Council of Australian Postgraduate Associations (CAPA) and National Aboriginal and Torres Strait Islander Postgraduate Association (NATSIPA)

Response to: Education and Other Legislation Amendment (Abolishing Indexation and Raising the Minimum Repayment Income for Education and Training Loans) Bill 2022

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Compiled with the assistance of the office bearers of the National Aboriginal and Torres Strait Islander Postgraduate Association (NATSIPA) and Council of Australian Postgraduate Associations (CAPA) and its affiliated member organisations.

Prepared by Errol Phuah (CAPA National President - Caretaker) & Dr Sharlene Leroy-Dyer (NATSIPA National President/CAPA Board Chair)

Level 1, 120 Clarendon Street, Southbank, VIC, 3006
For comments, please contact Errol Phuah, CAPA National President
+61 431 545 167
www.capa.edu.au
www.natsipa.edu.au

Foreword

This is a joint submission of the Council of Australian Postgraduate Associations (CAPA) and the National Aboriginal and Torres Strait Islander Postgraduate Association (NATSIPA).

The Council of Australian Postgraduate Associations (CAPA) is the peak body representing the interests of the over 455,000 postgraduate students in Australia. We represent coursework and research, as well as domestic and international postgraduates. We are comprised of 28 university and campus-based postgraduate associations, as well as the National Aboriginal and Torres Strait Islander Postgraduate Association (NATSIPA). CAPA carries out its mission through policy, research, and activism, communicating the interests and issues of postgraduate students to higher education stakeholders as well as Federal and State Governments, Opposition parties, and minor parties.

The National Aboriginal and Torres Strait Islander Postgraduate Association (NATSIPA) is the peak representative body for Aboriginal and Torres Strait Islander postgraduate students, representing almost 650 Aboriginal and Torres Strait Islander Higher Degree by Research (HDR) students and over 2200 Aboriginal and Torres Strait Islander postgraduate coursework students.

We thank the Senate Education and Employment Committees for this inquiry and for allowing us the opportunity to contribute the thoughts and concerns of past, present and future students. Our recommendations below are a summary of our response to this bill.

Recommendations:

1. The minimum income threshold for HELP repayments should be amended to align with the national median annual wage/salary.
2. Aligning the indexation of HELP debts to the Consumer Price Index should be abolished, or consider its realignment to the Wage Price Index instead.

Introduction:

Currently, there are 3 million Australians with outstanding student debts; over 66% of these debtors are represented by Australians aged between 20 and 40. The demographic represented includes low-income earners and young families already facing financial hardship due to the rising cost of living. In the context of this inquiry, we are concerned that some of the most vulnerable Australians will regress on paying off their student debt when the legislated indexation takes effect on June 1st.

Increasing the repayment rate at the minimum income repayment threshold to meet indexation would be an inappropriate response when Australians, especially young families, struggle with the cost of living. Many experiencing financial hardship have been advised to reach out to the Australian Tax Office (ATO) to arrange deferring payments, but this temporary solution does not address the accumulation of debt through annual indexation.

The most recent Quality Indicators for Learning and Teaching (QILT) survey indicates that undergraduates' short-term and medium-term full-time median salaries are $63,400 and $80,000, respectively.[1] Based on the Australian Tax Office Calculator,[2] graduates within this range would be set to make compulsory repayments at rates between 3-5% this financial year. However, we are concerned that with the current indexation arrangement aligned to inflation at a rate of ~7%, debtors earning less than $99,997 will end the financial year with higher student debts than they began if they do not make any voluntary repayments. Our recommendations resonate with the proposal to raise the minimum repayment income threshold and address the indexation by abolishing or replacing its alignment from inflation to wage growth.

Amendments to Compulsory Income threshold

When an Australian economist, Emeritus Professor Bruce Chapman, explained his rationale behind the Higher Education Contribution Scheme (HECS) design, he envisioned a progressive loan system requiring those reaping the financial benefits of their education to begin paying off their student loan. Published in the Australian Universities Review:

> "..the income-contingent variety serves to protect low-income earners and those who generally do not benefit financially from the investment undertaken."[3]

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[1] Quality Indicators for Learning and Teaching, *2022 Graduate Outcomes Survey – Longitudinal*, https://qilt.edu.au/docs/default-source/default-document-library/2022-gos-l-national-report.pdf
[2] Australian Tax Office, HECS-HELP Debt, last accessed 14/2/2023, https://atotaxcalculator.com.au/help-debt
[3] Chapman B. 2016, Australian Universities' Review, *The rationale for the Higher Education Contribution Scheme*, https://brucejchapman.com/wp-content/uploads/2018/12/The-rationale-for-the-HECS.pdf

Consistent with the system's original objective, we argue that those earning below the median annual wage fall under the category of low-income earners and, thus, should be exempt from making compulsory payments to their student debt. The compulsory HECS repayment threshold for the 2022-23 income year is $48,361[4] compared to the median income of $65,000 before tax as of August 2021, based on an Australian Bureau of Statistics report.[5] The misalignment of these figures means additional stress to countless young graduates already struggling financially with the cost of living due to inflation and rising interest rates.

