A submission to the Senate Education and Employment Legislation Committee inquiry into the

Higher Education Support Legislation Amendment (Student Loan Sustainability) Bill 2018 [provisions]

Presented by NUS National President Mark Pace.

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Introduction

The National Union of Students (NUS) welcomes the opportunity to provide a submission to the Senate Education and Employment Legislation Committee inquiry into the *Higher Education Support Legislation Amendment (Student Loan Sustainability) Bill 2018 [provisions]*.

Founded in 1987, NUS is the peak representative body for post-secondary students in Australia. NUS has affiliated student associations at campuses in every State and Territory.

Since the 2014 budget, the Federal Government has attempted multiple times to impose radical changes on Australia's Higher Education sector. It has done so with no coherent strategy for Australian higher education, other than to reduce public funding for what is an incredibly vital sector.

Among the proposals flagged in recent years, the Government has sought to make sweeping changes to Australia's world-leading student loans systems, such as the deregulation of undergraduate fees. These changes would have had a devastating impact – both on the accessibility of post-secondary education to equity groups and on young people in general.

NUS notes that the Federal Government has consistently failed to win the support of students, the Australian public, or the Senate for these changes, yet has proceeded with massive cuts and an end to the demand-driven system through executive order (as announced in the December 2017 Mid-Year Economic and Fiscal Outlook).

NUS believes that the Senate should reject the changes to Australia's student loan systems embodied in this Bill. These changes have been justified on the twin premises of an unexpected, crisis-level blowout in the cost of Australia's income-contingent loan systems and claims taxpayers are being 'taken for a ride' by individuals exploiting the loan systems. NUS finds these justifications to be, at best, disingenuous - as we lay out below. Regardless of the purported justifications, the provisions of this Bill will only serve to limit access to higher education, hamstring specialisation and skills re-training, and institute a tax hike on Australia's low- and median- income workforce.

NUS would also welcome the opportunity to appear before a public hearing of the Committee to offer our perspective on the provisions of this Bill.

Recommendation

That the Senate reject the *Higher Education Support Legislation Amendment (Student Loan Sustainability) Bill 2018 [provisions].*

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Budget blowouts and the myth of the 'professional student': challenging the rationale for funding cuts in Higher Education.

There is no justification for cost-shifting or reducing public funding for Australia's post-secondary education sector. Public financing of higher and further education in Australia, despite claims to the contrary, is comparatively low and has relatively high rates of return for the government. The most recent OECD *Education at a Glance* report found that Australian public investment in tertiary education stood at 39%, compared to an OECD average of 70%. Australian households and international students contribute more than double the average expenditure.[1]

The shift to a demand driven system in Australia's universities dramatically increased the number of Australians undertaking tertiary study - a deliberate, proactive policy to boost higher education participation in anticipation of future labour market needs. Increased participation, rather than increased resourcing, is the source of the increase in Government funding of the system as base funding per student has remained static. Universities Australia has found that 'in real (inflation-adjusted) terms, funding per university place grew by less than 1 per cent each year between 2009 and 2015'.[2] The rate of return on government funding of post-secondary education has been modelled at 14-15% for tertiary education and 18% for vocational education.[3]

It is also important to highlight who will be affected by the provisions contained in this Bill. Australia's student population is more diverse than ever before. While there are 750,000 students in the 18-22 age bracket, the Department of Education and Training's Higher Education Statistics show that in 2016 there were over 385,000 students aged 23-29, over 275,000 aged 30-49 and more than 46,000 aged 50 or older.[4] Since 2009 there has been a 40.6% increase in the number of Indigenous students, a 32.25% growth in students from low-socioeconomic backgrounds and 46.5% increase in the number of students with a disability studying.[5]

The experience of students is also far from the 'all-you-can-eat buffet' alleged - as any person who has had to try and make ends meet on Youth Allowance or Austudy can attest. Youth Allowance and Austudy are insufficient to cover the expenses of a student, with the maximum income support a student can receive 54% of the

