extremely satisfied (+2), with neutral being 0. The participant satisfaction level is currently **1.66**.

### *Eligible participants*

At the end of the March 2014 quarter (Table 1):

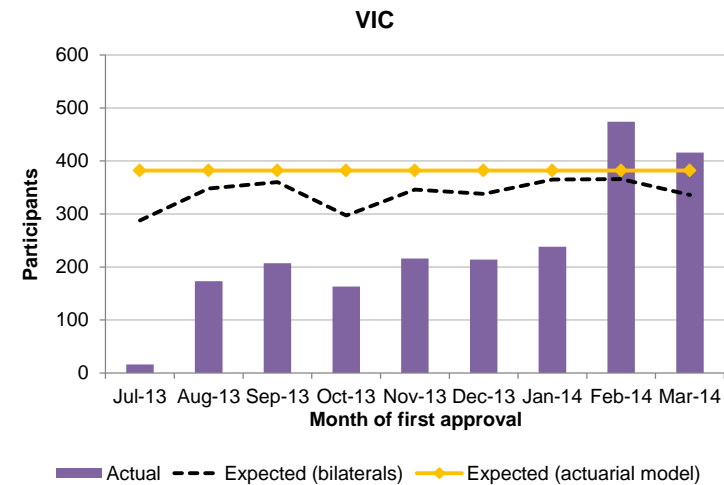
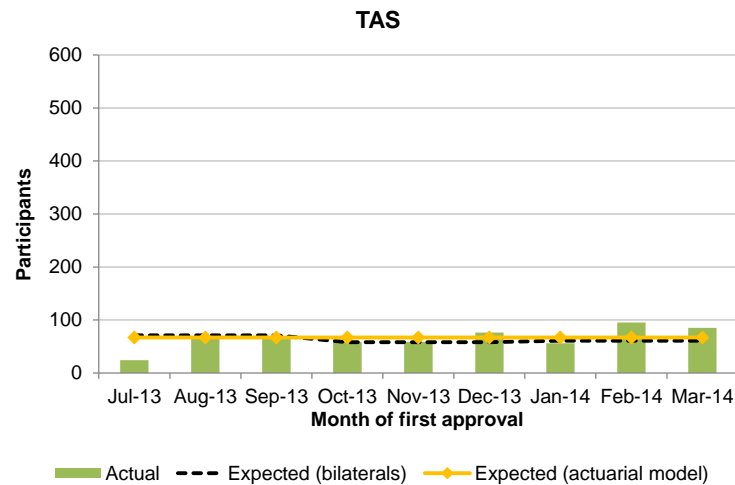
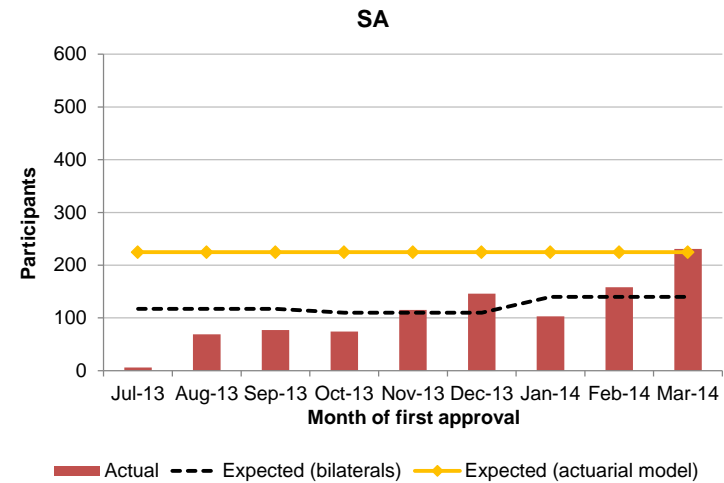
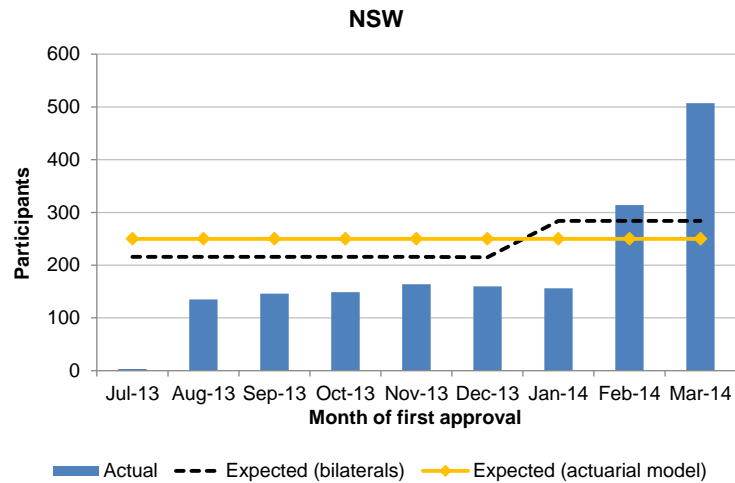
- 6,434 participants were eligible for the scheme (**94% compared with the bilateral target** and 77% compared with the actuarial model).
- 5,414 participants had an approved plan (**79% compared with the bilateral target** and 65% compared with the actuarial model).

