

PHYSICAL DISABILITY COUNCIL OF AUSTRALIA



TOWARDS A DISABILITY ALLOWANCE: OFFSETTING THE COSTS OF DISABILITY-

July, 2001

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TOWARDS A TIERED DISABILITY ALLOWANCE

- Politicians are elected to manage those things which the market manages poorly, including provision of a sense of security to those of its citizens who are less able to participate on a level playing field in a market economy.
 - People with severe and profound disabilities have a cost of living which is of an order of magnitude above the cost of living of the rest of the community.
 - The Disability Support Pension received by people with severe and profound disabilities is no greater than the Disability Support Pension received by people with disabilities who do not have additional costs due to their disability, and it is no greater than the Aged Pension received by persons whose cost of living is no greater than the cost of the living of the general community.
 - Every citizen-taxpayer in the community has a probability of acquiring a severe or profound disability.
 - Most people with disabilities would prefer to work than to live on handouts, and therefore support increased employment participation reform. But the realities are that it will take at least a generation and a good deal of lateral thinking and changes in community attitudes and community infrastructure before equity in employment opportunities is created.
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Most individuals ignore – consciously and unconsciously – the possibility and consequences of acquiring a disability while they are able-bodied. This is as true of a politician whose child or grandchild will be born with a disability as it is of a building worker who will have an industrial accident, or a football star who will acquire a spinal cord injury on the field. Once they acquire a disability or have a close relative or friend acquire a significant disability, they become politically powerless, physically and emotionally exhausted, and financially impoverished. Society stops viewing them as citizens, and instead treats them as objects of charity and an economic burden. Many people with disabilities also internalise their second-class citizenship as they continue with the stereotypical views held by society at large.

Politicians, reflecting the community as a whole, generally ignore the needs of people with profound and severe disabilities for any number of reasons. Most are ignorant of the facts. Some do not care. Many are overwhelmed by the party machines, which do not see enough votes in disability. A few are overwhelmed by the complexities of disability policy. Many are overwhelmed by their inability to distinguish between the religion of “market rationalism” and the discipline of rational economics.

Conclusion: The impoverishment of people with significant additional costs of living due to disability are swept under the carpet. Attempts to do something about it are thrown into the too-hard basket.

Where is the injustice?

It is not unjust that some people have disabilities while others do not – that is just a fact! The injustice lies in society's management of this fact.

The market system does not and cannot of itself provide for the needs of people with profound and severe disabilities. Politicians are charged with, and implicitly accept, the responsibility for managing market failure. The injustice lies in politicians' abrogation of this responsibility.

Social justice demands that society support those people least able to support themselves.

Conclusion: It is unjust that the Disability Support Pension is no greater for people with high financial support needs than it is for aged persons with no additional financial support needs.

What are the additional basic costs of living if you have a disability?

They are not luxuries! They are not lifestyle purchases! They are the additional costs of basic needs – transport, communication, staying clean, getting around inside your own home, clothing and diet; wheelchairs, hoists, and modifications; home care and attendant care; and staying fit and healthy!

The additional costs would depend on what sort of impairment you have. The additional costs are higher if you have a job. They are higher if you live in the bush. They are higher if you live alone. They are higher if you come from a middle-class background. If you are lucky, your disability will only cost an additional \$1,000 per year. If you are unlucky, your disability will cost you an additional \$25,000 per year.

There have been numerous surveys attempting to measure the additional costs of living due to disability. They have all failed for a host of methodological reasons, the most critical one being that they have sought to measure need by using actual expenditure. These surveys have shown nothing more than that additional costs are associated with income.

Even on their own terms, the surveys have failed because of reporting errors and sampling problems; because of the wide variability in costs – even within an impairment group; and because of systematic biases caused by the fact that for every expenditure category, most people with disabilities have relatively low expenditures compared to the small number of people with extremely high expenditures.

Conclusion: The additional costs of disability depends on a host of factors which vary across individuals. Simple statistical survey methods make estimation of these additional costs at best difficult, and at worst impossible.

What support could you have to cover these additional costs?

At the Federal level, there is a Disability Support Pension, a Mobility Allowance, and a Continence Aids Assistance Scheme (CAAS). At the State level, there are programs that provide supports for a wide range of services that offset some of the additional costs of living due to disability.

Almost every program is underfunded and therefore rationed by use of means tests, eligibility criteria, administrative rules and funding arrangements that vary across programs, across funding sources and across geography.

