



Delivering equity: A new deal for pensioners who rent

A report on women and disadvantage

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Background

This report is the third in KPMG’s series on workforce discrimination against women. It makes public policy suggestions to support an especially disadvantaged group in which women are over-represented — those over 50 years of age who are renting privately. Many of these women have experienced disadvantage through their working-age years, leading to financial hardship in retirement, including having to pay rent through not owning their own homes.



The first KPMG report, *Ending workforce discrimination against women*, released in April 2018, highlighted three workforce-related gaps between men and women: a pay gap, an income gap and a superannuation payout gap. Economic modelling for the report showed that halving the gap between male and female workforce participation rates could result in a \$140 billion lift in Australians’ cumulative measured living standards by 2038.



The second report, *The cost of coming back: Achieving a better deal for working mothers*, released in October 2018, introduced the notion of the Workforce Disincentive Rate (WDR) and applied this to various family types to find very high disincentives for mothers to increase their days of work beyond three or four per week. The report proposed starting to reduce these Workforce Disincentive Rates by removing the two “cliffs” created by the Child Care Subsidy System that confront professional women. It also advocated societal change whereby it became normal for fathers to ease back from full-time work while mothers were no longer deterred from choosing to increase their weekly working days.

This third report focuses on one of the most disadvantaged groups in Australian society: women who are over or approaching pension age — broadly, over the age of 50 — who are renting privately and are in receipt of CRA.

Executive summary

The family home and a healthy superannuation balance will help provide a comfortable retirement for many Australians. They will continue to earn a reasonable income in retirement from their superannuation savings and, more often than not, maintain a comfortable buffer of assets for peace of mind and a rainy day.

But not all are this secure.

Single pensioners in the private rental market are especially vulnerable. In addition to trying to get by on low, fixed incomes, these pensioners are uniquely exposed to risks from a lack of assets needed to support them in retirement.

We know that 67 percent of those aged 65 and over who are living alone are women. Further, women receive 56 percent of the Commonwealth Rent Assistance ("CRA") paid to individuals and families on very low incomes.¹

Owing to the gender pay, income and superannuation gaps, compounded by the unpaid caring work completed throughout their lifetimes, these women will have little to show financially for their hard work. Once retired, they will remain on fixed incomes while dealing with the challenges of renting. If they live in capital cities, their rents will be especially high.

This potential downward spiral facing a group that is already struggling should challenge our fundamental ideas of fairness and prompt a substantial response from government.

Accordingly, KPMG is proposing changes to the housing support and superannuation systems to help address these issues, and provide a more dignified, secure retirement for these disadvantaged women.

These changes are:

- increases in CRA;
- an upgrade of the CRA system that enables recipients to build an equity stake in their own homes; and
- specific changes to the superannuation system that would result in a boost to the balances of many women in retirement.



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¹ See Daley and Coates (2018, analysis of Australian Bureau of Statistics (2017) Microdata: Household Expenditure, Income and Housing, 2015-16, p. 77).

Why focus on single women over the age of 50 years who receive CRA?

This group of women faces particular difficulties. Due to the profile of their working lives they are likely to be over-represented among asset-poor pensioners with low incomes experiencing a lower quality of life in their retirement.

Women in this cohort² who are renting privately may not have had long, continuous work histories and will often lack adequate superannuation savings. They may be women who have recently experienced a relationship breakdown or the death of a partner, as well as single mothers entering retirement.