**Table 1 Eligible participants and participants with approved plans compared with the bilateral agreements and actuarial model**

<b>1 July 2013 to 02 April 2014</b>	<b>NSW</b>	<b>SA</b>	<b>TAS</b>	<b>VIC</b>	<b>Total</b>
Number of expected participants (bilateral agreements) - (a)	2,147	1,101	569	3,044	6,861
Number of expected participants (actuarial model) - (b)	2,250	2,023	601	3,438	8,311
Number of eligible participants	2,078	1,159	687	2,510	6,434
<i>Percentage deemed eligible compared with expected - (a)</i>	<i>97%</i>	<i>105%</i>	<i>121%</i>	<i>82%</i>	<i>94%</i>
<i>Percentage deemed eligible compared with expected - (b)</i>	<i>92%</i>	<i>57%</i>	<i>114%</i>	<i>73%</i>	<i>77%</i>
Number of participants with current approved plans (active & inactive participants)	1,731	979	587	2,117	5,414
<i>Percentage with approved plans compared with expected - (a)</i>	<i>81%</i>	<i>89%</i>	<i>103%</i>	<i>70%</i>	<i>79%</i>
<i>Percentage with approved plans compared with expected - (b)</i>	<i>77%</i>	<i>48%</i>	<i>98%</i>	<i>62%</i>	<i>65%</i>

There was a substantial increase in the number of participants with approved plans in February and March – the number of approved plans was approximately double in these months compared with previous months in New South Wales and Victoria. This large increase is due to the operational reforms implemented in January and has resulted in significantly improved performance against bilateral agreements (Figure 1).

Figure 1 Participants with approved plans by month compared with the bilateral agreements and the actuarial model



### *Committed support and actual payments*

\$177.8 million of support has been committed to participants with approved plans. Of this \$177.8 million, it is estimated that \$106.8 million (60%) will be provided in 2013/14 (including actual paid to date). The funding envelope based on the bilateral agreements for 2013/14 is \$151.9 million, including both cash and in-kind. Hence, for participants who have entered the scheme in the first three quarters, committed support for 2013/14 is around 70% of the funding envelope (Table 2).

Stockton (a large residence in the Hunter trial site) impacts the funding envelope significantly – removing Stockton from the analysis results in committed support of \$166.3 million, a reduction of \$11m, of which \$102.8 million (62%) is expected to be paid in 2013/14. Stockton was not specifically considered in the bilateral agreements.

