

**Submission to the Education and Employment Legislation
Committee on the Higher Education Support Legislation
Amendment (Student Loan Sustainability) Bill 2018**

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1. Introduction

Grattan Institute publications have long argued that HELP's costs are well above what is needed to achieve its core goals of financing vocational and higher education, smoothing income and spending for students and graduates, and alleviating the risk of student debt causing financial hardship.¹

HELP's largest cost is debt not expected to be repaid, commonly known as doubtful debt. For every \$100 lent, \$20 is not expected to be repaid. Over time, doubtful debt accumulates. Of the \$55 billion outstanding debt, nearly \$20 billion is doubtful debt.² The cost is not counted in the budget until debtors die.

As HELP's repayment system is one of the government's income protection programs, writing off some debt is expected. People experiencing financial hardship are, and should be, exempt from repayment. However, HELP as currently designed means that many people who are not poor by the standards of other government income protection programs, and indeed can be well-off by community standards, do not have to repay their student debt. This makes HELP unnecessarily costly to taxpayers.

The other major HELP cost is interest subsidies. Interest subsidies are usually calculated as the difference between the government's 10-year bond rate and the CPI indexation of HELP debts.³ A median debtor borrowing \$30,000 costs the government nearly \$5,000 in interest subsidies, assuming 2 per cent real interest.

This submission assesses the *Higher Education Support Legislation Amendment (Student Loan Sustainability) Bill 2018* (HESLA 2018), in the context of these concerns about HELP's current design.

This submission focuses on schedules 1 and 3 of HESLA 2018. We support indexing HELP repayment thresholds to CPI, reducing the initial threshold to \$45,000, modifying the loan cap to include HECS-HELP loans, and aligning the repayments of other loan programs with HELP. However, the proposed upper HELP repayment thresholds would reduce repayments from debtors during years that are crucial for their prospects of fully repaying. We suggest alternative thresholds that would remedy this problem. Yet these changes would leave HELP with unnecessary costs from debtors who are in well-off households. We recommend for the government to also stop writing off HELP debt at death for estates worth more than \$100,000.

¹ Norton and Cherastidtham (2014); Norton and Cherastidtham (2016a); Norton and Cherastidtham (2016b)

² Department of Education and Training (2017b), p. 128

³ Parliamentary Budget Office (2016); ACIL Allen Consulting (2013); Norton and Cherastidtham (2016b)

2. Schedule 1

2.1 Lowering the initial threshold

From 1 July 2018, the initial HELP repayment threshold will go down from \$55,874 to \$52,000. HESLA 2018 would reduce it further to \$45,000.

When HECS, as HELP then was, started in the late 1980s the threshold was explained as not requiring repayment before a private financial benefit was received. The benefit was measured by earnings approximating average weekly earnings (AWE). In the politics of transitioning from free higher education, that was a sensible concession. It also was not thought to be not a very costly concession, given that expected HECS debtor earnings were high relative to AWE at the time.

The situation now is quite different. With the very substantial expansion of higher education since the late 1980s, and the extension of income contingent loans to vocational education, HELP is now a program used by very large numbers of Australians. Their median expected earnings are lower than those of the graduates of the still relatively elite higher education system of the late 1980s. The cheap 1980s concession of a high threshold is an expensive concession in 2018.

Although the high threshold was politically understandable in the late 1980s, it is anomalous within the broader Australian income protection system. A lower initial threshold would bring HELP more into line with other forms of income protection for working-age adults. As Figure 1 shows, the current \$52,000 threshold is nearly twice the threshold above which Newstart recipients lose their eligibility and about 50 per cent more than the threshold for the Low Income Healthcare Card. The HELP threshold is also nearly \$15,000 more than the minimum wage. HELP debtors are currently treated much more generously than other recipients of government income protection. Arguably, some of these other income protection schemes, and especially Newstart, are too low. But a \$45,000 threshold would still exceed any likely change to any of these programs.

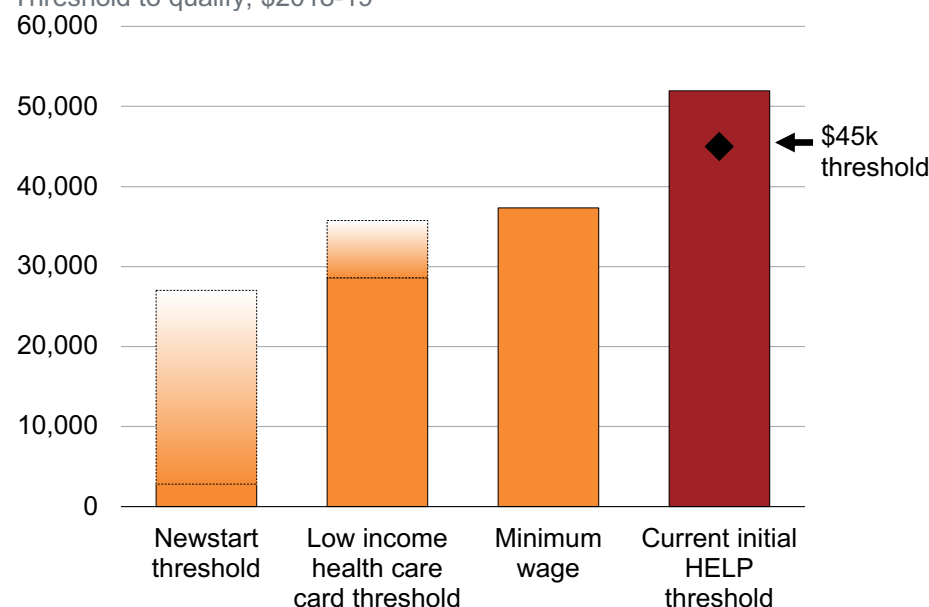
While earnings between \$45,000 and \$52,000 are not high personal incomes, we do not believe that modest repayments in this range – HESLA 2018 proposes only 1 per cent of income – would cause significant hardship.

Many individuals on repayment incomes of \$45,000 to \$52,000 have higher household incomes. The latest tax statistics data suggests that at least a third of those who would be affected by the lower threshold have a partner. However, this understates the true number as taxpayers often do not report partners unless they can claim a benefit.⁴ Using the Household, Income and Labour Dynamics in Australia (HILDA) survey, Grattan previously estimated the effect of lowering the initial threshold from about \$56,000 to \$42,000 and found that about half of debtors who would start repaying have a partner. Nearly a third of those with a partner have a combined disposable household income of at least \$100,000 and nearly three quarters have household disposable incomes of at least \$80,000.

⁴ The original calculation was based on the threshold of \$56,000, Norton and Cherastidtham (2016a), p. 35.

