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MEANS TESTING THE NDIS: FISCAL AND DISTRIBUTIONAL EFFECTS

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Summary

The National Disability Insurance Scheme (NDIS) provides eligible participants with disability supports regardless of their financial circumstances. Means testing has been raised as a way to ease fiscal pressure on the scheme by assessing participants' capacity to contribute toward the services they receive. Using linked administrative data, we examine the fiscal and distributional implications of applying a pension-style means test to the NDIS. We find that:

- NDIS spending is highly concentrated among participants with little capacity to pay: 87 per cent of adult NDIS spending goes to participants who receive the Disability Support Pension, a payment that is itself income- and asset-tested.
- An income-based means test would fully abate the government's contribution for around 40 per cent of participants, yet reduce total government NDIS spending by around 12 per cent, or $4.5 billion in FY2024.
- Around $3.5 billion of the $4.5 billion saving comes from participants aged 0–17, and represents 60 per cent of that age group's current spending.

Most of the estimated savings come from child participants, whose government contribution is assessed against parental income. To the extent that Thriving Kids and other eligibility reforms affect the same participants, the number of participants subject to means testing will be smaller than assumed here. These estimates also do not consider the workforce disincentives introduced by means testing or other behavioural responses.

The NDIS is one of Australia's largest and fastest-growing social programs. Unlike traditional income-support payments, it does not provide cash conditional on income or employment status. Instead, it funds reasonable and necessary disability-related supports for eligible participants, irrespective of their financial circumstances.

As the scheme has grown, its long-term fiscal sustainability has become a central policy concern. The 2026-27 federal budget outlined a series of savings measures that are projected to reduce the cost of the scheme by $37.8 billion over the next four years. Around a quarter of these savings come from changes in the eligibility rules for the scheme, which are estimated to result in 346,000 fewer NDIS participants by 2031 (Parliament of Australia, 2026). These reforms change who is eligible for the scheme, placing greater weight on functional capacity and support needs rather than diagnosis. For participants who lose eligibility, access to disability supports becomes dependent on their own capacity to pay.

An alternative is means testing — asking participants with sufficient means to contribute toward the cost of their supports — to ease some of the pressure on the scheme. Unlike eligibility changes, means testing would not necessarily remove participants from the scheme. Instead, it would taper the public contribution as the participant's assessed capacity to pay rises.

Using linked administrative data from several government agencies, we examine the income and spending distribution of NDIS participants and estimate the fiscal and distributional impact of means testing the NDIS using a pension-style means test. We measure capacity to pay using assessable family income net of disability-related support needs, which we proxy using each participant's NDIS expenditure. This analysis is an accounting exercise rather than a causal evaluation. We hold participant behaviour and scheme access fixed, and ask: if the government's contribution toward each participant's plan were tapered against assessable family income using pension-style parameters, how would scheme spending change, and for whom?[1]

1 The rationale for this approach is that the participant's budget reflects the NDIA's assessment of the needs of that participant. If an individual has sufficient income to partially pay for these services, a means testing approach would see individuals change their behaviour based on whether they view the service as sufficiently valuable – this in turn may reduce demand for services and further reduce NDIS spending. As a result, these results may understate the fiscal benefits of means testing.

Means testing the NDIS

NDIS services received by participants reflect reasonable and necessary supports required to mitigate the individualised costs of participants' disabilities. Means testing could be justified on the grounds that participants should contribute toward the cost of their supports where they have the capacity to do so.[2] This would require assessing participants' capacity to pay for the services they receive while accounting for their individual disability costs when measuring means. In practice, this means defining a minimum standard of income or wealth net of disability-related costs, with means testing applied only to means above that floor. Under such a system, there would be no *general* income or wealth limits for NDIS access because the capacity to pay is inherently tied to the cost of each individual's needed supports.[3]

To illustrate the potential effects of means testing, we adopt existing pension means testing parameters as detailed below.

Box 1: Means testing parameters

We simulate NDIS means testing using a set of means testing parameters shared across multiple income support pensions including the Disability Support Pension and Carer Payment. NDIS spending is reduced by 50 cents for every dollar of family income above a threshold (see Appendix A for more details).

$$\textit{Means-Tested NDIS spending} = \max\left\{0,\ \textit{NDIS spending} - 0.5 \times \max\left(\textit{Adjusted Family Income} - \textit{Threshold},\ 0\right)\right\}$$

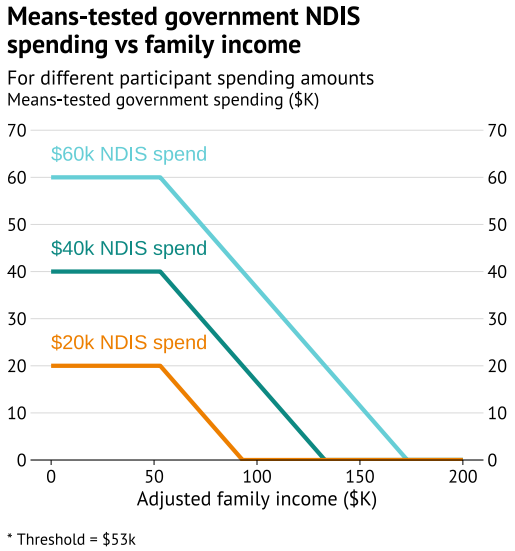
We define family income in line with the pension system: for adult participants, it is the sum of individual and partner income and for child participants the sum of their parents' income. We combine DOMINO and ATO data to construct a measure of adjusted family income for each participant:

$$\textit{Adjusted income} = \textit{Taxable income} + \textit{tax-free pensions and benefits} + \textit{fringe benefits} + \textit{foreign income} + \textit{net investment losses} + \textit{reportable super contributions}$$

This measure of income broadly matches the adjusted taxable income measure used to means test the Family Tax Benefit, Child Care Subsidy, and Carer Allowance (see Appendix A for more details). We do not include any deemed income from assets due to data constraints.

Both the taper rate and the thresholds are taken from the pension income test. The thresholds for 2024 are $34,320 and $53,120 for singles and couples, respectively. These represent the thresholds to the maximum pension payment rates ($1,116/$1,683 per fortnight for singles/couples in 2024) plus the income-free area within which payments are not reduced ($204/$360 in 2024).