**Table 2 Committed support to date and amount committed to be provided in 2013/14**

	Total		Total (excl. Stockton)	
<b>Expected to be paid (\$m)</b>				
2013/14	\$106.8	60%	\$102.8	62%
2014/15 and beyond	\$71.0	40%	\$63.5	38%
<b>Total</b>	<b>\$177.8</b>	<b>100%</b>	<b>\$166.3</b>	<b>100%</b>
<b>Funding envelope for 2013/14 (\$m)</b>	<b>\$151.9</b>		<b>\$151.9</b>	
Expected to be paid in 2013/14 as a proportion of 2013/14 funding envelope		70%		68%

Actual payments to service providers the end of the March quarter were \$17.1 million of which 17% is in-kind. Actual payments only represent 27% of committed support expected to have been provided in the first nine months of the scheme, and this is reasonably consistent across trial sites.

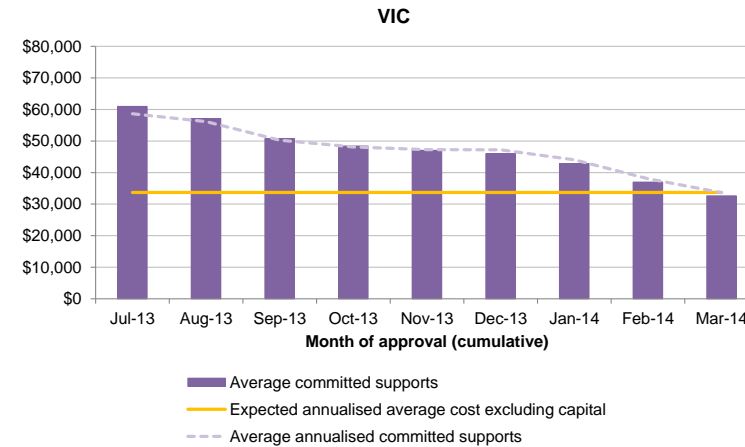
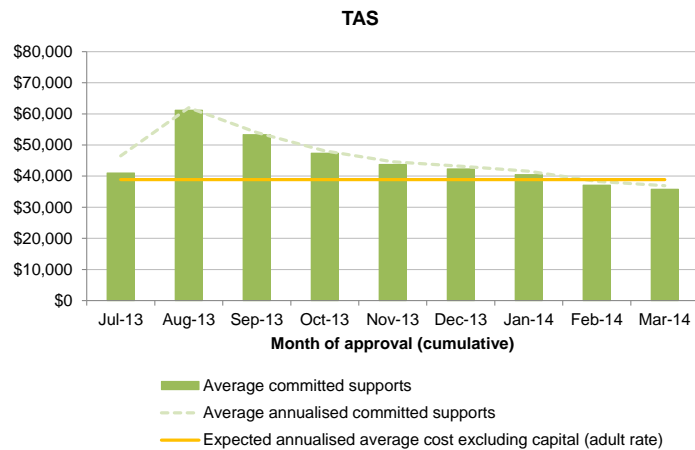
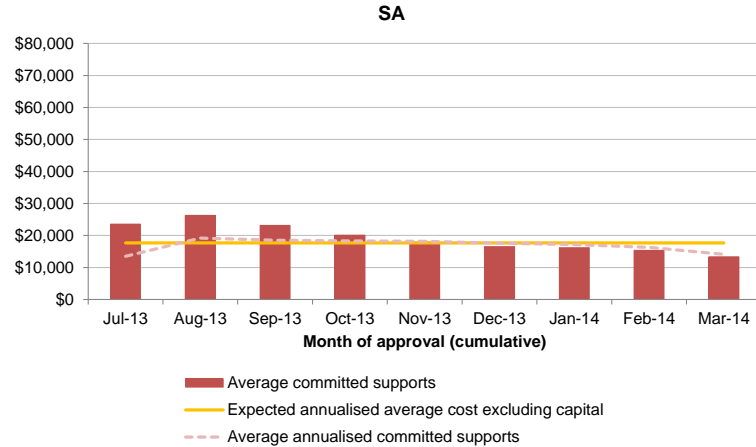
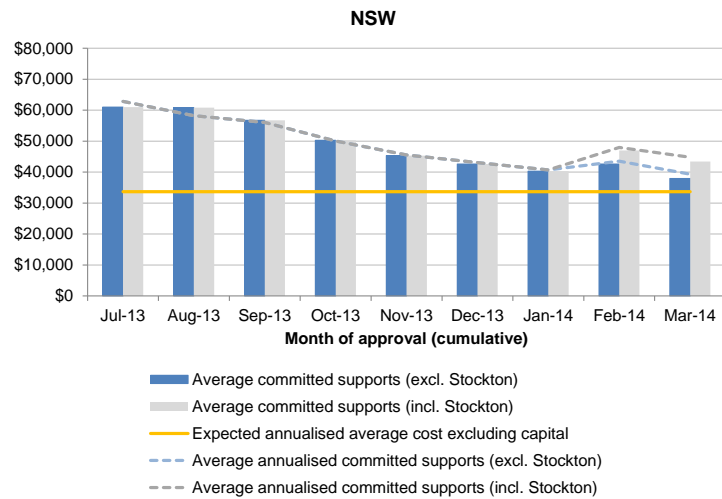
### *Trends in the average package cost*