Figure 1: The current HELP threshold treats HELP debtors much more generously than other recipients of government income protection

Threshold to qualify, \$2018-19



Notes: Welfare rates are for a single person. For Newstart, the darker part represents the maximum income before the benefit begins being clawed back. The dotted part represents the maximum amount a person can earn before losing eligibility. Excluding the Energy Supplement and rent assistance. For the Low Income Health Care Card, the dotted part represents the income range that is eligible for retaining the card but not for getting a new card. Welfare thresholds projected based on corresponding growth in the previous year. Minimum wage is assumed to grow at 3.3 per cent for 2018-19. The Newstart threshold is indexed to 2018-19 dollars using prior year growth. Newstart payment and Low Income Health Care Card thresholds are indexed using the growth of the last corresponding quarter.

Sources: Department of Human Services (2017a); b); Fair Work Commission (2017)

Partnered graduates are a key issue for HELP’s finances because they can often maintain their living standards indefinitely despite not working or working part-time. As most part-time jobs pay less than \$52,000 a year, most long-term part-time workers will not fully repay their HELP debt.⁵ Given general social practices in Australia, it is usually a female partner who does not work full-time. Figure 2 shows workforce participation for women and men with bachelor degrees. Full-time work rates for women and men are similar in their mid-20s at about two-thirds. Most men continue working full-time for most of their careers. Women, however, start leaving full-time work from their late 20s until their 30s where only 40 per cent work full-time. While women’s full-time work rate increases again from their late 30s, it never again exceeds half of female bachelor-degree graduates.

In principle, a household-based repayment system could improve on current arrangements. Potentially along the lines of existing family payments, it could adjust repayment terms according to how many dependants the debtor has, while collecting more from high-income households where a HELP debtor only works part-time. However, there are also significant problems with implementing such a repayment system, including in determining whether or not a debtor is in a household for repayment purposes.⁶

If we stay with the current individual repayment system, high rates of part-time work have two major implications for thresholds. Lower thresholds bring more part-time workers into repayment, and so can increase repayment rates for people in long-term part-time employment.

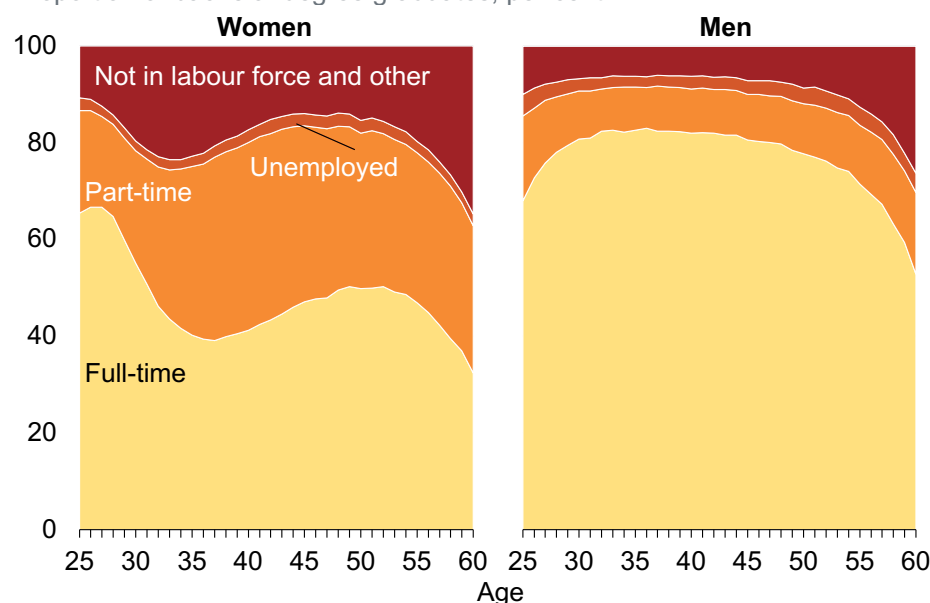
⁵ Ibid., p. 16

⁶ Ibid., p. 36-37

The other implication is that the years prior to transitioning out of full-time work are critical for repayment prospects. The more HELP debt that can be repaid before this occurs, the lower the long-term doubtful debt.

Figure 2: Female bachelor degree graduates tend to leave full-time work from their late 20s while most men remain in full-time work

Proportion of bachelor degree graduates, per cent



Note: Australian citizens only
 Source: ABS (2017b)

Because many women leave full-time work after a few years, any repayments made prior are crucial for their repayment prospects. About 60 per cent of university graduates are women, so their repayments are critical for HELP’s finances. If the initial threshold was lowered from \$52,000 to \$45,000, the proportion of new repaying debtors who are women would match their overall share of graduates at about 60 per cent.⁷ Based on the Australian Tax Office’s 2014-15 taxation sample data file, less than 60 per cent of currently repaying debtors are women. A lower threshold would bring the gender distribution of repaying debtors more into line with the overall debtor population.

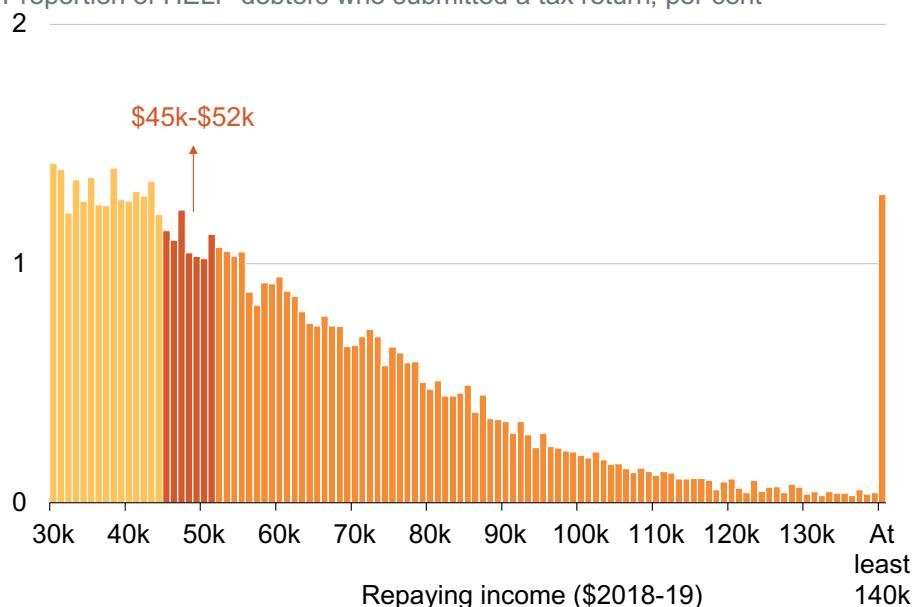
While we believe that the initial threshold should start from \$42,000 as proposed under HESLA 2017 and the 2016 Grattan Institute report *HELP for the future*, as it would bring more debtors into repayments, we acknowledge the difficulties the government had in legislating it. Lowering the initial threshold to \$45,000 would still increase the number of repaying debtors by nearly a quarter – about 125,000 more debtors would make a repayment (Figure 3).⁸

⁷ Given that many more women than men do not work or work few hours in paid employment, the proportion of women among all HELP debtors (including those who do not submit their tax returns) is likely to be higher, ATO (2015).