Figure 1

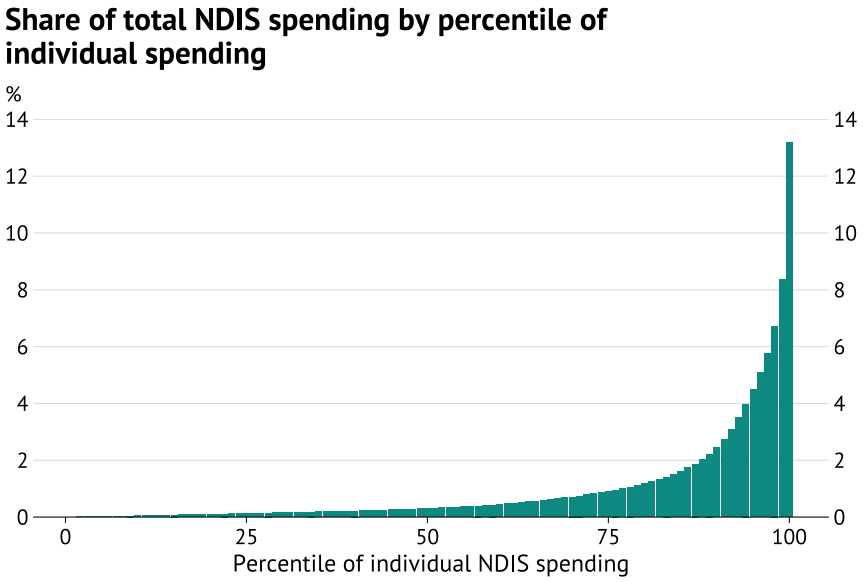


2 We set out the competing rationales for and against means testing in Appendix A.
3 This could be based on a participant's actual NDIS spending or their total plan budget. We use actual spending throughout this note, though the choice doesn't materially affect the results. See Appendix A for more.

The distribution of NDIS spending and family income

We begin by examining the distributions of family income and NDIS spending, which jointly determine the fiscal impacts of means testing. We find that a small share of participants account for most NDIS spending, and that spending is concentrated among lower-income families. Figure 2 ranks participants by annual spending and shows that **the highest-spending 10 per cent account for 57 per cent of total scheme spending, while the lowest-spending 50 per cent account for only 7 per cent.**

Figure 2

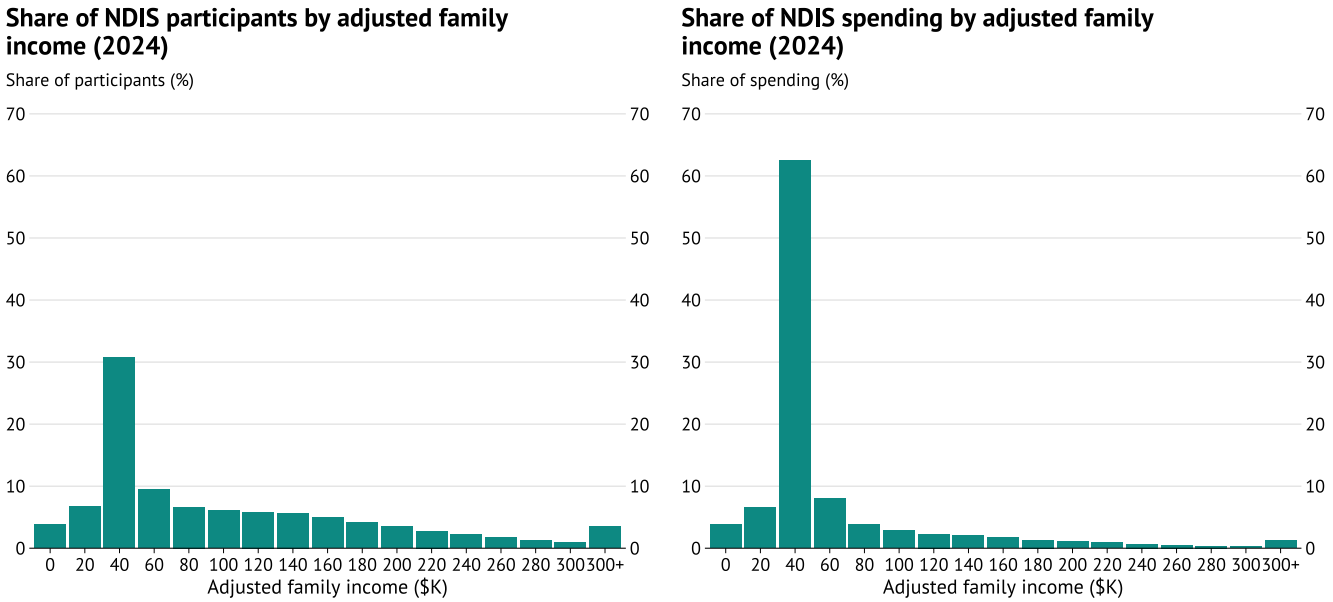


* 2024 spending
Sources: ABS; e61

This concentration is closely tied to family income. Participants in families with adjusted **income below $40,000** account for **73 per cent of spending** but only **41 per cent of participants** (Figure 3):