The average annualised package cost at the end of March 2014 is \$34,000 including the Stockton large residence, and **\$32,200** excluding Stockton large residence. This is substantially lower than average costs at the end of September and December.

Average annualised package costs have come down across all trial sites – particularly in the last quarter (Figure 2). Some of this decrease will be due to the operational reforms introduced in January which aimed to provide further guidance around reasonable and necessary supports.

It should also be noted that there will continue to be variability in the quarterly average package size due to different groups of participants being phased into the scheme each quarter.

Figure 2 Average annualised committed package cost by trial site – cumulative averages



### *Distribution of package costs*

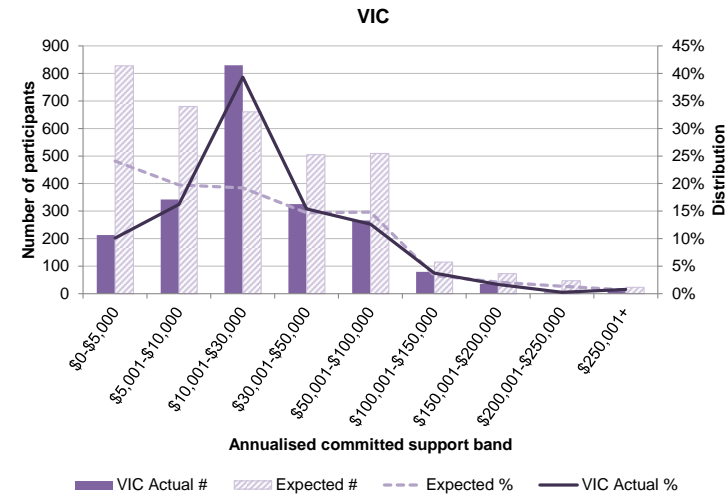
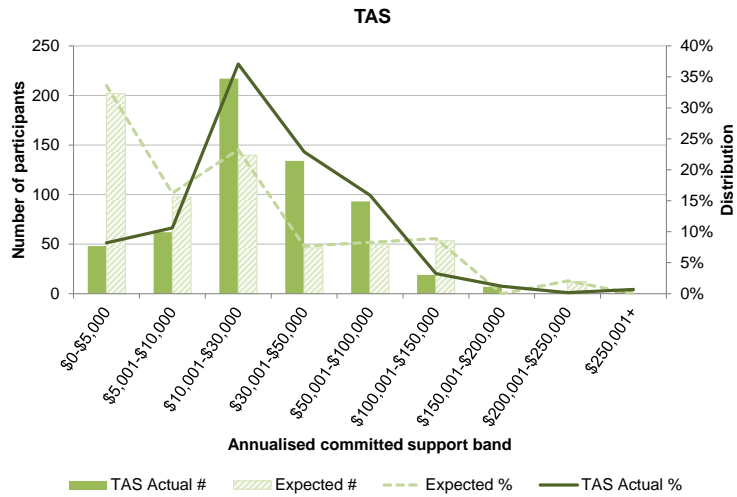
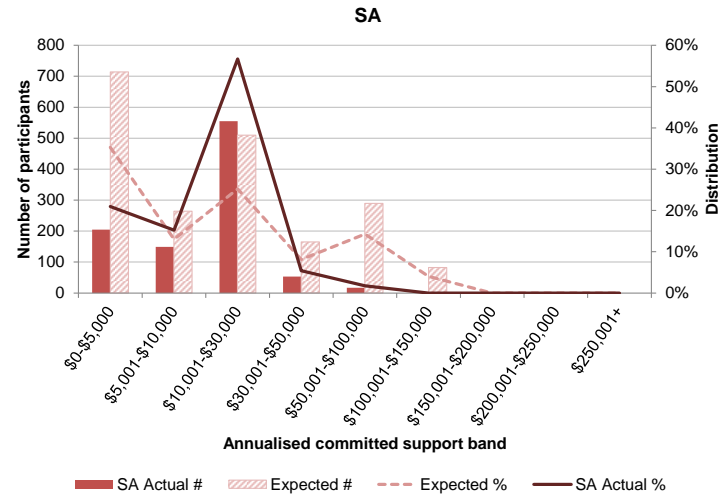
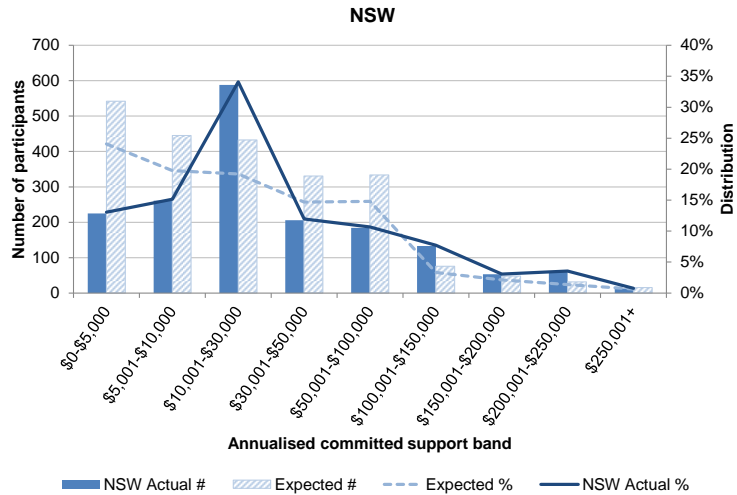
The distribution of the cost of support packages differs from expected across all trial sites. In particular, a higher proportion of low cost participants were expected compared with actual experience, and there are a higher proportion of participants receiving mid-range packages than expected (Figure 3). This is consistent across all trial sites.

It is important to note that understanding this distribution is key to monitoring the Scheme and much more relevant than average annualised package cost – a point also highlighted in the December 2013 quarterly report.

Considering the overall expected participant distribution at full scheme - participants with the highest support need represent only 10% of participants. However, these participants represent 42% of costs. Similarly, participants with the lowest support need represent 29% of participants but only 3% of costs (see Appendix A).

What is most important is the total cost which is based on the number of participants, the distribution of the support packages committed to these participants, and the amount of support actually used by participants. These factors are being monitored closely and indicate that the scheme is currently on track in 2013/14.