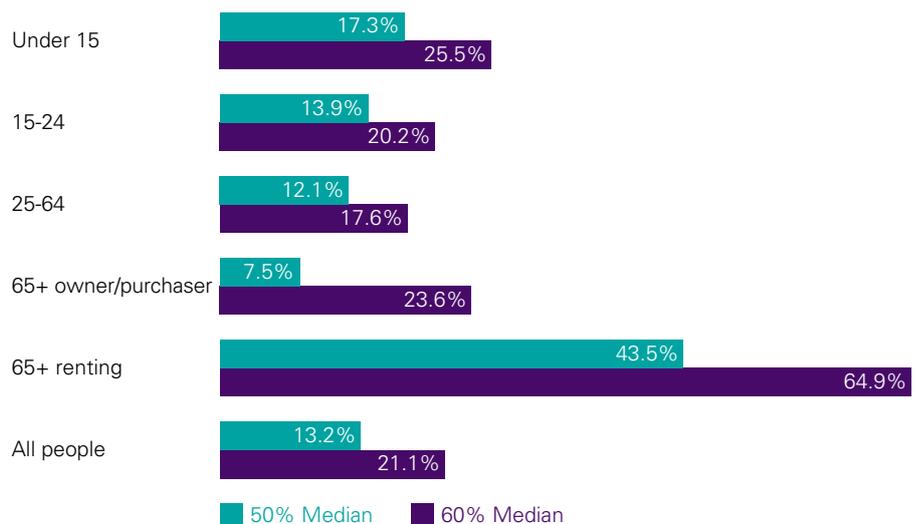
Poverty rates among age pensioners who rent privately are very high compared with other household types. The Australian Council of Social Service (ACOSS) and the University of New South Wales (UNSW) have estimated poverty rates for various household types, where a poverty line is set at the common benchmark used in international analyses of poverty, which is 50 percent of median household disposable income.

While the poverty rate for all Australians in 2015-16 was 13.2 percent, it was 43.5 percent for people over the age of 65 renting privately. That is, the poverty rate among age pensioners renting privately was more than three times the national poverty rate. At a poverty benchmark of 60 percent of median income, the poverty rate among age pensioners renting privately was 64.9 percent, again more than three times the national poverty rate.³

The proportion of Australians over the age of 65 who are renting privately is just 6 percent,⁴ which suggests the

budgetary cost of improving the living standards of this group would be fairly modest. Additionally the proportion of working-age Australians who own their own homes has fallen sharply over the last couple of decades.⁵ If the rate of home ownership among working-age Australians continues to decline with rising real housing costs, the cohort of age pensioners renting privately can be expected to rise over time. The Grattan Institute estimates that if current home ownership trends continue, home ownership for over-65s will decline from 76 per cent today to 57 percent by 2056.⁶

Figure 1: Rates of poverty, Australia, 2015-16



Source: Davidson, P., Saunders, P., Bradbury, B. and Wong, M. (2018), Poverty in Australia, 2018. ACOSS/UNSW Poverty and Inequality Partnership Report No. 2, Sydney: ACOSS.

2 Department of Social Services (2018) data for 2016-17 shows that 59% of CRA recipients are female, and three quarters of all CRA recipients are single. On this basis, KPMG estimates that there are at least 250,000 single women who are aged 50 and over and receiving CRA.

3 ACOSS and UNSW (2018, p. 12).

4 ACOSS and UNSW (2018, p. 76).

5 See Daley and Coates (2018, Figure 4.9, p. 64).

6 Daley and Coates (2018, pp. 3 & 62).

Existing support for age pensioners renting privately



Those aged 65 or over have the least opportunity to improve their financial situation through additional work. The main forms of federal government support for these age pensioners renting privately are:

1. The age pension
2. CRA
3. The pensioner concession card.

1. Age pension

The age pension is available to retirees subject to an income test and an assets test. At present the full age pension for single pensioners is \$916 per fortnight. It is indexed to the consumer price index (CPI) or, where a special measure of the cost of living for pensioners and beneficiaries — the Pensioner and Beneficiary Living Cost Index (PBLCI) — is greater than the CPI, by the PBLCI.

2. CRA

CRA is payable at the rate of 75 cents for every dollar of rent payable above the rent threshold until the maximum rate of payment is reached. The current rent threshold is \$120.20 per fortnight. The maximum rate of CRA for single age pensioners at present is \$135.80 per fortnight.

CRA is indexed by changes in the CPI.

3. Pensioner Concession Card

Holders of a Pensioner Concession Card are eligible for discounted medicines under the Pharmaceutical Benefits Scheme. Various states offer discounts to holders of Pensioner Concession Cards, such as on public transport, property and water rates, and motor vehicle registration.

Adequacy of support

The real value of the age pension, as adjusted for the CPI, has shown an upward trend during the post-war period.