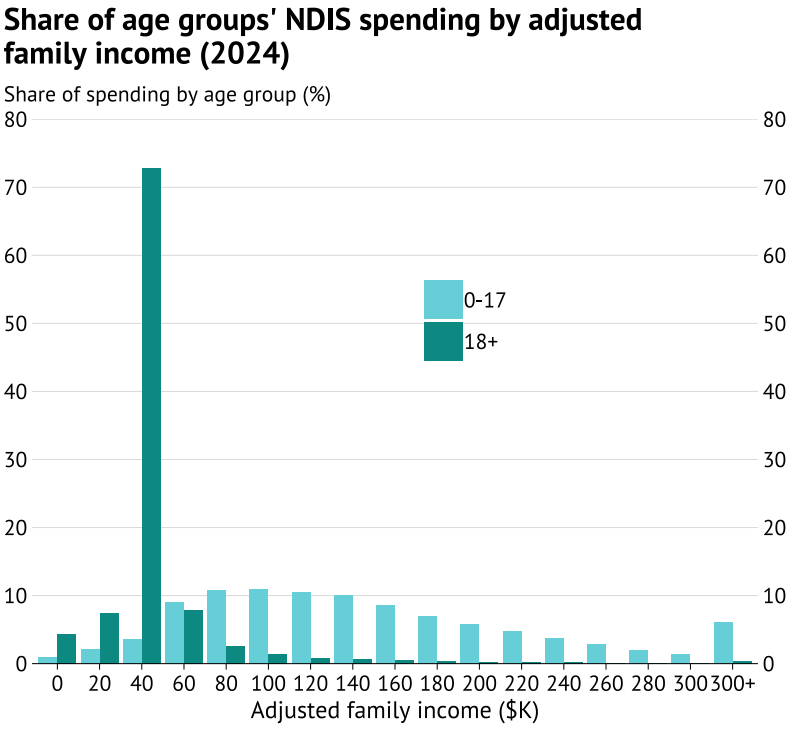
- This is driven almost entirely by adults, who make up 85 per cent of all NDIS spending in 2024.
- Splitting the spending distribution by age group shows that **around 85 per cent of adult spending is by participants with family income under $40,000, compared with just 7 per cent of child spending** (Figure 4).
- More than **60 per cent of adult NDIS spending** is by participants in **families receiving close to the full rate of the Disability Support Pension (DSP)**, while **87 per cent of adult NDIS spending goes to participants receiving the DSP at some level**, which is already income and asset tested (Figure A.3). This shows that most adult NDIS spending is concentrated among participants with very limited financial means.
- In contrast, spending for child participants is much more evenly spread across the distribution of family taxable income (Figure A.2).

Figure 3



* 0 bin is exactly zero. All positive values are 20k ranges
Sources: ABS; e61

Figure 4

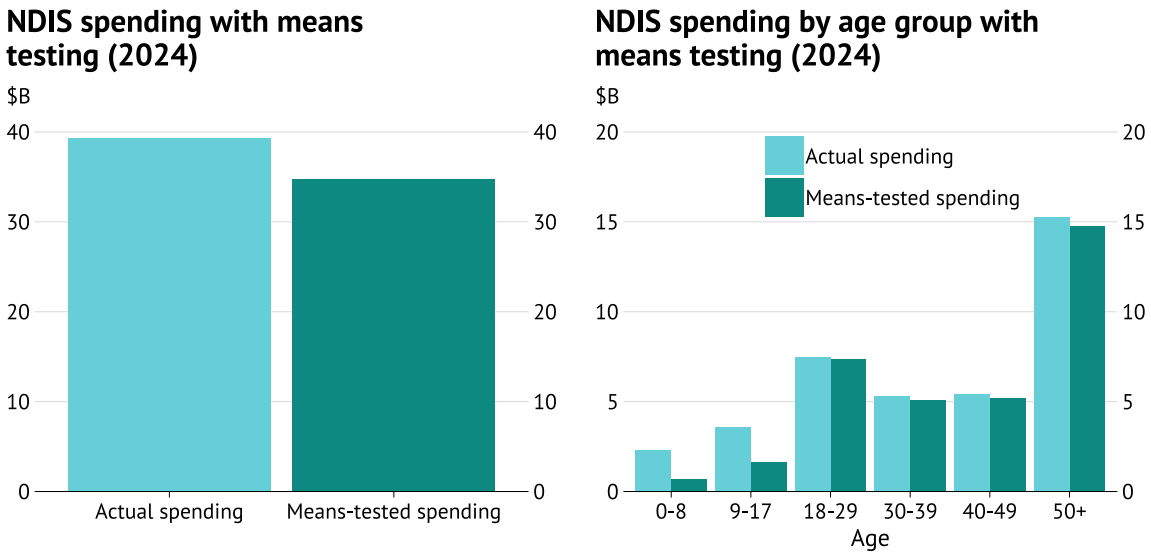


* 0 bin is exactly zero. All positive values are 20k ranges
Sources: ABS; e61

Simulated fiscal saving from means testing the NDIS

Applying these pension-style parameters to participants' NDIS spending reduces simulated government spending by **12 per cent**, or around **$4.5 billion** in FY2024. Around **$3.5 billion** of this saving **comes from participants aged 0–17**, an age group that accounts for just 15 per cent of scheme spending. These differences between children and adults are consistent across disability types (Appendix Figure A.5).

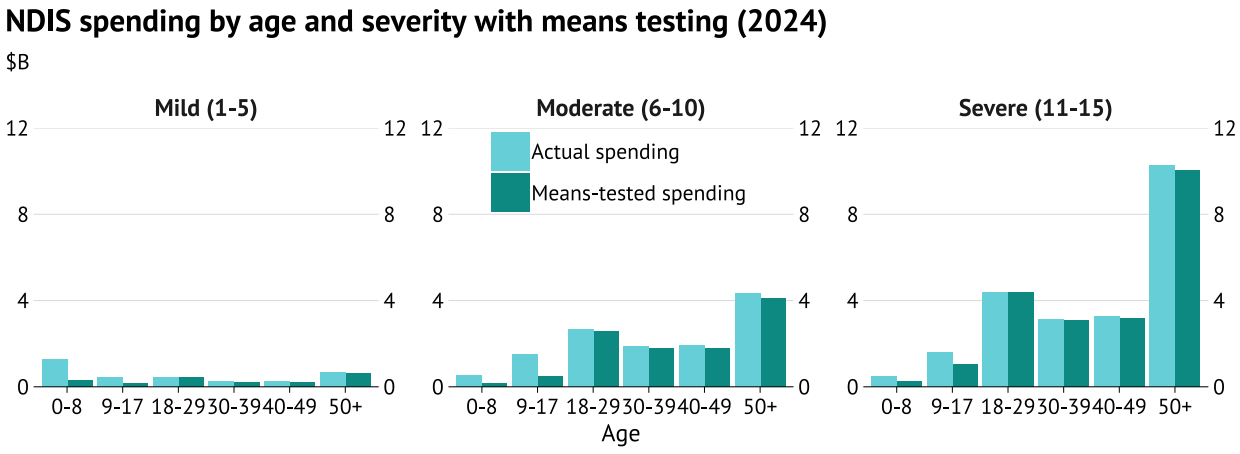
Figure 5



Sources: ABS; e61

The majority of this saving comes from children with mild or moderate assessed disability (Figure 6).[4] Adults with moderate or severe disability account for most of the scheme's spending but very little of the saving from means testing.