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[1] OECD, *Education at a Glance 2017,* (September 2017). http://www.oecd.org/education/education-at-a-glance-19991487.htm
[2] Universities Australia, *The Facts on University Funding*, (UA: April 2017), p.4.
[3] Glenn Withers, *Higher education pays for itself many times over*, (July 2016) https://theconversation.com/higher-education-pays-for-itself-many-times-over-61511
[4] Department of Education and Training, *Higher Education Statistics,* (November 2017)*, Table 2.1.* https://docs.education.gov.au/node/45161
[5] Department of Education and Training, *Higher Education Statistics,* (February 2018), *Appendix 5.1.a.* https://docs.education.gov.au/node/45221

Henderson Poverty line. Two thirds of students live in poverty, and one in five skip meals on a regular basis.[6] The Department of Education and Training's *Completion Rates of Higher Education Students – Cohort Analysis, 2005-2015 Report* found that 66% of students from the 2010 cohort had completed their courses after six years, and that the four year completion rates for the 2012 cohort were 44.2%. Declines in award completion can be attributed to the increasing diversity of the student population and related shifts in patterns of study - for example, mature age students and students with carer responsibilities are more likely to 'dip in and out' of study.[7]

[6] Emmaline Bexley, Suzanne Daroesman, Sophie Arkoudis and Richard James, *University student finances in 2012: A study of the financial circumstances of domestic and international students in Australia's universities,* (Universities Australia: 2013). https://www.universitiesaustralia.edu.au/news/commissioned-studies/Australian-University-Student-Finances-in-2012#.WpSWdahuaMo

[7] Julie Hare, 'Financial stress drives regional uni dropouts', *The Australian,* 29 March 2017.

Key issue: Lowering the repayment threshold on student loans.

The proposed lowering of the threshold for repayment of HELP debt is strongly opposed by NUS. For many years, young people in Australia have been told they should be either ‘earning or learning’. When finding employment has been difficult or further qualification sought, this has been done on the basis that further education adds value to the workforce and increases career prospects.

The proposed threshold is intended to capture debtors on below-average wages. It is, in effect, a tax hike that will disproportionately affect those who are least able to afford it. It will also, significantly, act as a disincentive for those with financial constraints who are considering further education. As with previous failed attempts to lower the repayment threshold, the proposed lower threshold will interact with existing transfer payments such as Family Tax Benefits.

NUS has significant concerns about the design of the HELP repayment system, and the effect that thresholds have on take-home pay for debtors as they move from one increment to another. The National Tertiary Education Union (NTEU) is particularly clear on this design flaw in the HELP repayment system. In its submission to the Senate inquiry into the *Higher Education Support Legislation Amendment (A More Sustainable, Responsive and Transparent Higher Education System) Bill 2017*, the NTEU noted that unlike income tax, where you move to a new marginal income tax rate when you reach a new income threshold, HELP repayment rates apply to your whole income once you reach the threshold. Per the NTEU analysis:

> This situation would be made even more problematic by the introduction of a new schedule which introduces more steps in the repayment threshold, but also because it now interacts with the operation of other transfer payments such as family tax benefits and so on. This is in effect a policy measure to entrench generational disadvantage upon a new generation of HELP debtors.[8]

[8] NTEU submission to the Senate Education and Employment Legislation Committee’s inquiry into the *Higher Education Support Legislation Amendment (A More Sustainable, Responsive and Transparent Higher Education System) Bill 2017*, p.32

Income	Existing HELP repayment for 2019	New HELP repayment for 2018-19
$45,000	0	$450
$47,000	0	$470
$49,000	0	$490
$51,000	0	$510
$53,000	$1,060	$1,060
$55,000	$1,100	$1,100
$60,000	$2,400	$1,800
$65,000	$2,925	$2,275
$75,000	$3,750	$3,750
$85,000	$5,100	$5,100
$95,000	$6,650	$6,650
$100,000	$7,000	$7,500
$125,000	$10,000	$12,500
$150,000	$12,000	$15,000

Source: Department of Education and Training; The New Daily

The proposed HELP repayment thresholds are, in practice, a tax hike on low- and middle- income earners.