Sharp increases in the pension were legislated in the 1970s and 2009, with

otherwise steady increases lifting the rate of payment in real terms between 1948 and 2018 from around \$200 per fortnight to around \$900 per fortnight.⁷

The situation with rent assistance is very different. As housing rents have risen faster than the CPI in major Australian cities, the adequacy of rent assistance has declined. Between mid-2003 and mid-2017, the CPI increased by about 40 percent, but average rents nationwide increased by around 64 percent. The situation for low-income households renting privately was even worse, with average rents increasing by more than 100 percent.

Table 1: CPI increases compared to mean weekly low-income rental cost increases from 2003 to 2017

	Consumer Price Index ⁶		Mean weekly low income rental costs ⁷	
	Raw	As a percentage of 2003 figure	Raw	As a percentage of 2003 figure
2003	78.6	100%	\$161	100%
2017	110.7	141%	\$324	201%

The rate of CRA has clearly failed to keep pace with the rising cost of private rental accommodation for many CRA recipients.

⁷ See National Commission of Audit 2014, Appendix 1 to the Report of the National Commission of Audit, 9.1 Chart 9.1.5..

⁸ See Australian Bureau of Statistics 2018, Consumer Price Index, Australia, Cat. no. 6101.0.

⁹ Calculated by comparing weekly private rental costs for bottom two quintiles by disposable income, see: Daley and Coates (2018, p. 76); Australian Bureau of Statistics 2005, Housing Occupancy and Costs, Australia, Cat. no. 4130.0; Australian Bureau of Statistics 2017, Housing Occupancy and Costs, Australia, Cat. no. 4130.0.

Aspiring to a Parent Equality Model in our society

The period after the Second World War saw a society that strongly endorsed a model of a Male Breadwinner and Female Homemaker as the ideal basis for household relationships. Unequal pay was heavily embedded in our law and there was a high expectation that a woman would leave the workforce as soon as she became a mother.

More commonly today, we see the model of a Male Primary Earner and a Female Primary Carer who is also a Secondary Earner.

Unfortunately, we remain far away from a Parent Equality Model. This may involve parents sharing different burdens at different times, but with a view to parental responsibility being fairly divided over the longer term. Amongst other things, this would involve greater acceptance of part-time work for fathers and greater use of paternal care than we have in our current society.

There are considerable economic benefits that would flow from the Parent Equality Model as well as greater personal well-being.

Two points should be made in relation to the unequal burden of care responsibility that is borne by women.

The first is very deep-seated. We tend to think of household welfare through the notion of the family. However, the individual circumstances, needs and the ability of the predominant carer to reach his or her capabilities, can get left behind and become absorbed in this family concept. The individual needs of a woman can become invisible. This is not

to deny that women (and men) can gain very considerable personal benefits from giving to the family. But an individual's welfare must be an end in itself. A woman's realisation of her capabilities should not be sacrificed or considered secondary to the broader happiness of a family.

The manner in which our tax and transfer system works, with some components based on family income, has the effect, inadvertent or otherwise, of creating a very high work disincentive rate, the detriment of which is largely for women. This was the subject of our second paper on Gender Equality.

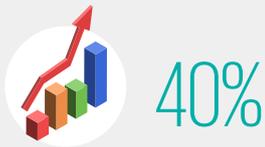
The second point is historical. In being presented with the model of Breadwinner-Homemaker as the predominant basis for living and raising children, older women have suffered a substantial long term disadvantage in terms of ownership of assets, superannuation and earning capacity. Even when assets and superannuation are considered in divorce and relationship splits, the loss of women's earning capacity from a foregone career is considerable.

Many single women are on the pension and do not own their own home. They are current victims of an antiquated social framework.

Whilst the measures advocated in this publication are gender-neutral, ameliorating this historical disadvantage provides a sound basis for society to bear this additional expenditure.



Policy ideas to improve the position of CRA recipients aged 50+



KPMG supports a 40 percent increase in the maximum rate of CRA.



Amounting to an extra \$1,410 a year for single retirees.



Costing \$300 million a year to provide to retirees.

1. Increase in the CRA amount

The Grattan Institute has calculated that a 40 percent increase in the maximum rate of CRA would be needed in order to restore the real value of CRA, relative to the rents paid by low-income earners. This would amount to an extra \$1,410 a year for single retirees. The Grattan Institute estimates this would cost \$1.2 billion a year (of which \$300 million would relate to retirees.)¹⁰

KPMG supports this level of increase to the CRA. Further, we recommend that the government should index future changes in CRA not to the CPI but to changes in rents typically paid by income support recipients.¹¹

While this report principally focuses on the needs of older and retired renters, KPMG supports an increase to the CRA for all recipients.