Figure 6



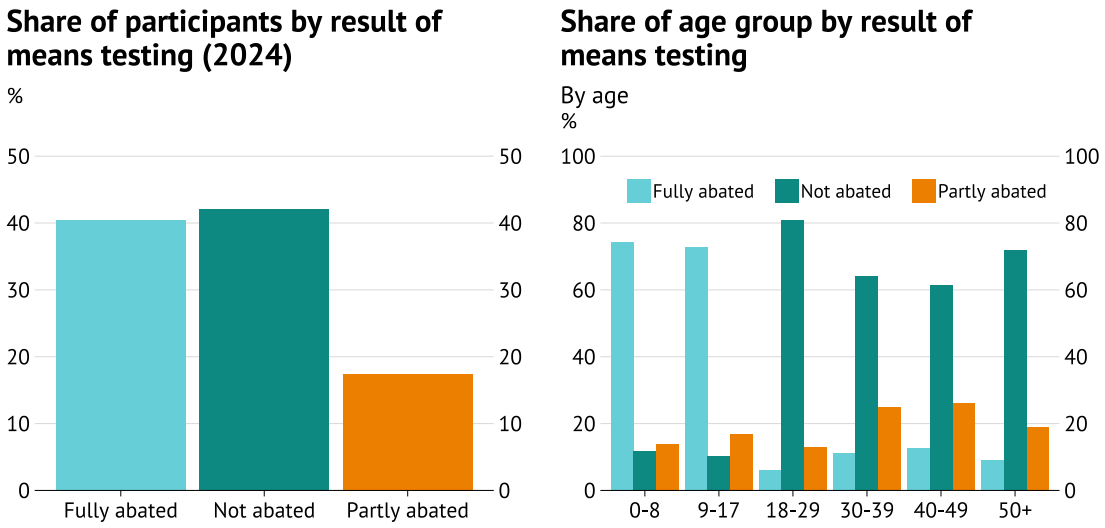
Sources: ABS; e61

Figure 7 summarises the impacts of means testing at the participant level, showing the share of participants whose government contribution is fully abated, partly abated, or unaffected. Fully abated participants are disproportionately low-cost: around 40 per cent of participants lose their government contribution entirely, yet scheme spending falls by only 12 per

4 This uses standardised scores of disability severity from the NDIS data that range from 1–15. We classify 1–5 as mild, 6–10 as moderate and 11–15 as severe.

cent. Full abatement is most common for child participants because their government contribution is assessed against their parents' income, while adults are predominantly unaffected.

Figure 7



Sources: ABS; e61

Behavioural responses to means testing the NDIS

Means testing would reduce the fiscal cost of the NDIS but is also likely to reduce labour supply. In our simulation, means testing increases both *effective marginal tax rates (EMTR)*[5] and *participation tax rates (PTR)*[6] for NDIS recipients with adjusted taxable income above $34,320 for singles and $53,120 for couples. Tax rates for these individuals will be higher from this point until the income where benefit receipt fully abates – a range that varies with the deemed need of the individual. Higher tax rates in this range may, in turn, reduce household labour supply, reducing the effectiveness of means testing and increasing costs. The way in which these higher tax rates interact with the incentives for the individual with disability and their broader family will influence the appropriate design of such means testing.

To illustrate these effects, we show examples of EMTR and PTR schedules below. The first example shows a Disability Support Pension (DSP) recipient who has NDIS spending of $50,000. The individual is assumed to remain eligible for the payment as they increase their work hours, subject to the 30-hour rule – under which the DSP is suspended if work hours rise beyond 30 hours.

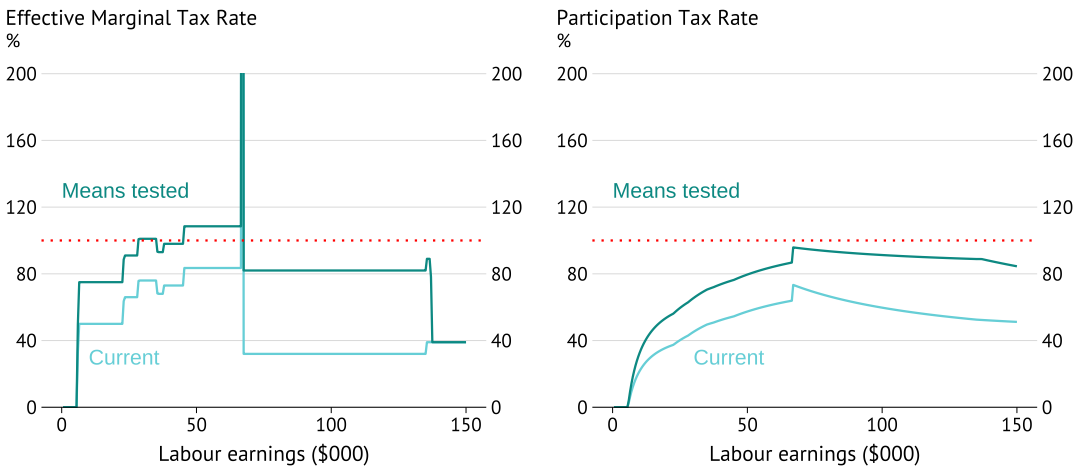
Adding NDIS means testing to this individual significantly increases both EMTRs and PTRs. PTRs for this individual rise to as high as 96 per cent under means testing (compared to 73 per cent under current rules) when earning $67,000 – this means that 96 per cent of the labour income earned is clawed back through tax and benefit abatement, or that the individual only keeps $2,700 of their earnings when working 30 hours a week for a full year.

A second example is a couple, where we focus on the tax rates for the primary caregiver for a child who receives NDIS support. In this case, we consider a household with two adults and one child, aged 5. The child has $50,000 of NDIS spending per year. The primary earner receives the median full-time wage of $90,500, and the second adult is eligible for Carer Payment.

5 EMTR is the share of each additional dollar earned that is lost through higher taxes and reduced government support.
6 PTR is the share of total earnings from taking up work that is lost through higher taxes and reduced government support.