The rationale given for the lowering of the repayment thresholds is the increased number of graduates who are not repaying nor expected to repay their HELP debts. This is not a deliberate strategy of evading repayment. It is a result of circumstances beyond the control of debtors, including insecure work and rampant inequality, which alternative government policy could correct. Changes in the structure of work are an ongoing public policy issue, and NUS notes that there is a Senate inquiry into the Future of Work and Workers due to report June 2018.

There has been a sharp rise in part-time and casualised employment among graduates. The Graduate Outcomes Survey found that:

> Since the Global Financial Crisis (GFC) graduates have taken longer to gain a foothold in the labour market. For example, the full time employment rate among undergraduates has fallen from 85.2 percent in 2008 to 71.8 percent in 2017.[9]

The Graduate Outcomes Survey 2017 also found that the proportion of graduates working part-time increased 17.1% between 2008 (the last 'peak' in the graduate

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[9] Quality Indicators for Learning and Teaching, *Graduate Outcomes Survey 2017*, p.iii. https://www.qilt.edu.au/docs/default-source/gos-reports/2017/2017_gos_national_report_final_accessiblea45d8791b1e86477b58fff00006709da.pdf?sfvrsn=ceb5e33c_4

labour market) and 2017, to 37.9%. At the same time, repayment thresholds have risen due to the widening gap between median wages and Average Weekly Earnings (AWE), which is skewed by the widening gap between very high income earners and ordinary Australian workers. NUS would argue that if the repayment of HELP debt is truly an issue that the Government is concerned about, the answer is to raise the wages of low- and middle- income earning debtors relative to high-income earners and thus increase the number of workers whose earnings exceed the existing thresholds. NUS notes that the Treasurer has recently made calls for Australian wages to grow, but no significant policy shifts to match this rhetoric have yet been announced. If income-contingent student loans are to exist, then designing a wages system that delivers for students and graduate workers is the single-most effective way to ensure the system operates sustainably while living up to its foundational principles.

Key issue: Altering the indexation of the HELP threshold.

The provisions of this Bill would replace AWE with the Consumer Price Index (CPI) as the benchmark for indexing thresholds. The CPI measures changes in the prices of goods and services purchased by Australian households, whereas AWE is intended to provide an accurate estimate of the current average value of wages and salaries paid to employees by an employer over a specified period.

The cost-sharing of tuition through the imposition of fees is justified by the concept of 'private benefits' that arise from holding a qualification. According to this principle, there are benefits experienced by individuals with post-secondary education that are over and above the benefits to society as a whole from having a properly skilled workforce.[10]

NUS believes that the CPI is not the appropriate indicator for the indexation of payment thresholds. Like the lowering of the repayment threshold, indexing thresholds to the CPI will have the effect of forcing an increasing number of individuals to repay loans before their earnings reflect the benefits of a qualification. It is particularly concerning that this would disproportionately impact mature age students, who are more likely to both be earning incomes close to the repayment thresholds and, as noted in *Doubtful Debt*, already have 'pre-existing financial commitments that constrain their ability to take on additional expenses'.[11]

The Federal Government has argued that repayment thresholds are rising faster than CPI, causing thresholds to rise faster than the overall cost of living; this is an intended outcome of the system, not a design flaw. While AWE has been higher than the CPI in the past few years, this is a reflection of the period of extremely low inflation since the Global Financial Crisis - combined with a widening inequality in incomes - and should not be used to justify shifting to an index that is not reflective of the public-private benefits principle that underpins the HELP.

The most rational test for such a division between public and private benefits of a qualification remains the AWE. This indicator most accurately reflects the graduate labour market.

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[10] Kim Jackson, *The Higher Education Contribution Scheme,* (Parliamentary Library E-Brief: 2003). https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/Publications_Archive/archive/hecs#Origin_of_HECS

[11] Andrew Norton, *Doubtful Debt: The rising cost of student loans*, (Grattan Institute: 2014), p.26

Key issue: Lifetime loan limits

NUS is extremely concerned about the effects of the proposed cap on the amount an individual can claim under HELP.