¹⁰ Daley and Coates (2018, p. 73).

¹¹ Treasury (2009, p. 595).



2. Shared equity plan for single pensioners in rental accommodation

Many older women in rental accommodation will not accrue any substantial long-term increase in their assets as a result of receiving CRA.

Not having assets in retirement leaves many pension-age CRA recipients in a tenuous week-to-week financial situation where they can become socially marginalised owing to their limited spending power, increasing their risk of anxiety and health complications.

KPMG advocates a bold new approach that enables CRA recipients to transition from renting to acquiring an equity stake in their own home. This would be an effective way to achieve significant gains for CRA recipients approaching or over the pension age, as well as for the community as a whole.

CRA and the housing market

To understand how to make these gains, however, we must first understand the context in which the CRA system is currently being administered — Australia's property market.

Ultimately, fortnightly CRA payments are just one element of the housing equation for CRA recipients. They are also affected by supply issues in the market and by government housing policies that determine what accommodation is available.

Housing supply in Australia

From a government policy perspective, supply is principally the responsibility of the states and territories. Therefore a coordinated intergovernmental approach would have the prospects of delivering best results in making the Commonwealth's CRA expenditure go furthest.

We particularly need to consider the available supply of housing for people in the economic circumstances of CRA recipients. We know that Australian property can be expensive, and development sites in the capital cities can be scarce. Often the demand for public and affordable housing is not being met with an equal level of supply.

Different levels of government are already implementing programs (including those in Table 2) designed to improve levels of housing supply.

Table 2: Existing policy framework to help improve affordable housing supply in Australia

State and Territory Governments	The Commonwealth	
<p>Responsibility for providing social housing rests with the states and territories, with around \$1.5 billion in additional annual funding provided by the Commonwealth to help support this under the National Housing and Homelessness Agreement (NHHA).</p>	<p>The National Housing Finance and Investment Corporation (NHFIC) operates the \$1 billion National Housing Infrastructure Facility (NHIF), which offers concessional loans, grants and equity investments to state and local government and registered community housing providers. These fund infrastructure projects that will allow new housing communities to be constructed.</p>	<p>To help provide better solutions for registered community housing providers, NHFIC also operates an Affordable Housing Bond Aggregator (AHBA). The AHBA is a fundraising platform and loan provider for the community housing sector that has been established as a separate source of funding from the NHIF. The AHBA aims to provide cheaper and longer-term secured loan finance for community housing by issuing bonds in capital markets</p>

The retention of affordable housing in the investment categories eligible to benefit from the attribution managed investment trust (“AMIT”) tax regime is another welcome initiative, as is the Commonwealth government’s proposal to allow an increased capital gains discount for certain investments in affordable housing (this remains before parliament).

There are further opportunities to ensure that we have the optimal settings in place to increase the levels of affordable housing supply.

By negotiating incentives and quota requirements for certain kinds of accommodation, government could more effectively enhance its partnering with industry to reach mutually beneficial agreements that will help satisfy the demand for increased affordable housing stock.

This process could also be complemented by reforms to CRA.

Evaluating CRA

It is timely to look at how CRA expenditure can be used to provide a real property asset base for disadvantaged Australians, promoting their wealth and wellbeing

with minimum impact on the budget and maximum benefit to the community.

KPMG proposes the adoption of a shared equity co-investment model, starting with a pilot group of over-50s who receive the maximum CRA entitlement. After a successful pilot, the next phases would see it expand to being offered to all over-50s receiving CRA.

Another disadvantaged group — younger recipients of the disability support pension — should also be considered for inclusion in a fully-fledged program.

Shared equity co-investment

KPMG urges the Commonwealth government to consider schemes whereby CRA payments to disadvantaged pensioners in the private rental market can be diverted to assisting them with building an equity interest in their home.

A precedent for implementing shared equity schemes has been established at the state and territory level (in Western Australia, South Australia and the ACT). These schemes can enable disadvantaged Australians to access more flexible borrowing arrangements to acquire a percentage interest in their home, with the government acquiring the balance of

the equity either directly or via a wholly owned financing entity.

