

VALIDATING THE INVESTMENT APPROACH TO WELFARE

In 2013, the Australian Government began reviews of the welfare system in order to ensure sustainable and effective support is available for Australia's most vulnerable people, while enabling those with capacity to enter the workforce for greater self-reliance. This led to the *Priority Investment Approach to Welfare*, which uses actuarial analysis to estimate the lifetime welfare pathways of all Australians. Among initial findings was that, as of mid 2015, the future lifetime cost of welfare payments for all Australians totalled \$4.8 trillion.

The Australian DSS commissioned valuations of the Australian welfare system to gain an understanding of projected welfare access and costs, and engaged ISSR to lead validations of both the 2015 baseline valuation, and the 2016 updated valuation.

ISSR partnered with Deloitte Actuaries & Consultants in 2017 to validate the 2016 valuation, with the aim of improving the accuracy and robustness of the 2016 figures and any subsequent valuations. This second validation assessed the valuation on criteria including reasonableness (of model assumptions), accuracy (in predicting lifetime costs), technical adequacy (of technical documentation), transparency (or accessibility to the model by all audiences), coherence (of the model with existing information), and adaptability (of the model to future needs).

The ISSR-Deloitte team concluded that considerable improvements have been made to the baseline valuation methodology, such as updating population projections with new Australian Census data, adding new class characteristic risk variables to improve prediction, and including an economic module. Notwithstanding, the team recommended a number of measures to facilitate future evaluations, such as enabling greater ownership and agency by DSS over the valuations and linking large datasets for more refined analysis. Select recommendations include:

- support DSS' ability to independently review and interpret the valuation material, and undertake future valuations, by developing a detailed knowledge transfer strategy, including detailed, easy to understand technical documentation with interpretability by non-actuarial readers,
- discuss Census data access with the Australian Bureau of Statistics to improve inclusion of under-represented subgroups,
- improve efficiency and accuracy of the modelling process by automating aspects of the modelling process and adjusting projection periods to shorter periods for greater flexibility in applications, and
- incorporate key predictive variables from *Household, Income and Labour Dynamics in Australia* (HILDA) Survey such as geographical data, earnings and ethnicity.

INNOVATING AUSTRALIAN WELFARE FOR THE FUTURE

Core to the *Priority Investment Approach to Welfare* is investment in early interventions that assist those with capacity to develop enduring life skills that facilitate social and economic participation, thereby reducing their welfare dependency and improving their lifetime wellbeing.

After having gained an idea of the total lifetime costs of welfare payments and the diversity of payment recipients, DSS approved a \$96.1 million investment in the *Try, Test and Learn Fund*, which will deliver trials of innovative approaches to enable greater self-reliance among those with the capacity.

In February 2017, DSS held a "Policy Hack" to kickstart group brainstorming by experts from non-profit organisations, academia, government and industry, as well as priority group representatives, from across the nation. ISSR researchers participated in the Hack, working within allocated teams to develop policy solutions for three target groups: young carers, young parents and at-risk students.

Professor Janeen Baxter, Director of the Life Course Centre and leader of ISSR's gender & family dynamics group, won an award for "Most compelling hypothesis" with her Policy Hack team.

Looking ahead, ISSR will continue to play a substantial role in providing evidence for Australian welfare reform for the benefit of all Australians. The Institute is a co-designer in the Fund's first tranche, focusing on *Data-driven Job Opportunities for Young Carers*.