Figure 3 Distribution of package costs by trial site



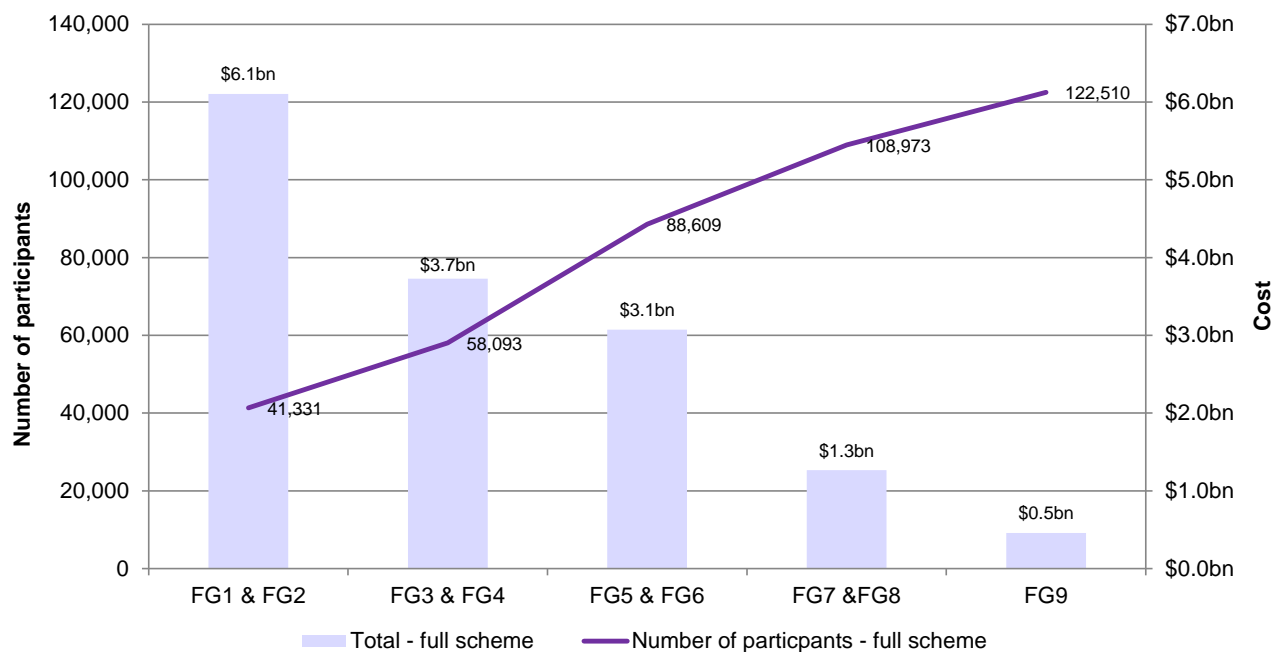


**Appendix A**

The Productivity Commission report was released in August of 2011 and estimated that the number of participants in Tier 3 was 411,250 and the cost of providing care and support to these participants was \$12.8 billion, including a margin for the cost of capital. Projecting the expected number of Tier 3 participants using population projections, and cost using inflation (including the increase in the SaCS award), results in an estimated 419,516 Tier 3 participants and full scheme cost of \$14.7 billion in 2013/14 (resulting in an average cost of \$35,000 per participant).

Underlying these estimates of the number of participants and the cost of participants is an expected distribution (Figure 4 and Table 3). Understanding this distribution is key to monitoring the Scheme and much more relevant than average annualised package cost. The estimated distribution indicates that Functional Group 1 and Functional Group 2 (participants with the highest support need) represent only 10% of participants (41,331). However, these groups represent 42% of costs (\$6.1 billion). Similarly, Functional Support Group 9 (participants with the lowest support need) represents 29% of participants (122,510) but only 3% of costs (\$0.5 billion).