NUS believes that a limit on borrowing for undergraduate study, on its own, would be a return to bad policy that should be opposed. Prior to the shift to the demand driven system, the Student Learning Entitlement (SLE) limited the amount of study that an individual could undertake in a Commonwealth Supported Place to 7 years full-time equivalent. This system was condemned for leading to perverse outcomes which included preventing individuals from completing their course of study (especially in complex or combined degree qualifications), or forcing a change from HECS-HELP to FEE-HELP to complete undergraduate study. It was also seen as a bureaucratic nightmare to solve a problem that didn't exist: for all the claims about 'professional students' playing the system, the students who used up their entitlement were vanishingly small in number and found to have good reasons for why their studies exceeded the cap. Instituting a limit across all forms of HELP will be a magnification of this issue.

The impact of various levels of student contribution by qualification type will also have a significant distorting impact on what an individual can study. Maximum student contributions vary significantly depending on whether an individual is studying in a Commonwealth Supported Place (most commonly undergraduate degrees, but also some vocational qualifications and professional entry postgraduate qualifications) or not. In particular, while there is a cap on student contributions of $15,225 per year under VET FEE-HELP and a cap of $10,754 per year on HECS-HELP, FEE-HELP covers full-fee paying courses that can be several times in excess of this (i.e. $38, 900 per year for a Juris Doctor, a postgraduate professional entry qualification, at Monash University).[12]

The simple fact is that the Government is not in a position to know the individual circumstances of every person seeking qualifications, retraining or re-skilling. It is not in a position to know which mixture of qualifications or skills might be required by the labour market, or their cost, going into the future. The Government is not in a position to know what combination of vocational, undergraduate, or postgraduate professional entry qualifications will be necessary or useful for the future workforce. The Government is not in a position to know who is going to require re-training in a new professional qualification or vocation due to technological disruption and economic changes.

[12] https://www.monash.edu/study/courses/find-a-course/2018/juris-doctor-l6005?domestic=true

Even within existing pathways to a professional-entry qualification, this limit is below what the combined HECS-HELP and FEE-HELP debts that a student will accrue. As Ian Marshman, Honorary Fellow at the University of Melbourne's Centre for the Study of Higher Education, noted:

> The ceilings are too low to accommodate the six or seven years of HECS-HELP and FEE-HELP funded education that many students undertake on their journey through to completion of a graduate professional degree. (It is unrealistic to expect Australian students to be able and willing to pay upfront any significant gap between the HELP cap and the total price.)[13]

While this will have an immediate impact on the University of Melbourne and the University of Western Australia, which deliver graduate-focused professional entry qualifications, it will have a knock on effect that prevents other universities from developing new pathways, even where there is a perceived need.

Apart from these immediate concerns, one foreseeable consequence of a lifetime limit is the imposition of an arbitrary restriction on older workers who may seek to re-train or re-skill in the future. In keeping with the current rules for FEE-HELP, an individual's HELP balance will not be 'topped up' or reset by repayments – nor even clearing the debt entirely. This will restrict future educational opportunities of Australian workers for decades after they have cleared their debts, regardless of the benefit to individuals or society. The Committee for Economic Development of Australia report from 2015, *Australia's Future Workforce?*, estimated that up to 40% of jobs would be lost to automation in the coming decades.[14] In a survey conducted by the University of Sydney Business School and the *Australian Financial Review* BOSS magazine, 96% of millennials expected to have to retrain at least once.[15] Placing a combined cap will severely and arbitrarily restrict the capacity of workers to retrain or upskill according to their needs.

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[13] Ian Marshman, 'HELP: Dead Hand of Central Control', *The Australian*, 20 February 2018.
[14] CEDA – the Committee for Economic Development of Australia, *Australia's Future Workforce?,* (June 2015), p.8.
http://www.ceda.com.au/CEDA/media/ResearchCatalogueDocuments/Research%20and%20Policy/PDF/26792-Futureworkforce_June2015.pdf
[15] Hannah Tattersall, 'What Millennials want from the future of work', *The Australian Financial Review* 29 November 2016.