Assuming the compulsory repayment income threshold can be readjusted to $65,000, our estimates suggest that over 337,000 Australians will benefit from an average increase of ~$975 in take-home pay. Based on last year's data, this would lower the annual tax revenue by $353 million but effectively serve as a non-inflationary response and target low earners.

We believe that such an amendment would benefit Australians in the following ways:

1. It recognises the financial hardships many young Australians currently face and targets to help support a good proportion of low-income earners.
2. It is a non-inflationary fiscal policy that is more likely to encourage Australians to save than further drive inflation whilst providing financial relief.
3. It reduces the long-term burden of undertaking a university degree and rebalances many young Australians' cost/benefit analysis.

There are also many indirect benefits worth considering, including the effects of financial hardship on the mental and physical health of the population. Where the current public healthcare system is already overwhelmed with many Australians paying a gap fee to meet a healthcare professional, a cost/benefit analysis may find $353 million of deferred tax revenue to be a beneficial trade-off. Furthermore, our estimated 337,000 Australians that this would benefit only refers to taxpayers and does not include the indirect benefits to dependencies and carers.

Based on the above reasons, we believe it is in the interest of the Government, Australians, and the members we represent to increase the compulsory income threshold to a national median annual income.

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[4] Australian Tax Office, HECS-HELP Debt, last accessed 14/2/2023, https://atotaxcalculator.com.au/help-debt
[5] Australian Bureau of Statistics, *Employee earnings*, last accessed 14/2/2023, https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/employee-earnings/aug-2022

Recommendations:

1. The minimum income threshold for HELP repayments should be amended to align with the national median annual wage/salary.

Amendments to the indexation of HELP debts

The rationale for aligning indexation to the Consumer Price Index (CPI) was to maintain the real value of the debt over the time the loan was repaid.[6] However, we would argue that CPI is a flawed metric because its fluctuations are easily influenced by global market trends, including spiking in energy costs, market bubbles, trade bans/tariffs and other external factors that may result in the rise of inflation. While some may justify that the current situation is an exceptional economic anomaly, it is worth highlighting that the stable inflation rates we have enjoyed over the last two decades are not necessarily representative over broader periods - Refer to Appendix B.

Thus, if the indexation of student debt is necessarily evil, we would recommend exploring its alignment instead of the annual average of the Wage Price Index (WPI). Doing so would have several advantages:

1. The WPI appears more stable than CPI yet still follows similar trends over longer periods - see Figure 1.
2. It would align with the value of Australian labour and less from the price inflation often affected by external factors in the global markets.
3. Aligning the indexation to real wage growth would be the fairest indexation form if retained.

[6] Chapman B. 2016, Australian Universities' Review, *The rationale for the Higher Education Contribution Scheme*, https://brucejchapman.com/wp-content/uploads/2018/12/The-rationale-for-the-HECS.pdf

Figure 1: Annual indices of wage and consumer prices (inflation) between 2002 and 2022 indicate significant fluctuation in inflation than wage growth in the short term but follow similar trends in the longer term—source: ABS Wage Price Index,[7] Consumer Price Index.[8]

Recommendation:

2. Aligning the indexation of HELP debts to the Consumer Price Index should be abolished, or consider its realignment to the Wage Price Index instead.

Final Thoughts

The HECS/HELP was initially implemented so that compulsory repayments would commence once their education benefits were reflected in the income of graduates. However, decades of amendments and government changes have steered the system away from its original ethos. Graduates are now forced to commence repayments long before their salaries reach the national median and will now be hit by the most significant indexation increase in their student debt in decades.

[7] Australian Bureau of Statistics 2022, Wage Price Index, last accessed 14/2/2023, https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/wage-price-index-australia/latest-release
[8] Australian Bureau of Statistics 2022, Consumer Price Index, last accessed 14/2/2023, https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release

If inflation continues to outpace wage growth, the long-term consequences of aligning indexation to inflation will increase the number of graduates who will spend their entire lives repaying their student debt.