This means that the supports you receive depends on which State or Council area you live in and on what sort of impairment you have. The support depends on whether you are “pushy” or whether you “accept your lot”. It also depends on the prejudices of the assessors and coordinators who sit in judgment on you. Your support is less if you work, even though your costs are higher; they are less if you live in the bush, even though your costs are higher; they are less if you do not speak English or if you are Aboriginal, even though your needs are greater.

Conclusion: The supports to offset the additional costs of disability are inequitable and inefficient.

Is the current system of payments fair?

Is it fair that the Disability Support Pension should be no more than the Aged Pension when young people of workforce age with disabilities have greater additional costs than do retired pensioners?

Workforce-aged people with disabilities have higher social and workforce participation search costs because their lifestyle is more fluid and less “settled”. Older persons are more established within family structures and long-term friendships, and are less likely to be continually on the lookout for new job and social opportunities. Older persons are more likely to have accumulated more assets from a lifetime of employment, and have fewer additional years to draw down the assets than does a workforce-aged person with a disability who has had fewer years of employment and has a longer period over which to run down assets.

Is it fair that the Disability Support Pension is the same for all people with disabilities – irrespective of the additional costs faced? A person with additional costs of \$25,000 per year will get no more direct monetary assistance from the Commonwealth than will a person with additional costs of \$500 per year.

Is it fair that two people with the same impairment and with the same level of additional costs, say \$10,000 per year, get different levels of State support, and that the level of support depends not only on which State you live in but also on how “pushy” you are?

Is it fair?

No!

Is it fair that support structures often discourage workforce participation?

Means tests and asset tests are applied to most State services. This means that if a person with a disability or their partner earns a few extra dollars, services are lost. When the loss of benefits are added to the additional costs of participating in the workforce – additional transport costs, additional clothing costs, additional communication costs – the family is likely to be out of pocket.

Given that employment opportunities for people with disabilities are likely to be only marginal, any additional income from employment is likely to be low and/or temporary. By contrast, the loss of benefits is likely to be high and permanent. Is it any wonder that many people with disabilities are discouraged from looking for work?

These issues have been recognised by the McClure Report, but we are still a long way from solutions – particularly with respect to people with high additional costs and profound and severe activity restrictions.

What are some of the facts about the Economics of Disability?

Workforce participation

By contrast with a workforce participation rate of 80.1% for the general working age population, people with the highest support needs have a workforce participation rate of only 34.7%. This low workforce participation rate is due to:

- discrimination by employers, employees, customers, insurance companies and trade unions, as well as low self-esteem and inadequate self-confidence on the part of many people with disabilities;
- government programs which discourage workforce participation – particularly at the State level;
- inadequate supports at the workplace; and
- an inadequate transport, building and streetscape infrastructure.

Income

While 59.8% of people with profound and severe activity restrictions had total cash income (including government and family transfers) of less than \$205 per week (\$10,660 p.a.) in 1998, only 30.7% of persons without disability had income as low as \$205 per week.

There does not appear to be any direct research showing the structure of this income, or the effect of disability on earned income, but there is no doubt that employed people with disabilities have a lower income than they would have if they did not have a disability. The only question at issue is whether their income is closer to 50% or 75% of what it would otherwise be.

Costs of living

There have been numerous expenditure surveys conducted relating to the additional costs of living due to disability. Despite methodological problems that make them unreliable estimators of central tendency (averages), they have been consistent in showing that:

- there is a wide variation in the additional costs of living due to disability, both within impairment classes as well as across impairment classes, making impairment a poor indicator of need; and
- additional costs vary directly with income, and can be up to 50% of income, according to a study by the Australian Quadriplegic Association and the Department of Family and Community Services of 200 people with spinal cord injury. This direct relation can be mischievously interpreted as evidence that the additional costs are “discretionary” rather than “non-discretionary”. But people with direct experience know that the relationship is due to the urgency with which “disability goods and services” are snapped up when disposable income increases.

Conclusion: Most people with significant disabilities are pushed into poverty by a combination of low workforce participation, low incomes and high living costs – as a result of disability.

Do we want a fair system or a fairer system?

People with disabilities acknowledge that a fair system of supports is beyond the realm of the practical and politically acceptable. They acknowledge that too many people would take advantage of the opportunities of the generosity afforded by a system that fully offset the additional costs of living. They acknowledge that meaningful political change is difficult because politicians are servants of an electorate that is ignorant about the financial burden of disability, insensitive about social obligations, and in self-denial of the chances of acquiring a disability or having a friend or relative acquire a disability. They by and large acknowledge that perfection and the ideal belong in another realm.

...But they do not accept that the current system cannot be made fairer!...