⁸ Income from the ATO data file is indexed to the wage price index at about 2 per cent for four years to 2018-19 dollars. Grattan’s calculation based on *ibid.* and ABS (2017d)

Figure 3: Reducing the initial threshold from \$52,000 to \$45,000 would increase repaying debtors by 125,000 people

Proportion of HELP debtors who submitted a tax return, per cent



Notes: Exempt foreign employment income could not be excluded from repayment income since the data is not available. Incomes are indexed to WPI from 2014-15 to 2018-19 dollars. Because the data is not available for the last two years, it is assumed to equal to the latest data year – 2016-17. Incomes of less than \$30,000 are omitted from the chart but are part of the calculation. They represent about 40% of debtors.

Sources: ATO (2015); ABS (2017d)

2.2 Upper HELP repayment thresholds

The Grattan Institute report *HELP for the future* and HESLA 2017 both proposed reform of the upper thresholds that was designed to speed up repayments. This would reduce doubtful debt caused by people leaving full-time work and reduce interest subsidies.

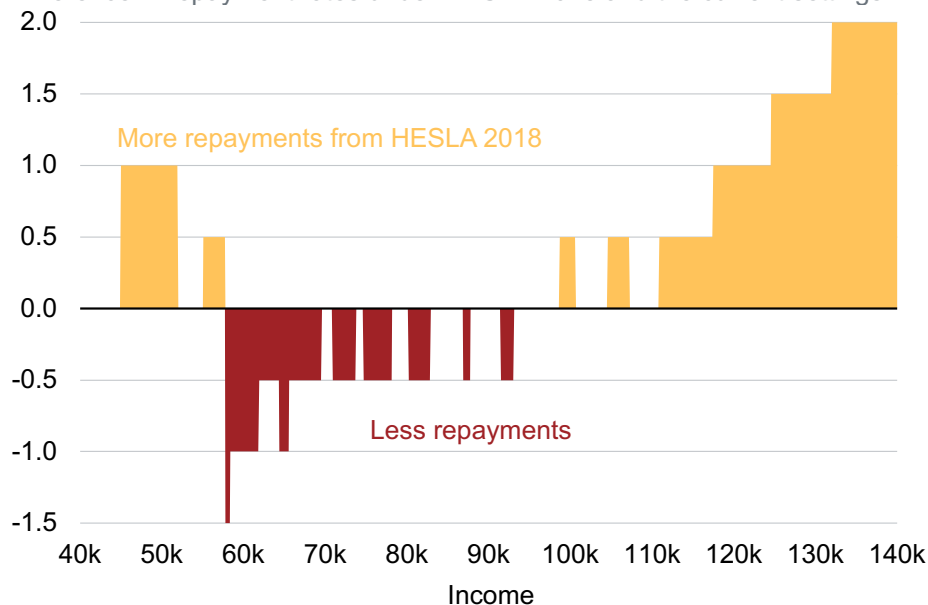
Unfortunately, we are not confident that HESLA 2018 would achieve these objectives. While HESLA 2018 thresholds would collect more from debtors with incomes below \$52,000 and above \$100,000, it would collect less from many debtors earning between \$60,000 and \$95,000. This can be seen in Figure 4.

A significant proportion of recent graduates earn incomes in the \$60,000 to \$95,000 range. At three months after graduation, about 30 per cent of employed graduates earn between \$60,000 and \$95,000 and about 50 per cent after 3 years, as Figure 5 shows. Reduced repayments within this range represents an unnecessary and substantial cost arising from the proposed upper threshold settings. They mean that many graduates would make less progress in repaying their debt before leaving full-time work.

Extra repayments from debtors with income above \$100,000 are likely to have small benefits for HELP's finances over the long run. Because debtors who earn above \$100,000 generally have lower-than-average outstanding debt and already have high annual repayments (at least \$7,500 per year from 2018-19), most will repay anyway without HESLA 2018. The benefit to the government is a small reduction in interest subsidies from about \$50 million a year in earlier repayments.

Figure 4: The thresholds proposed under HESLA 2018 reduce repayments for many recent graduates during their crucial repayment years

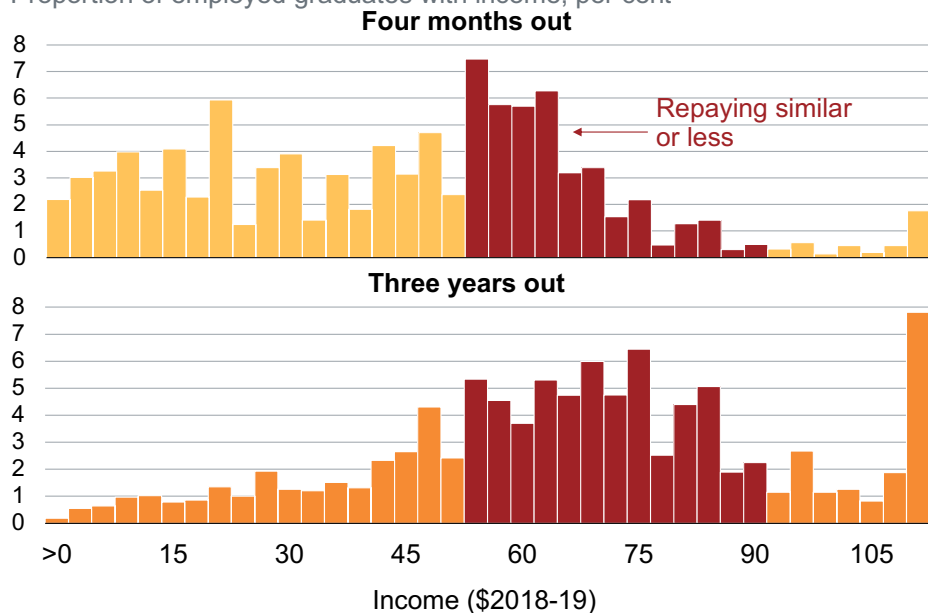
Difference in repayment rates under HESLA 2018 and the current settings



Notes: Current settings are based on the settings described in the Budget Savings (Omnibus) Act 2016. Repayment rate is calculated based on \$100 income buckets.
Source: Grattan calculation

Figure 5: The HESLA 2018 threshold settings would reduce repayments from a large group of recent graduates

Proportion of employed graduates with income, per cent



Notes: Excluding unemployed graduates, graduates with no income and incomes above the 99 percentile and full-time salaries below \$20,000. About 20 per cent were not employed. Incomes are indexed to 2018-19 dollars using WPI. See also notes for Figure 3.
Sources: ABS (2017d); Department of Education and Training (2017a)

Although there are many debtors earning between \$45,000 and \$52,000, they will only have to pay 1 per cent of their income. This will also increase repayments by about \$50 million a year, although with more doubtful debt reduction than the new higher thresholds.

Due to reduced repayments from graduates earning between \$60,000 and \$95,000, the net additional repayments from the HESLA 2018 threshold settings are small. Under the current settings, the government is expected to collect about \$2 billion in repayments in 2018-19.⁹ The net effect of the new settings would be to increase repayments by about \$20 million, or less than 1 per cent.