Figure 8

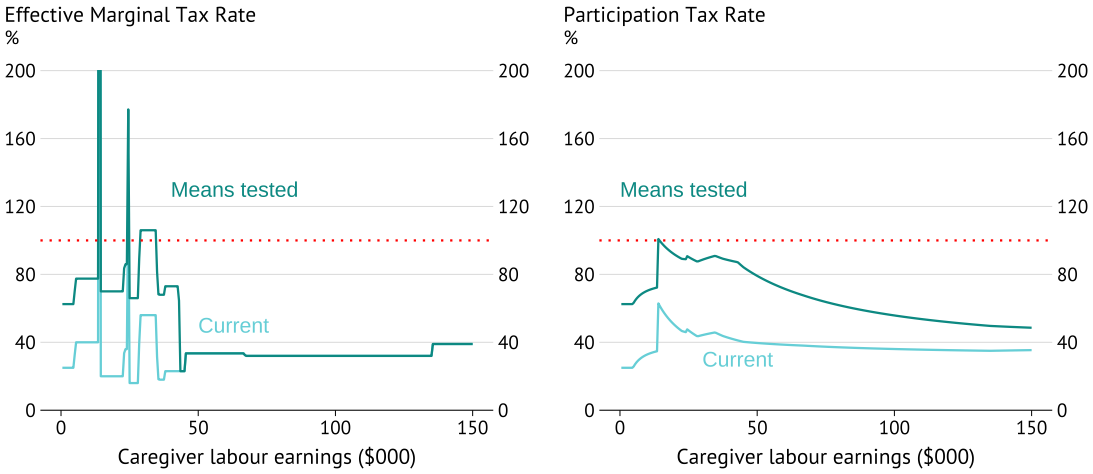
Single DSP recipient



* NDIS Participant ($50,000 budget), DSP recipient, hourly wage $42.90.
** Renter household, paying $430 per week
*** Red dotted line represent a 100% EMTR.

Figure 9

Couple with recipient child



* Child NDIS Participant ($50,000 budget); other parent earning $90,500pa.
** Home-owner household.
*** Red dotted line represent a 100% EMTR.

In this example, the labour force disincentives are stark for low levels of income, but decline significantly if the individual worked full-time. In fact, earning $14,000 would reduce the overall household income compared to not working at all (a PTR over 100 per cent). These disincentives exist in the current system, due to the loss of the Carer Payment and sharp reduction in family tax benefit eligibility. However, NDIS abatement would exacerbate this feature of the system.

These examples were chosen for their representative nature, however there will be significant differences in the tax rate effects on different households. Specifically, households with existing high effective marginal tax rates see these rise to high levels. This group largely includes households with children, single individuals looking for full-time work, and second earners looking to enter the labour market. This can be explored in our new online tool.[7]

7 https://e61.in/e61-ndis-and-disability-income-calculator

Although these tax rates appear very high, participants can reduce these tax rates by deciding which services not to use, which may, in turn, increase competition between providers and lower prices, thereby allowing participants to consume more services for a lower cost. Alternatively, providers in thin markets may respond by reducing supply or exiting the market, limiting participants' access to services.

Conclusion and implications for policy

A means test built on existing pension parameters would remove many NDIS participants from government support and generate modest fiscal savings. In our analysis, around 40 per cent of participants have their government contribution fully abated, yet government NDIS spending is reduced by around 12 per cent. The reason is that the participants most affected by the means test account for a relatively small share of total scheme spending, while the high-cost tail of the scheme is largely unaffected.

Much of the saving identified here overlaps with savings the scheme is already pursuing through other channels. The concentration of abatement among young participants means that reforms targeting children's pathways — including the Thriving Kids initiative and related eligibility changes — would be expected to affect a similar population. This implies that:

- **The Thriving Kids program and other eligibility changes may largely mirror what a means testing regime would do**: Significantly reducing spending on children without a sizeable change in spending on adults.
- **The cost reduction from means testing will be small after eligibility changes**: If participants who would be affected by means testing are no longer in the NDIS following eligibility changes, the fiscal savings will be smaller than our results suggest.
- **Other eligibility changes may impact some participants' access to services**: Most spending by adult participants is accounted for by those with little private capacity to pay.

As a result, the direct fiscal case for means testing appears limited among adult participants and may be reduced for child participants following the announced eligibility reforms.

These **results also assume no behavioural response**: plan utilisation, labour supply, and scheme participation are held fixed at their observed 2024 values.[8] Means testing and non-income-based restrictions to eligibility criteria may differ in the following ways:

- **Lower labour supply**: Means testing reduces the financial incentive to work. As a result, means-tested households may work less, reducing tax revenue and increasing government NDIS spending relative to our estimates.
- **Potential price and market responses**: Participants whose government contribution is partially abated may pay more attention to price, seek better prices, or cut back on services they value less. Lower government-funded demand may also put more pressure on providers to compete, although in thin markets it could reduce supply. These effects are uncertain and may vary across markets.
- **Less incentive to reclassify circumstances**: Eligibility thresholds for scheme entry create an incentive for individuals to reclassify their circumstances (Ranjan & Breunig, 2026). Means testing may reduce this incentive and be more effective at managing costs in situations where income is hard to manipulate but eligibility depends on how individual circumstances are classified.

Overall, the potential role of means testing differs across two distinct groups: it offers limited scope for savings among adult participants with more severe disability and lower incomes, but may remain an option for child participants when applied to parental income, particularly if eligibility reforms prove difficult to implement.

8 The exercise also abstracts from the administrative cost and complexity of running an income test across NDIS plans, and from the equity and access considerations that would attach to asking families to contribute toward disability supports. However, partial benefit abatement would reduce government support for some participants by less than the complete loss of eligibility that may result from upcoming eligibility changes.

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Policy rationale for means testing

This section draws on the arguments in Maltman et al. (2025).

A key driver of differences in progressivity between in-kind payments and cash transfers is the degree of means testing – namely whether the benefit received by individuals or households declines as their income or wealth increases. At a high level, if progressivity was the main objective of a support program, means testing would achieve this by reducing the proportion of benefit received by those with higher income or wealth. This is often called the target efficiency of a payment, allowing for a larger payment to go to those with low means for the same fiscal envelope. However, greater target efficiency then also leads to high effective marginal tax rates as the support decreases as income rises. This may disincentivise work, highlighting a central trade-off in social support design.

However, income or wealth are not the only basis on which governments provide support. Two individuals with the same income and wealth may have very different needs due to life shocks they experience, which may impose additional costs on them. Not accounting for these costs can give a misleading picture of the progressivity of a payment (Cribb et al., 2024; Hancock & Pudney, 2014).