**Figure 4 Expected number of participants and total cost by functional support group**

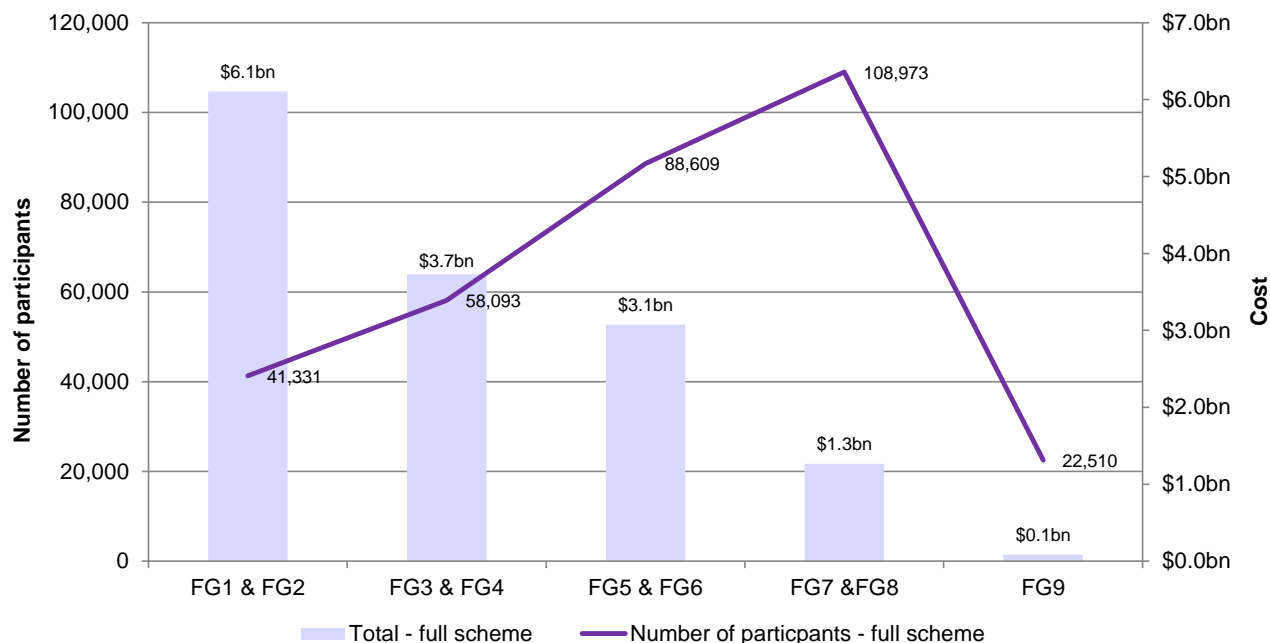


**Table 3 Expected number of participants and total cost by functional support group**

Functional support group	Expected participants	Distribution of participants	Expected cost	Distribution of expected cost	Average cost
FG1 & FG2	41,331	10%	\$6,104,797,105	42%	\$148,000
FG3 & FG4	58,093	14%	\$3,728,738,547	25%	\$64,000
FG5 & FG6	88,609	21%	\$3,074,715,596	21%	\$35,000
FG7 & FG8	108,973	26%	\$1,266,038,312	9%	\$12,000
FG9	122,510	29%	\$459,446,182	3%	\$4,000
<b>Total</b>	<b>419,516</b>	<b>100%</b>	<b>\$14,633,735,742</b>	<b>100%</b>	<b>\$35,000</b>

It is possible that the number of Tier 3 participants will be lower than expected under the current eligibility rules – say by 100,000. If this is the case, it is most likely that these participants would be in the lowest functional support group (FG9). Overall, the number of participants in Tier 3 would decrease by 24%. However, the expected cost only decreases by 3%. On this basis, the average participant cost is \$45,000 (Figure 5 and Table 4). This example highlights the risk of focusing on average annualised cost.

**Figure 5 Expected number of participants and total cost by functional support group (reduction of 100,000 participants)**



**Table 4 Expected number of participants and total cost by functional support group (reduction of 100,000 participants)**

Functional support group	Expected participants	Distribution of participants	Expected cost	Distribution of expected cost	Average cost
FG1 & FG2	41,331	13%	\$6,104,797,105	43%	\$148,000
FG3 & FG4	58,093	18%	\$3,728,738,547	26%	\$64,000
FG5 & FG6	88,609	28%	\$3,074,715,596	22%	\$35,000
FG7 & FG8	108,973	34%	\$1,266,038,312	9%	\$12,000
FG9	22,510	7%	\$84,419,740	1%	\$4,000
Total	319,516	100%	\$14,258,709,300	100%	\$45,000
Difference	100,000		\$375,026,442		
Difference (%)	24%		3%		