The problem with HESLA 2018 is the way it reforms the increments between thresholds. Under the existing settings from mid-2018, the gaps between thresholds range from 5 to 11 per cent, for no obvious logical reason. The 2016 Grattan Institute report, *HELP for the future*, proposed using a standard 6 per cent increment between thresholds. An implication of this is that, compared to historical settings, graduates would move between the thresholds more quickly, and so complete their repayments at an earlier date.

While HESLA 2018 follows a similar principle for setting thresholds, it is missing an important aspect. Instead of starting the 6 per cent increases from the first \$45,000 threshold, HESLA 2018 starts with the second threshold, which at \$52,000 is 16 per cent above the first threshold. Starting the 6 per cent increments from this higher \$52,000 threshold means many graduates would repay a lower share of their income each year, delaying their final repayment.

To achieve the original policy goals of standard percentage increments between repayment thresholds and faster repayments, the government could recalibrate the upper thresholds by using a 5 per cent increment starting from the lowest threshold – \$45,000. The highest threshold would be about \$108,300 and repay at 10 per cent. Table 1 compares the different options.

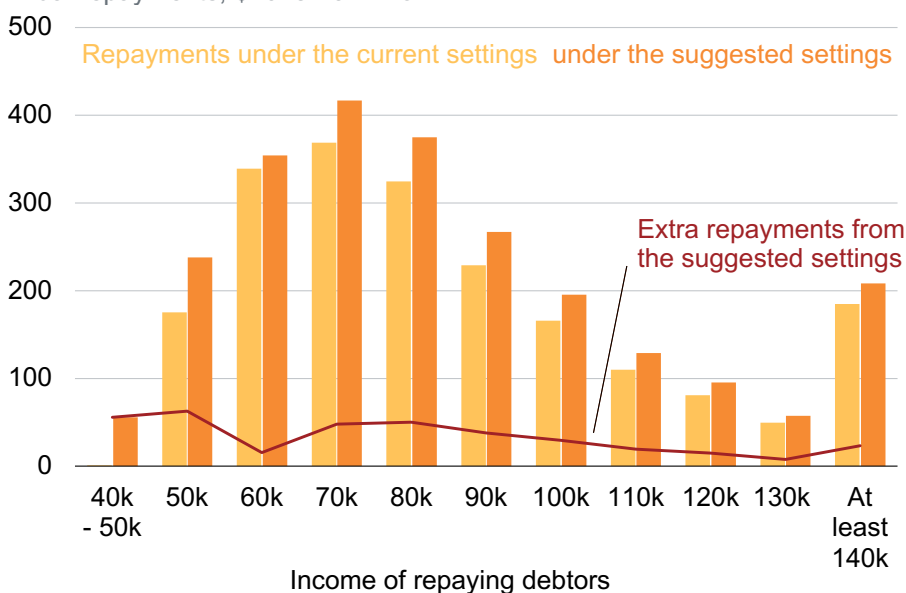
The 5 per cent increments from \$45,000 would increase repayments in crucial graduate repayment years. Much of the extra repayment would come from debtors who earn \$45,000 to \$100,000, which corresponds to incomes of many recent graduates as Figure 5 and Figure 6 show. It would speed up repayments and reduce doubtful debt.

⁹ See notes for Figure 1

Table 1: Summary of repayment settings

Repayment rate	Current (Omnibus)	HESLA 2018	Potential settings (5% increments)
1.0%		45,000	45,000
1.5%			47,250
2.0%	51,957	51,957	49,612
2.5%		55,074	52,092
3.0%		58,379	54,696
3.5%		61,882	57,430
4.0%	57,730	65,595	60,301
4.5%	64,307	69,530	63,316
5.0%	70,882	73,702	66,481
5.5%	74,608	78,124	69,805
6.0%	80,198	82,812	73,295
6.5%	86,856	87,780	76,959
7.0%	91,426	93,047	80,806
7.5%	100,614	98,630	84,846
8.0%	107,214	104,548	89,088
8.5%		110,821	93,542
9.0%		117,470	98,219
9.5%		124,518	103,129
10.0%		131,989	108,285

Figure 6: The suggested settings would increase repayments during important repayment years
Annual repayments, \$2018-19 million

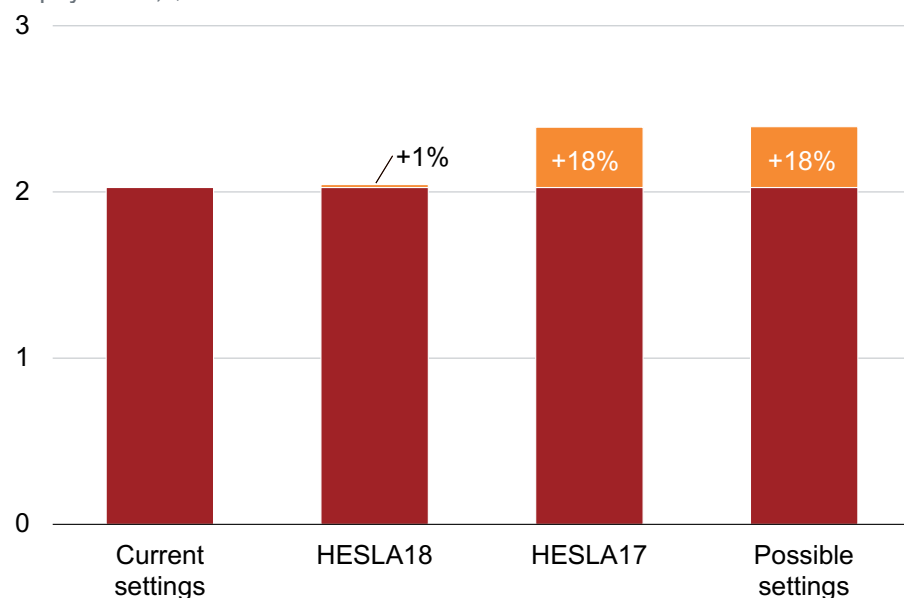


Note: See Figure 3
Sources: ATO (2015); ABS (2017d)

Using a 5 per cent increment from \$45,000 would produce annual repayments of about \$2.4 billion, as Figure 7 shows. Compared to the current settings and the settings proposed under HESLA 2018, these alternative settings would increase annual repayments by about 18 per cent – or about \$360 million. The extra repayments are similar to the extra repayments from HESLA 2017, while lifting the initial threshold from \$42,000 to \$45,000.

Figure 7: Increasing the upper threshold by 5 per cent starting from the lowest threshold of \$45,000 would achieve the policy objective of increased repayments

Repayments, \$2018-19



Notes: See Figure 3

Sources: ATO (2015); ABS (2017d)

2.3 Indexing HELP thresholds

Currently, HELP thresholds are indexed to average weekly earnings (AWE). We support HESLA 2018’s proposal to change indexation to the consumer price index (CPI).