Proponents of no means testing note that the payment is specific to a given need of the individual – the NDIS is the clearest example of this, where the lack of means testing has been motivated on the basis of a fundamental right to access reasonable and necessary supports required to mitigate costs associated with the individual's disability.

As a result, this is a question regarding the positive right protected by the government. If the positive right refers to the provision of a service, then means testing is less appropriate. If instead the positive right refers to access to a service, then means testing may be justified on the basis that people with high means can contribute to, or fund, their own supports. If access is the appropriate basis, then the design question is how to assess means while accounting for costs associated with the life shock, such as having a child or living with disability. This involves defining a minimum standard of income or wealth that should be available to a person net of these costs, with means testing applied to income and wealth in excess of this net standard.

There are administrative and compliance reasons why a wider net of accessibility may be preferable. In some cases, imbalances of power within a household may also justify providing a larger support to ensure the individual who requires the funding receives it. However, these margins need to be weighed against the cost control benefits of means testing.

As the costs associated with disability, child care, or unemployment are all very different, the nature of the means testing applied should also be different. For someone living with a permanent impairment, the income and wealth tests applied to their family unit would generally be much less restrictive than those applied in case of unemployment.

If, instead, provision is deemed to be the appropriate basis, the provision of the service becomes a form of social insurance for the life shock. In this case, we would expect all individuals to contribute an insurance premium in order to fund non-means tested payments that cover the cost of the support. In this instance, means testing is less appropriate, and this is the rationale often used for the NDIS program.

However, this would also motivate the estimation and application of a specific insurance premium associated with the insurance program. As the NDIS is funded from general revenue, the implicit levy that is being applied is invisible to taxpayers. If this is the rationale for the scheme, a clear assessment of the actuarially fair premium required to fund the scheme should be made clearer to the public.

Means test parameters

We apply the income-test parameters from income support pensions, including the Disability Support Pension, to means test the NDIS benefits received by individuals, as described in Box 1. We run the simulation on two alternative bases: observed NDIS spending and approved NDIS budgets. The results presented throughout the note are those using NDIS spending.

In practice, a means test would likely be applied to budgets rather than spending, as this would be less complex to implement: the abatement could be set once at planning, rather than reconciled against payments as they occur. For our calculations, however, the budget-based simulation requires more assumptions. Plans are not set to financial years, so budgets must first be annualised to match the tax data periods. We can then compare each participant's observed spending against their means-tested budget, with spending above the abated budget treated as the fiscal saving. The two approaches produce quantitatively very similar results.

Income definition and variables

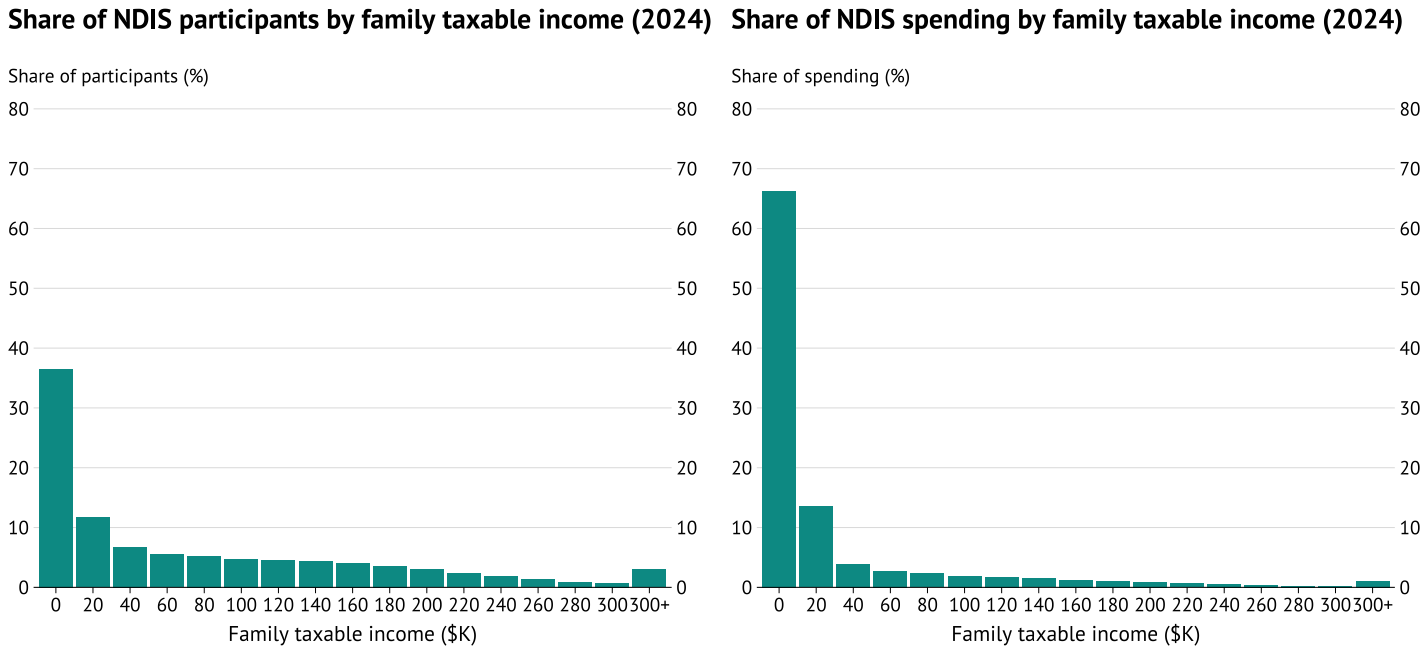
Family adjusted income is constructed from linked DOMINO and ATO records as set out in Box 1. The component variables are defined as follows:

- *Taxable income*: taxable income from tax return. If missing, we use PAYG income.
- *Tax-free pensions and benefits*: untaxed income-support payments from DOMINO. We include the Disability Support Pension, Rent Assistance, Carer Payment, Carer Allowance, and Family Tax Benefit A & B.
- *Fringe benefits, foreign income, net investment losses, reportable super contributions*: reportable items from tax return data.

Partner and child linkages are taken from Core family files to construct income at the family level. For adult participants, it is the sum of individual and partner income and for child participants the sum of their parents' income.