Participants in these schemes do not receive any CRA, since they are no longer privately renting.

The requirement for the occupier to obtain finance for part of the value of the property may mean that these schemes are less accessible to renters over the age of 50 than to younger Australians in low-paid work. So what could be done differently to make home equity more achievable for older Australians?

Applying CRA towards facilitating a shared equity co-investment

KPMG proposes a scalable scheme where the equivalent of a pensioner’s CRA entitlement is assigned as an income stream to a financial institution for a period of, say, up to 25 years, in return for the financial institution providing an upfront lump sum to the pensioner to use as a payment for equity in his or her home.

Under the shared equity investment model, each stakeholder would take the actions set out below.

Commonwealth government

The Commonwealth assigns the pensioner's CRA amount to a third-party financial institution as an income stream for a period of up to 25 years.

Aside from the implementation costs of the program (which could be mitigated through the use of a pilot study) the Commonwealth would not pay out any more money than if it had continued to pay CRA as normal.

Third party financial institution

A financial institution provides the individual with a lump sum to invest in a home, in return for assignment of the CRA.

The lump sum is calculated by reference to the future cash flows from the assigned CRA (assuming this would rise over time to keep pace with rental inflation), discounted to present value using expected CPI over that future period.

The financial institution may hold a form of security over the occupier's share of the property that could progressively be foregone over the term of the arrangement. This would provide some insurance against the occupier's early death and the consequent discontinuation of the income stream. This would mean that the individual would effectively vest in his or her home equity over time.

Housing investor

An investor such as a government-sponsored housing trust or ethical investment fund acquires the balance of the property that is not funded by the individual's lump sum.

The percentage ownership between the investor and the individual may have a modest skew in favour of the individual where he or she takes on the maintenance obligations in respect of the property.

Occupier who has been a CRA recipient

The occupier will no longer receive CRA, and will instead pay rent to the housing investor in respect of the portion of the property not covered by the lump sum from the financial institution.

This means he or she will be in a similar week-to-week financial position as was the case prior to the arrangement starting, while acquiring a valuable equity stake in his or her own home, which will vest progressively over the period of the arrangement with the financial institution.

Illustration

Table 3 below shows how the economics of the shared equity co-investment could work.

Notice that while the individual's cash flows are not substantially different on a per week basis, the overall benefit of the equity growth over the term of the arrangement can be significant.

Table 3

	Person 1	Person 2	Person 3
Approximate weekly pension income¹²	\$450	\$450	\$450
Rent per week	\$200	\$225	\$250
KPMG-proposed CRA per week	\$100	\$100	\$100
Net income after rent per week	\$350	\$325	\$300
Property value (assuming 4% p.a. gross rental return)	\$260,000	\$292,500	\$325,000
Arrangement term (years)	20	22	24
Total payments paid to financier over term¹³	\$173,324	\$199,966	\$227,588
Person's available deposit¹⁴	\$129,307	\$145,993	\$163,500
Share of total home equity for occupant	50%	50%	50%
New weekly rent¹⁵	\$100	\$113	\$124
Total benefit of program for the occupant at the term of the arrangement assuming 5% p.a. growth in equity	\$350,090	\$427,067	\$527,305

¹² Based off approximate weekly age pension and supplements.

¹³ Based off KPMG-proposed CRA payments payable over term adjusted annually in line with assumed low-income rental inflation. Low-income rental inflation calculation based off average rate of increase from 2003 to 2017 see <https://www.pc.gov.au/inquiries/completed/human-services/reforms/report/02-human-services-reforms-housing.pdf> (2018, p. 204, 205).

¹⁴ The present value of future cash flows discounted for assumed CPI, minus an assumed 2% upfront financing fee.

¹⁵ An approximate adjustment to the previous rent subject to considerations such as the equity split in the asset, concessions granted to occupants on the basis of upkeep, and potential other costs including any applicable rates and strata fees.

3. Superannuation policies for low-income Australians



One of the most effective ways of limiting the future disadvantages faced by women in and approaching retirement is addressing the inequities faced by women of working age. A key aspect of this challenge is taking action to help bolster the superannuation balances of working women.