As outlined in the Grattan Institute report *HELP for the future*, HELP thresholds have grown in real terms because AWE usually increases by more each year than CPI. AWE increases more quickly due to real wage growth, an increased share of professional occupations increasing average income, and an ageing workforce that has a larger experience premium in its earnings. However, an increased rate of part-time work has pushed average weekly earnings down. The net effect is that since the last threshold reform in 2004, AWE has increased by 16 per cent more than CPI, which is equivalent to a nearly \$8,000 difference, as Figure 8 shows.

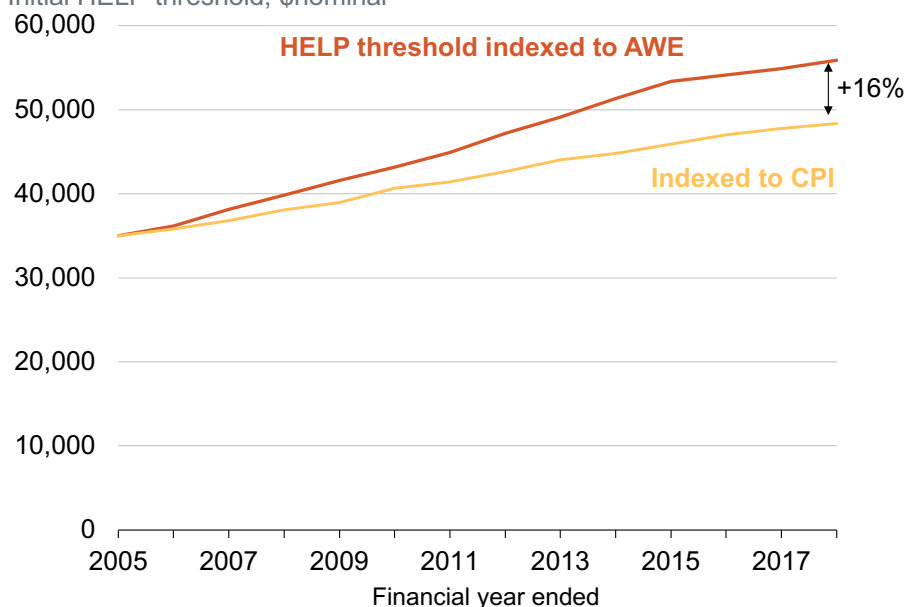
Indexing HELP thresholds to AWE suggests that debtors should maintain their living standards not just from the previous year, but also relative to other workers in the population. This reflects the original HECS idea of graduates only repaying if they receive a relative financial benefit. As discussed earlier, HELP’s initial threshold should protect debtors from serious financial hardship, but not guarantee special private financial benefits.

Indexing HELP thresholds to AWE means fewer debtors repay compared to using CPI. As Figure 3 shows, many debtors earn near the initial threshold. If the threshold had been indexed

to CPI from 2004, the initial threshold would have been \$8,000 lower than under the 2016-17 settings and 150,000 more people would have made a repayment, or about 25 per cent.¹⁰

Figure 8: The initial threshold increased by 16 per cent in real terms

Initial HELP threshold, \$nominal



Notes: CPI indexation is based on the indexation method in HESA 2003

Source: ABS (2017a); c)

Due to subdued wage growth in recent years, a move from AWE to CPI probably will not deliver major savings in the near future. However, it will mean that a consistent indexation system is used throughout the *Higher Education Support Act 2003*, and protect the repayment system from becoming less effective due to periods of high wage growth.

2.4 Repaying settings for SFSS

We support bringing the repayment settings for SFSS into line with the HELP repayment settings. The change would increase the consistency between the two programs.

¹⁰ Based on a reduction of \$8000 under the existing settings in 2018-19 (from \$44,000 up to \$52,000), ABS (2017d); ATO (2015)

3. Schedule 3

HESLA 2018 would modify the existing system of limiting borrowing under HELP. FEE-HELP, VET FEE-HELP and VET Student Loan debtors have had lifetime limits on borrowing since the schemes commenced. In 2018, the limit is \$102,392 except for courses in medicine, dentistry and veterinary science, for which the limit is \$127,992.

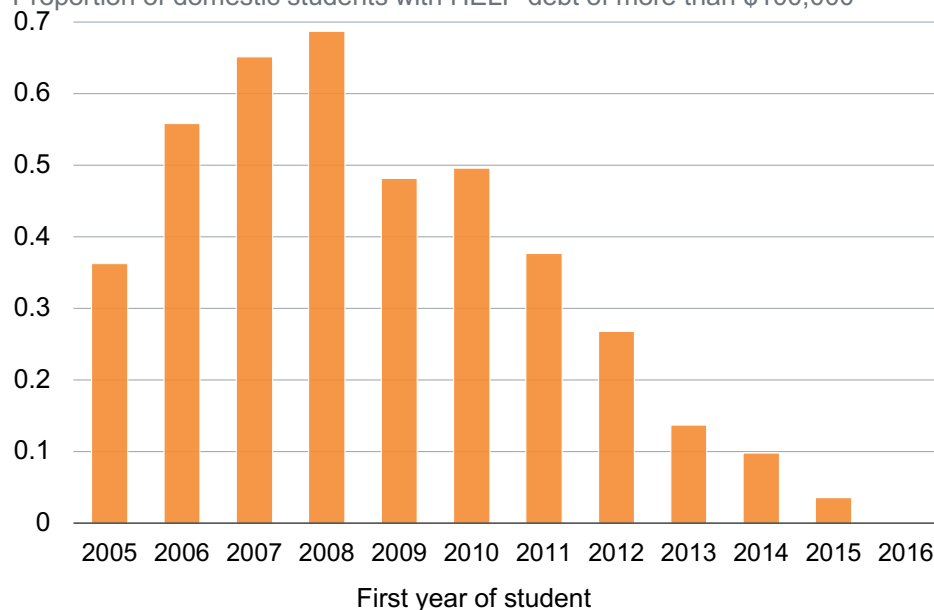
Under the bill, medicine, dentistry and veterinary science students would have a higher limit. Their limit would increase to \$150,000. For other students who only ever borrow under the FEE-HELP, VET FEE-HELP and VET Student Loan schemes, the bill would retain the status quo, with the limit indexed to \$104,400.

The bill expands the existing \$104,400 cap to include HECS-HELP borrowing. Although caps on student contributions limit how much HECS-HELP eligible students can borrow in any one year, there is no total limit on HECS-HELP borrowing. In theory, students could accrue large amounts of HECS-HELP debt plus \$104,400 or \$127,992 (depending on course) of FEE-HELP debt. That would no longer be possible if the bill passes.

3.1 How many people have large HELP debts?

Based on an analysis of higher education students starting since 2005 up until 2016, only small numbers of students are borrowing more than \$100,000. Overall, about 10,000 people have borrowed \$100,000 or more. This is less than one per cent of each year's commencing cohort (Figure 9). The small shares of people with large debt in the later years are partly because they have fewer years to accumulate debt. The share is likely to be lower than the actual proportion since it does not account for VET FEE-HELP and VET Student Loans.