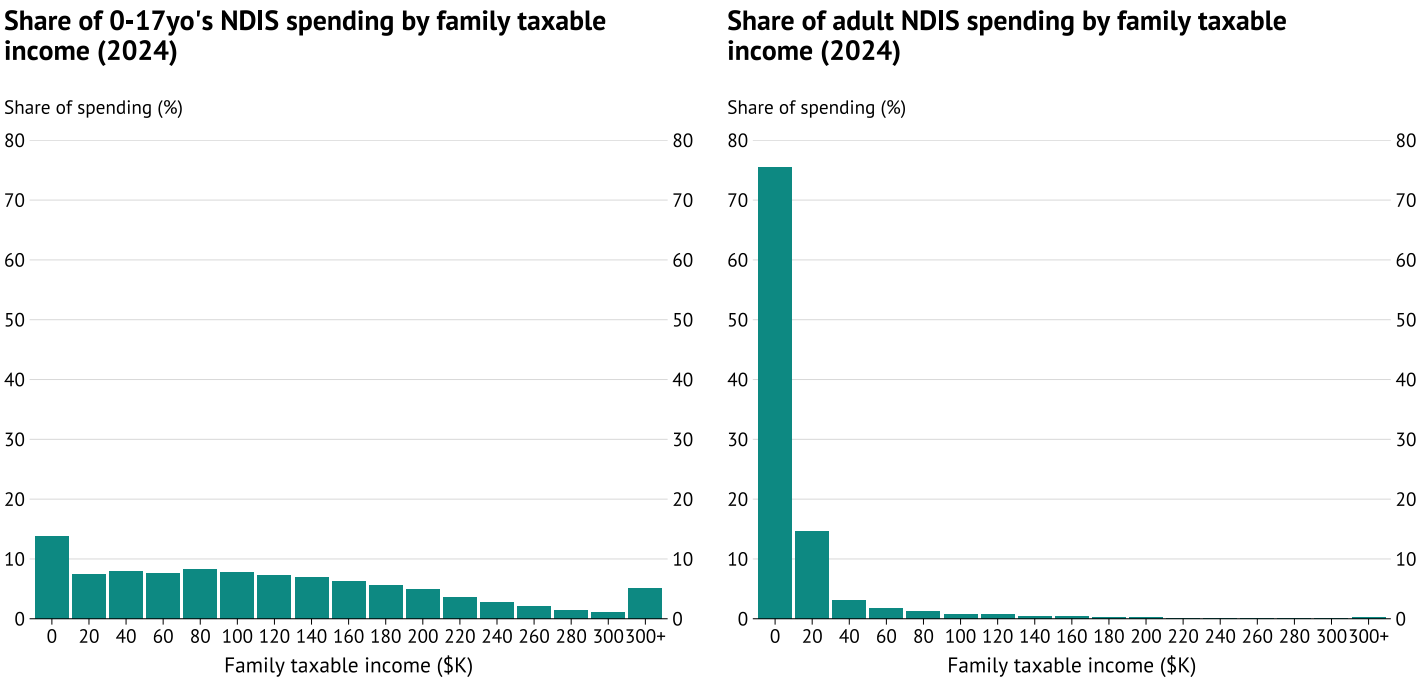
Additional figures

Figure A.1



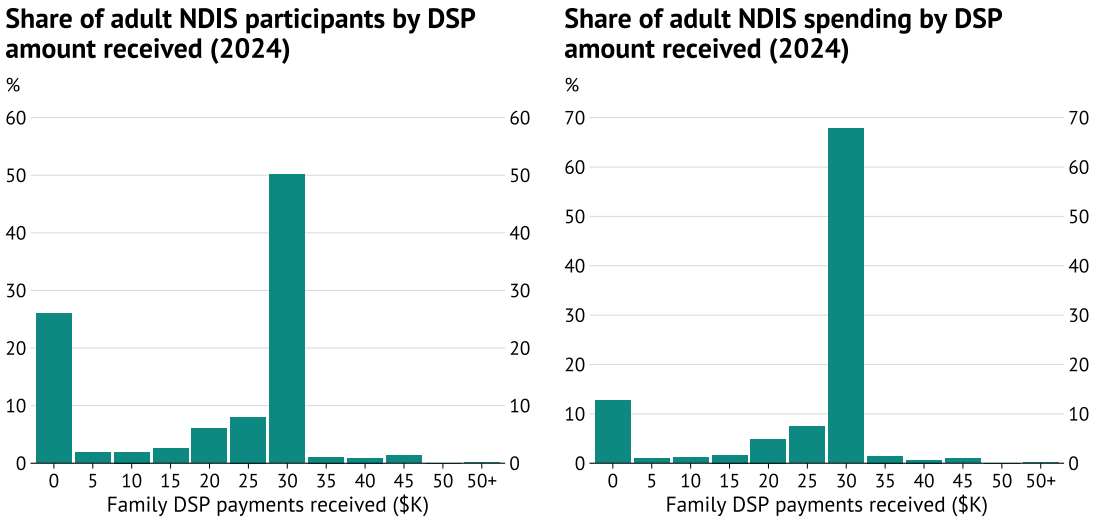
* 0 bin is exactly zero. All positive values are 20k ranges
Sources: ABS; e61