They do not accept that the current system is the best that is politically practicable in an affluent community where most people enjoy the basic necessities of life, and cost-of-living issues for most taxpayers come down to making choices between competing lifestyles and status goods and services, rather than choices between necessities.

How can the system be made fairer?

It can be made fairer by **accepting the McClure recommendations** about separating income support into:

- a base component that is the same for all social security recipients;
- a disability component to assist with the additional cost of living due to disability; and
- an employment participation component to encourage employment participation.

It can be made fairer **by ensuring that the “additional cost of living due to disability” component has four or five tiers**, so that people assessed as having a disability, but not having high additional costs of living due to their disability, would receive the lowest tier, while those assessed as having high additional costs of living would receive the highest tier.

Most people with disabilities would receive the lowest tier amounts because most people with disabilities do not have high support needs. Few would receive the highest tier, but it is the few whose needs are most ignored, and who are most impoverished.

The system can be made fairer by **ensuring that the allowances do not discourage workforce participation or saving**. This can be done by:

- offsetting the additional cost of workforce participation; and
- raising income and asset-test thresholds to account for the additional costs of living due to disability.

It is unfair that the current DSP and pension thresholds are the same for people with disability who face extraordinary additional costs of living due to their disability as they are for people who have no additional costs of living.

The first step is to make a significant commitment to do something about the impoverishment of people with disabilities with high support needs.

The second step is to develop “pilot trials” of a Tiered Disability Cost of Living Allowance in each State. These pilot trials would be to test the effectiveness, efficiency and equity of various parameters; to measure costs; to examine relationships with existing programs, including employment programs; and to test the effect on the well-being of people with disabilities. Another expenditure survey would be a waste of time and effort.

The third step is to “sell” the commitment to the Australian public, so that the Australian taxpayer will fully support the tiered disability allowance. It can be “sold” on the basis that everyone in the community faces a chance of acquiring a disability, or having a close friend or relative acquire a disability, and that everyone thereby faces a chance of impoverishment. It can be sold on equity to people who have for too long been isolated and ignored.

Will people with disability support these steps?

A draft paper outlining options for means of offsetting the additional costs of living due to disability was circulated through the disability sector e-mail lists during March–April 2001.

The options included:

1. a single-tier disability allowance;
2. a multi-tiered disability allowance;
3. several single-tier functional-disability allowances (current Mobility and CAAS, plus independent living/personal care; equipment, aids and appliances; personal care, communication, extraordinary health/pharmaceutical and therapy);
4. several multi-tier functional-disability allowances (as in 3); and
5. co-payments and rebates on expenditure on disability goods and services.

Both Option 1 and Option 3 were felt to be inequitable because they would not offset the additional costs of people with high support needs. Option 5 was felt to be inequitable because it favored high-income wealthy people with disabilities against those on low income and no assets. The draft's preferred position was Option 4 because it was felt that the assessment tools for Option 2 would be more complex and intrusive than those of Option 4.¹

Feedback from the sector showed a clear preference for Option 2 because people did not wish to subject themselves to multiple assessments, and because it was felt that a multi-tier, multi-allowance model would involve too much complexity. The preference was subject to retention and expansion of the Mobility and CAAS allowances.

Conclusion: People with disability want a multi-tier disability allowance to offset the additional costs of living due to disability.

Where will the money come from?

Rational economics suggests that if people are willing to pay more than the marginal cost of a good or service, then the good or service should be provided. Rational economics suggests that people buy insurance to offset risks such as the risk of facing high additional living costs as a result of disability.

There are however significant information issues that will always stand in the way of the development of an insurance market that would offset the additional costs of living due to a severe or profound disability. Rational economics suggests that where markets do not exist or cannot exist, and where the social benefits of a product are greater than the social costs of the product, it is up to government to create or encourage the market.

Actuarial pricing principles suggest that the “*shadow premium*” for insurance against the additional costs due to disability is the product of “*the probability of acquiring a disability*” and “*the additional costs faced as a result of the disability*”. Rational fully informed risk-averse individuals would be

¹ **References:** See the Physical Disability Council of Australia Web-site <http://www.ozemail.com.au/~pdca> for background supporting documents. This includes a lengthy discussion of Options 1–5 against five criteria – equity, administration & cost, consumer acceptance, accountability & transparency, and employment participation. For further information, please call Sue Egan, CEO on (07) 3267 1057 or Dr. Jack Frisch (researcher) on 0416 276 919.

willing to pay this premium in a fair market but there is no market.

It is up to government to fill this vacuum. The vacuum is a tiered cost of disability allowance.

Conclusion: A “hypothecated disability insurance premium” can fund a more generous and just disability allowance that recognised the additional costs of living due to a disability.