Recommendations:

1. The minimum income threshold for HELP repayments should be amended to align with the national median annual wage/salary.
2. Aligning the indexation of HELP debts to the Consumer Price Index should be abolished, or consider its realignment to the Wage Price Index instead.

Appendices:

Appendix A – Calculations for estimating the cost of aligning the repayment threshold to the median annual salary of $65,000.

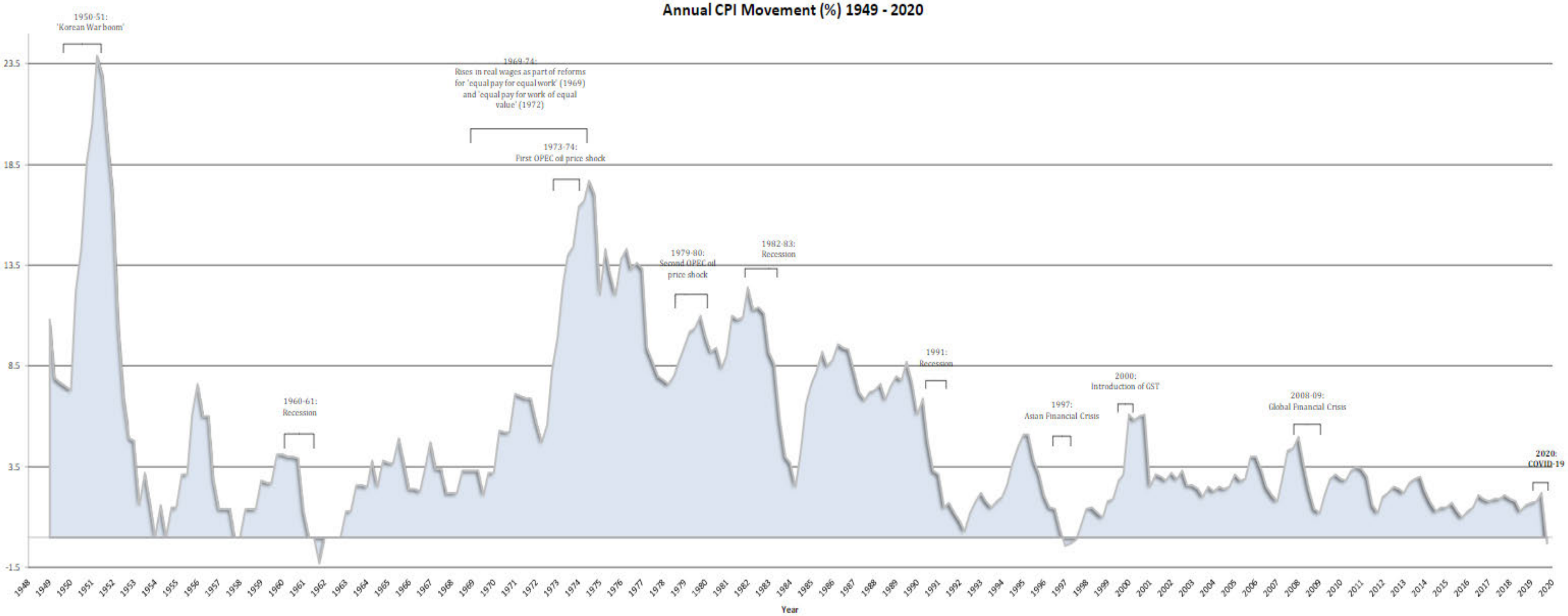
Income Bracket	Total Debtors in 2021-22 financial year	Repayment % rate	Average tax revenue
$40,000 to $49,999	297,520*	0-1%	n/a
$50,000 to $59,999	242,935	1-2.5%	$233,824,937
$60,000 to $69,999	189,159 (94,580)**	2.5-3.5%	$118,225,000
$50,000 to $65,000	242,935 + 94,580 = **337,515 debtors.**		**$353,049,937**

Note:

* – We excluded incomes between $48,361 and $49,999 due to the uncertainty of the distribution and marginal contribution to these estimates.

** – To estimate the number of debtors between $60,000 to $65,000, we assumed a normal distribution within the $60,000 to $69,999 income bracket from the original ATO data stated 189,159 debtors. Halving the population was assumed to exclude the income bracket's upper half ($65,000 to $69,999).

Appendix B – Annual CPI between 1949 to 2020[9]



[9] Australian Bureau of Statistics 2022, Consumer Price Index, last accessed 14/2/2023, https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release