In previous reports in this series, KPMG has highlighted the superannuation gap experienced by women, particularly those who have taken time out from paid work to care for children.

While the existence of this gap is a significant problem in its own right, it places the greatest amount of pressure on single women who do not own their own property.

We encourage further consideration of the following superannuation contribution measures, which would assist in counteracting this problem.

Helping low-wage earners save for their retirement

Removing the \$450 per month wage threshold for entitlement to employer superannuation contributions, as recommended in KPMG's first gender report, would assist low-income earners in saving more consistently for their retirement. It would also eliminate any temptation for employers to manipulate workers' hours so as to keep their pay below that threshold.

Superannuation contributions during parental leave

Including superannuation contributions in the Commonwealth paid parental leave scheme, as recommended in KPMG's first gender report, would mitigate the current situation where primary care givers on Commonwealth parental leave — mainly women — cease receiving top-ups to their superannuation accounts.

At least one major employer has recently announced that it will continue to contribute to the superannuation savings of employees during the unpaid portion of their parental leave as if the employees had continued working on their salary prior to the period of leave.

KPMG notes that it would be open to the Commonwealth to mandate this practice in future. With sufficient lead time it would be something that employers could incorporate into their budgeting processes.

Commonwealth top-up contribution — primary carer of pre-school children

There is merit in considering additional options to address the superannuation gap.

The Commonwealth could consider making top-up contributions (rather than co-contributions) into the superannuation accounts of primary carers who have a child of pre-school age. Women would make up the greater part of this cohort.

The Commonwealth currently provides a co-contribution of up to \$500 (on a maximum one for two basis) for individuals on very low incomes. Individuals on such low incomes have very limited ability to take maximum

advantage of this, since they need to find \$1,000 of their own money to contribute in order to obtain the \$500 government contribution.

KPMG proposes that top-up contributions be made for the nominated primary carer in a family where there is a child of pre-school age and the primary carer's income is less than average weekly ordinary time earnings (AWOTE), with a phase-out as income approaches AWOTE. Entitlement to the top-up contribution should be based on the individual's income and not family income — our proposal is aimed at supporting gender equity with fiscal equity.

Given the huge potential long-term benefits of even a small boost to a mother's superannuation balance, KPMG believes that the impacts of a \$500, \$1,000 and \$2,000 annual top-up should be modelled by the Parliamentary Budget Office to enable the potential cost of this proposal to be estimated.

Commonwealth top-up contribution — CRA recipients aged 50 to 59

Individuals aged 50 to 59 who are receiving CRA would also benefit considerably from having their superannuation savings topped up directly, as they would have limited ability to supplement their own mandatory superannuation contributions.

This might ultimately save the Commonwealth money over the longer run if the superannuation fund performs well, and would deliver additional personal wellbeing benefits compared to greater reliance on the age pension.

With an estimated 200,000 individuals in this category, an annual top-up of \$2,000 per person would cost around \$400 million per annum.¹⁶

¹⁶ Department of Social Services (2018), Senate Community Affairs Legislation Committee Budget Estimates – 31 May and 1 June 2018 Answer to Question on Notice.



Conclusion

- With declining rates of home ownership, an ageing population and longer life expectancies, the financial pressures facing private renters who are at or approaching pension age are likely to worsen.
- More and more Australians can be expected to retire without owning their own residences, partly due to the impacts of long-term trends in property prices, especially in the major capital cities.
- The number of women left financially vulnerable in their retirement by the pay, income and superannuation gaps, as well as their considerable unpaid caring work responsibilities, will grow in the coming years.

With the Breadwinner-Homemaker Model having been the predominant basis for living and raising children, older women have suffered a substantial long-term disadvantage in terms of ownership of assets, superannuation and earning capacity.

Until society adopts a genuine model of parental equality, we can continue to expect women to be overly represented among economically vulnerable renters over the age of 50.

Society should spend the money to mitigate the impact of outmoded social frameworks, where women took on almost all of the family's caring responsibilities.

KPMG's recommendations for the Commonwealth are to:

- increase the rate of CRA;
- pilot a shared equity scheme for CRA recipients over 50 years of age; and
- make targeted enhancements to the superannuation system.

All have the objective of making a new deal the reality for this predominantly female group.

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