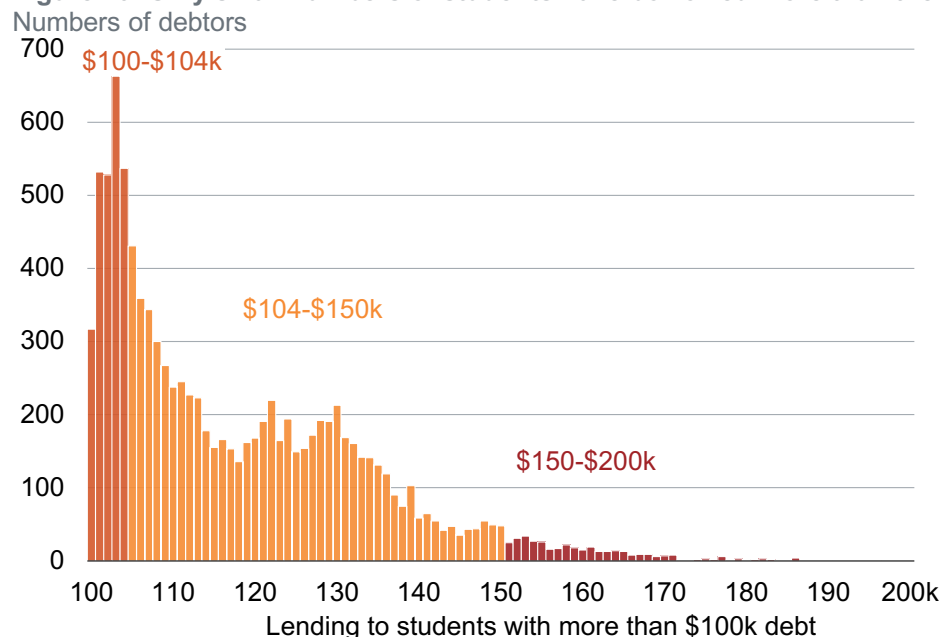
Figure 9: Of recent student cohorts, all have less than one per cent borrowing more than \$100,000
Proportion of domestic students with HELP debt of more than \$100,000



Notes: Domestic students with a CHESSN only. Debt is calculated as the sum of HELP debt (HEIMS element 558) from all units undertaken by a student, identified by their CHESSN, over the collection period of 2005 – 2016. All figures have been inflated to 2017 dollars using CPI. Debt includes a small number of OS-HELP units but the lending limit does not include OS-HELP.
Source: ABS (2017c); Department of Education and Training (various years)

As Figure 10 shows, even with these large debts, few of them borrow very large amounts. Of students with large debts, a fifth have debt below \$104,000 and 95 per cent have debt below \$150,000.

Figure 10: Only small numbers of students have borrowed more than the FEE-HELP caps



Note: See Figure 9
Source: See Figure 9

Another imperfect available measure is outstanding debt. The ATO reports that just fewer than 11,000 people had HELP debts exceeding \$100,000 as of 30 June 2016, with the number increasingly rapidly from a low base, as Figure 11 shows. The debtor figure includes everyone who ever borrowed going back to 1989, VET FEE-HELP debt, the 25 per cent loan fee charged to undergraduate FEE-HELP borrowers, and indexation, but deducts repayments. On average, \$100,000-plus debtors owe \$121,300.

One interpretation of these numbers is that the existing FEE-HELP loan caps already prevent many people accruing very large debts. Only 0.4 per cent of existing HELP debtors owe more than \$100,000. However, it is possible that the big percentage increases in numbers of debtors of \$100,000-plus debtors showing in Figure 11 could continue especially with an even more rapid growth of debtors owing between \$80,000 to \$100,000.

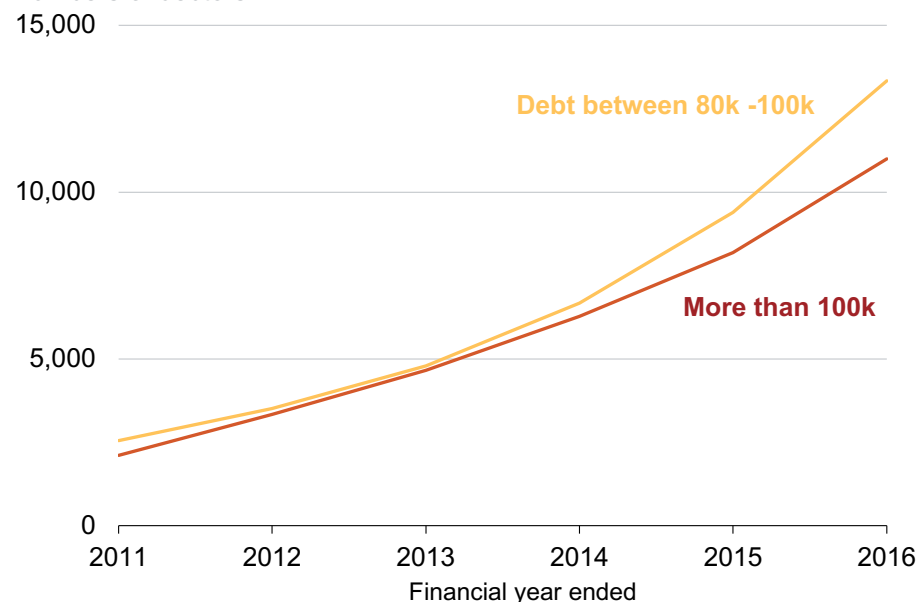
Most postgraduate students are aged over 30 years (Figure 12). Many of the younger people who borrowed under HECS-HELP in the 2005-2016 period are yet to reach the main ages when they are likely to utilise FEE-HELP to finance their postgraduate study.

It is also possible that postgraduate study will become more common in future years, although domestic coursework numbers have been trending down in the last couple of years.¹¹ With the undergraduate enrolment boom of 2009-2014, there is a substantially expanded pool of people with the prerequisite bachelor degree. They may be more inclined than earlier cohorts to continue their education, due to more professions requiring postgraduate degrees, universities marketing initial professional entry postgraduate courses, students acquiring postgraduate qualifications to differentiate themselves in the labour market, and employer needs for staff with

¹¹ Department of Education and Training (2018)

more specialised knowledge and training. Evidence from the masters coursework market supports this. Between 2008 and 2016, the number of commencing masters coursework students grew by nearly 50 per cent – a similar rate to the growth in bachelor degree commencers.¹² For these reasons, the results reported in Figure 9 under-state the proportion of each cohort that will eventually borrow more than \$100,000.