Figure A.2



* 0 bin is exactly zero. All positive values are 20k ranges
Sources: ABS; e61

Figure A.3

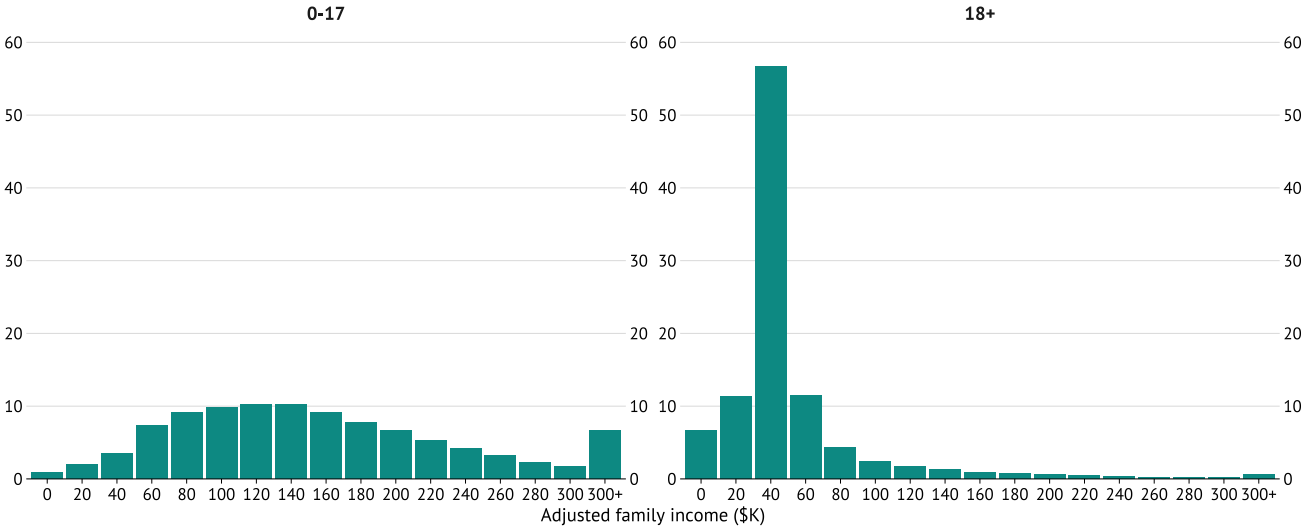


* 0 bin is exactly zero. All positive values are 5k ranges
Sources: ABS; e61

Figure A.4

Share of age groups' NDIS participants by adjusted family income (2024)

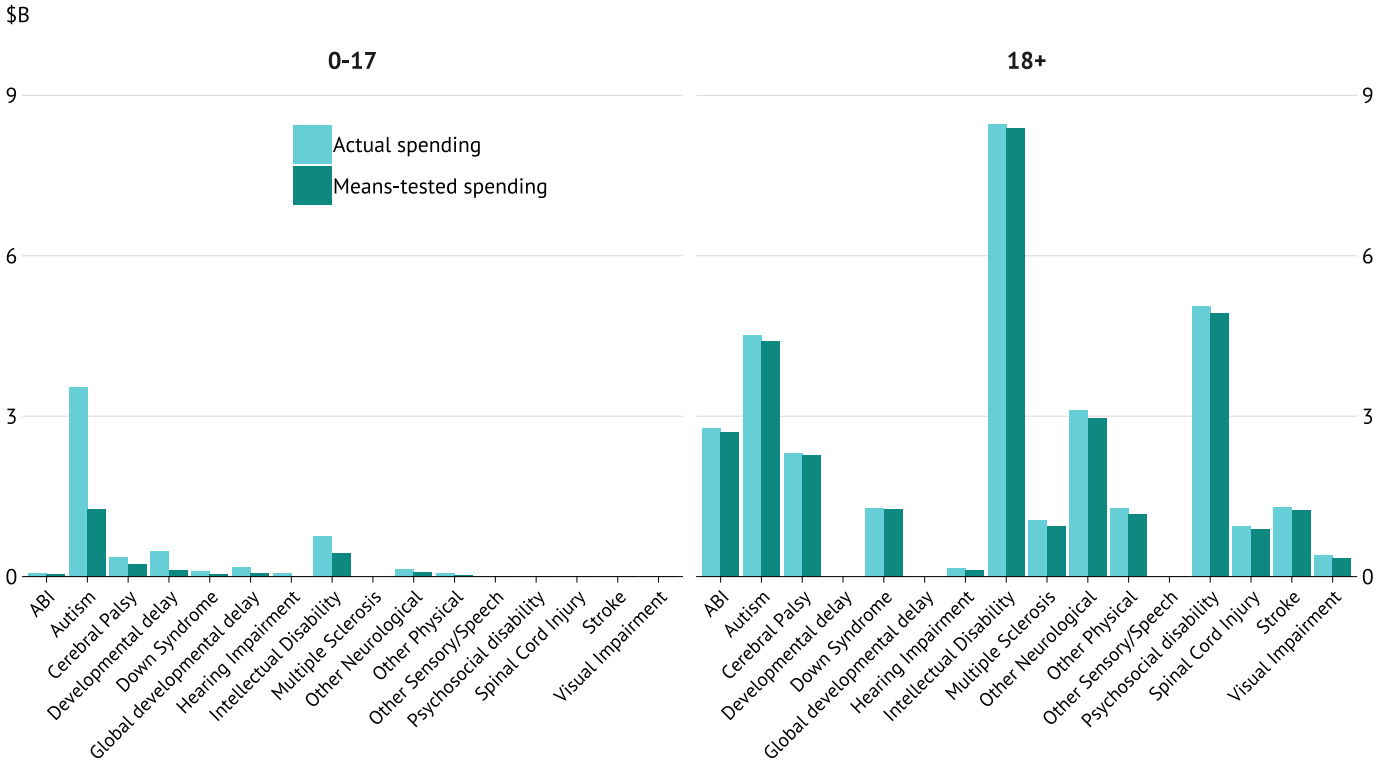
Share of participants by age group (%)



* 0 bin is exactly zero. All positive values are 20k ranges
Sources: ABS; e61

Figure A.5

NDIS spending by age and disability with means testing (2024)



Sources: ABS; e61

Data disclaimer

The results of these studies are based, in part, on data supplied to the ABS under the *Taxation Administration Act 1953*, *A New Tax System (Australian Business Number) Act 1999*, *Australian Border Force Act 2015*, *Social Security (Administration) Act 1999*, *A New Tax System (Family Assistance) (Administration) Act 1999*, *Paid Parental Leave Act 2010* and/or the *Student Assistance Act 1973*. Such data may only be used for the purpose of administering the *Census and Statistics Act 1905* or performance of functions of the ABS as set out in section 6 of the *Australian Bureau of Statistics Act 1975*. No individual information collected under the *Census and Statistics Act 1905* is provided back to custodians for administrative or regulatory purposes. Any discussion of data limitations or weaknesses is in the context of using the data for statistical purposes and is not related to the ability of the data to support the Australian Taxation Office, Australian Business Register, Department of Social Services and/or Department of Home Affairs' core operational requirements.

Legislative requirements to ensure privacy and secrecy of these data have been followed. For access to PLIDA and/or BLADE data under Section 16A of the ABS Act 1975 or enabled by section 15 of the Census and Statistics (Information Release and Access) Determination 2018, source data are de-identified and so data about specific individuals has not been viewed in conducting this analysis. In accordance with the *Census and Statistics Act 1905*, results have been treated where necessary to ensure that they are not likely to enable identification of a particular person or organisation.