Figure 11: HELP debtors owing more than \$100,000 are growing quickly from a low base
 Numbers of debtors



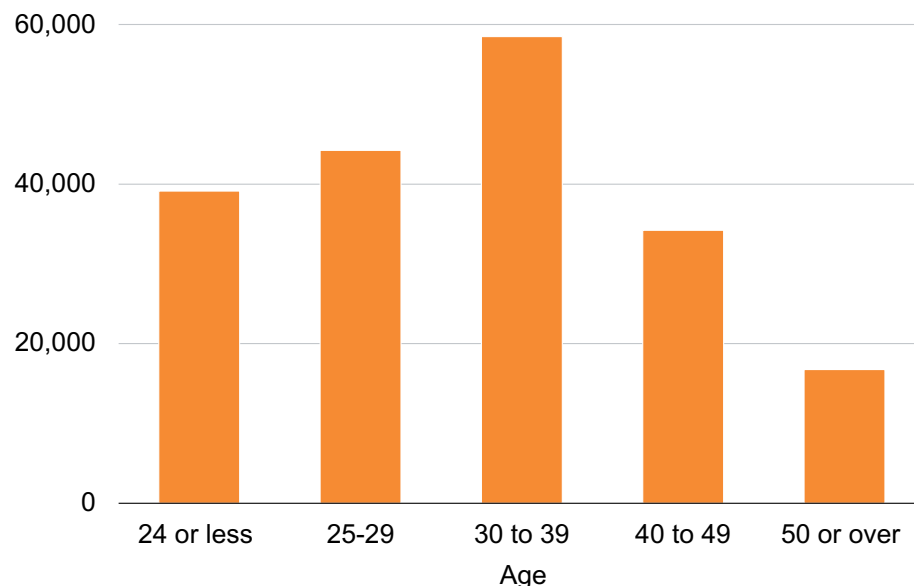
Source: ATO (2017)

The counting of HECS-HELP borrowing towards the cap is prospective; only debts accrued from 1 January 2019 would be counted. However, a modified loan cap would plan ahead to minimise the number of future \$100,000-plus HELP borrowers.

¹² Domestic students, *ibid.*

Figure 12: Most postgraduate students are aged 30 or more

Number of domestic postgraduate coursework students by age



Source: Department of Education and Training (2017c)

3.2 Non-repayment risks

Large HELP debts are not inherently a major problem. They can finance worthwhile educational investment. But with very large debts, borrowers may be repaying for a large proportion of their career, or may never fully repay and have the debt hanging over them for the rest of their lives. For those who repay, large debts also take longer to repay and incur higher interest subsidies.

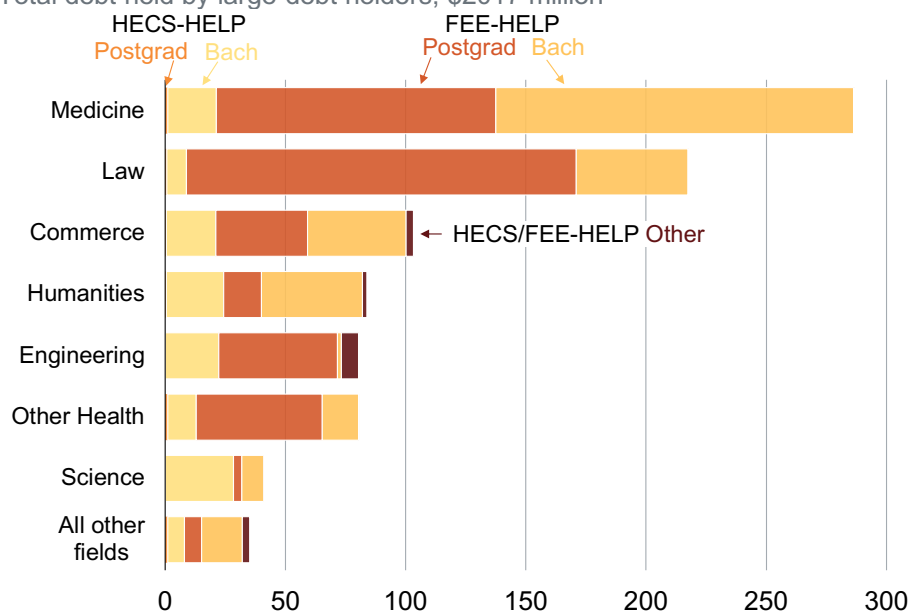
A male bachelor degree graduate with median earnings, as of the 2016 Census, would take 22 years to repay \$104,000.¹³ With a 2 per cent gap between CPI and the bond rate, the interest subsidy would be \$30,000. A female bachelor degree graduate with median earnings would not fully repay. However, these numbers substantially over-state the likely true costs of debtors with large debts because the majority of these students study a postgraduate course. In the time available for this submission, we have not been able to update our repayment prediction model for postgraduate qualifications, although on average people with postgraduate qualifications earn more than people with undergraduate qualifications. Figure 13 shows that borrowing for postgraduate qualifications is a substantial driver of large debts.

The fields of education causing large debts also suggest that median bachelor degree repayment forecasts are too pessimistic. The top fields for large debtors, as seen in Figure 13, are medicine and law, which have typical earnings that are well above average. While there are two relatively low-paying fields in the disciplines with larger amounts of debt, humanities and science, the chart is based on their first borrowing in the 2005-16 period. Students with generalist degrees often go on to professional qualifications at a later time.

¹³ Under the existing settings in 2018-19

Figure 13: Most HELP debtors owing more than \$100,000 studied fields with above average earnings

Total debt held by large-debt holders, \$2017 million



Notes: Large debt holders are students who borrowed more than \$100,000 between 2005 and 2016 in higher education. See also Figure 9

Source: See Figure 9

Although the median \$100,000-plus HELP debtor has more capacity to repay than the median HELP debtor, they could potentially leave taxpayers with substantial bad debt. For taxpayers, bad debt risks are closely related to how HELP repayment is organised.

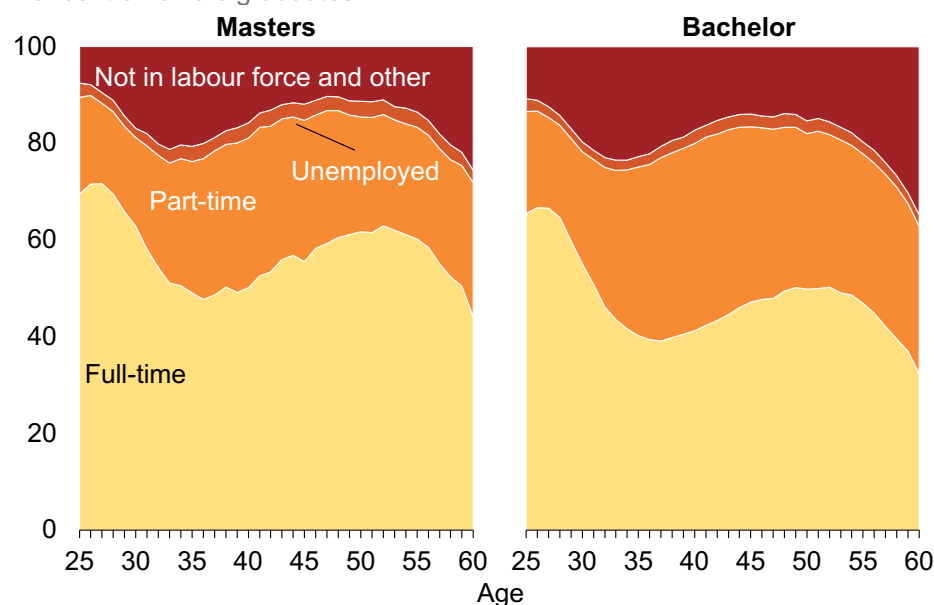
As this submission argues in section 0, the proposed changes to repayment thresholds and rates will do little to reduce HELP’s costs. In particular, the threshold and rate charges leave a core HELP financial vulnerability – female graduates transitioning to part-time work in their late twenties and early thirties. Women represent about half of the large-debt holders. While female masters graduates are less likely to transition and more likely to return than their bachelor-degree counterparts, a significant proportion are not in full-time work until their late 40s to early 50s. Even if they fully repay their debt, a delay of 10 to 15 years could increase HELP costs by about 20 per cent of initial borrowing. And for those who don’t repay, because many of them live in high-income households, writing off their HELP debt is a regressive subsidy.

If the HELP repayment system is not effective it encourages policymakers to minimise the amount of potentially doubtful debt that is created in the first place. We can already see a pattern of this in recent student loan policy. VET Student Loans are now restricted to courses with better repayment prospects, and FEE-HELP is being denied to students in non-university higher education providers whose academic records suggest that will not complete their course.¹⁴ A loan cap would complement these previously introduced measures.

¹⁴ Norton (2017)

Figure 14: A significant proportion of female graduates either work part-time or do not work irrespective of their qualifications

Per cent of female graduates



Note: Australian citizens only
Source: ABS (2017b)

3.3 Why a \$104,000 or \$150,000 cap?

HELP debtors are not risk assessed. Some HELP debtors could handle much more than \$104,000 in debt, while others won't be able to repay much smaller sums. A balance is needed between supporting a reasonable level of educational investment, and not financing unlimited borrowing that is unlikely to be repaid.

Generally, the \$104,000 cap would let students borrow for one bachelor degree and one postgraduate degree, or two undergraduate degrees, or any of the two with a typical vocational education diploma.

The median debt for someone taking out a HECS-HELP loan for a bachelor degree is about \$30,000. We lack up-to-date figures for bachelor-degree NUHEP students in full-fee places, but in 2015 the median fee was \$15,000 a year.¹⁵ These undergraduate costs would typically leave \$50,000 to \$70,000 for postgraduate study. In 2014, median domestic-student fees were between \$16,000 and \$30,000 per year, depending on discipline.¹⁶ Most postgraduate courses are one to two years long. Even for students who borrowed for a diploma through the VET Student Loans scheme should still be able to do a typical undergraduate and a postgraduate course under the cap. For most students, \$104,000 would be enough to finance an initial and then a career development qualification.

By definition, some universities charge more than the median fee, and sometimes a lot more. Once their HELP limit is reached, students may have to pay fees up-front at one of these universities. However, taxpayers should not support whatever fees universities charge. Even without the change, students already have to pay some of their fees up-front if they take

¹⁵ Norton (2015)

¹⁶ Norton and Cherastidtham (2015), p. 21

prestigious courses like the Juris Doctor at elite universities.¹⁷ One benefit of a loan limit is that it can act as a soft cap on fees, encouraging market resistance to over-priced courses.

The modified cap of \$150,000 for medicine, dentistry and veterinary science recognises the inherently higher costs of delivery and long courses in those fields. For undergraduate students in HECS-HELP courses, \$150,000 is more than enough. However, for students undertaking all their initial professional entry studies in these fields in the deregulated postgraduate market it is likely to be difficult for universities to provide courses at \$150,000 or less.¹⁸ Given that students in these courses are likely to have a HECS-HELP financed undergraduate degree, they will reach their HELP limit well before completing their postgraduate degree. While this is a significant issue for the individuals concerned, the problem is initial professional entry postgraduate courses rather than the HELP cap.

3.4 Treating students more equally

Current post-school education policy treats students differently in ways that lack a strong policy rationale. Undergraduates in public universities used to have a 7-year borrowing cap but now enjoy an unlimited number of years of tuition subsidies, a price-capped charge, a HECS-HELP loan with no loan fee, and at least a \$104,000 FEE-HELP loan entitlement they can use for postgraduate study. But students in non-university higher education providers receive no student subsidies, pay unregulated fees, pay a 25 per cent loan fee on FEE-HELP, and while they have the same FEE-HELP loan cap, because it has financed their undergraduate studies they have less left over for postgraduate study.

While nothing in the bill makes NUHEP students better off, it would give all students the same entitlements, which would increase the system's overall fairness.

3.5 Savings from a loan cap

The financial impact statement for the modified loan cap says that it will have net costs in cash balance and fiscal balance terms.

However, cash balance and fiscal balance do not properly account for doubtful debt savings, which will appear over time through lower balance sheet write-downs on the value of HELP debt.

There will be savings from preventing HECS-HELP students borrowing more than \$104,000. In addition to reduced HELP costs, there may also be Commonwealth Grant Scheme savings, when students stop studying after reaching their HELP limit.

There will be added costs from increasing the loan cap to \$150,000 for medicine, dentistry, and veterinary science students. Although doubtful debt risks will increase for these courses, overall risks are likely to be low for medicine and dentistry due to their high earnings. Graduates in veterinary science do not earn as much, but there are few students in this field so the potential for large losses is limited.

Although we expect the modified loan cap to deliver only modest net savings, it is worth doing as one of a range of measures to reduce HELP's cost to taxpayers, while still achieving the scheme's policy goals.

¹⁷ For example, a three-year program in JD costs \$125,000 for full-fee students at the University of Melbourne. The University of New South Wales charges a similar amount, University of Melbourne (2018); University of New South Wales (2018)

¹⁸ Deloitte Access Economics (2017), based on undergraduate costs, p. vii

In addition to the savings, a cap could contribute to public confidence in HELP. Last September, media outlets reported that at least 50 students owe more than \$200,000 and some owe more than \$400,000.¹⁹ While the total lending to these students is small, these stories can affect public confidence. With a loan cap, the government could clearly say that these very large debts will not occur in the future.

Even debt below \$100,000 still comes with an expected cost of about 20 per cent. As discussed in 3.2, many debtors are in relatively well-off households. Any subsidies to these households are regressive. Because HELP debt is currently written off at death, much of the subsidy goes to their adult children. This is not a good use of taxpayers' money. As discussed in section 0, household repayment could circumvent some of these issues. Alternatively, the government could also recover debt from debtors' deceased estates. Actual savings are sensitive to repayment settings and the resulting doubtful debt level. Overall, Grattan estimated that the cost of unpaid debt could be reduced by half if HELP debt were collected from debtors with deceased estates worth more than \$100,000.²⁰

¹⁹ Minear and Mikaela (2017); Bitá (2017); Holderhead (2017)

²⁰ Norton and Cherastidtham (2014), p. 42

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