

# A First Degree Shouldn't Cost a Second Mortgage

## Is going to university in Australia becoming unaffordable?

### How much does it cost to get a university degree in Australia?

Students face two major types of costs associated with getting a university degree:

- **tuition fees** that they must pay to the university to enrol in a course , and
- **living costs.**

These costs are substantial. Enrolling in university is equivalent to a major investment decision not unlike investing in a mortgage.

### Tuition Fees

The cost of getting a university degree in Australia is not always immediately apparent because the vast bulk of domestic undergraduate students are Commonwealth supported students and as such they do not have to pay their university tuition fees upfront. The majority of students elect to defer the repayment of their tuition fees through the Higher Education Contribution Scheme (HECS) which is discussed in more detail below.

Therefore, while students might not have to find the money upfront to pay their university fees, the majority will graduate with significant HECS debts for their tuition fees. The total level of debt an individual student will incur depends on:

- the degree in which they are enrolled and therefore the HECS fees that degree attracts (see Table 1), and
- the length of the degree.

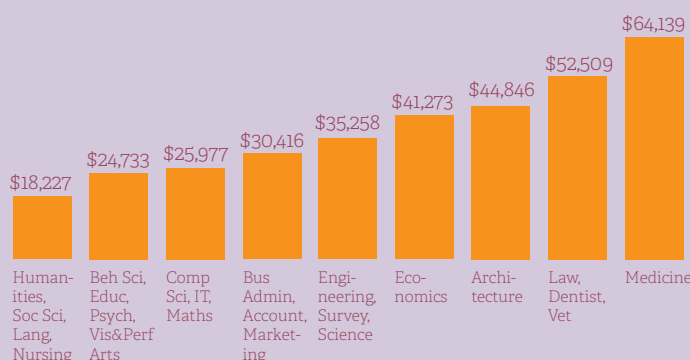
Taking into account the three HECS bands and varying lengths of degree programs, Chart 1 estimates that a Commonwealth supported student enrolling at an Australian university in 2013 will graduate with tuition fee (HECS) debt of between \$18,000 for (for a three year degree in humanities, the arts or nursing) to almost \$65,000 for someone doing a six year medical degree.

Table 1: Maximum Student Contributions 2013 by HECS Band

HECS Band	Max Student Contribution
<b>Band 3:</b> Law, Dentistry, Medicine, Vet Science, Accounting, Admin, Economics and Commerce	\$9,792
<b>Band 2:</b> Computing, Built Environment, Other and Allied Health, Engineering, Surveying, Agriculture, Maths, Science and Statistics	\$8,363
<b>Band 1:</b> Humanities, Behavioural Science, Social Studies, Education, Foreign Languages, Visual and Performing Arts	\$5,868

The average level of debt for Commonwealth supported student enrolling 2013 is estimated at about \$30,000 and will take on average about 8 to 10 years to repay.

Chart 1: Estimated Cost of Undergraduate Degrees for Students with Commonwealth Supported Place (enrolling 2013)



Graduating from university with substantial HECS debts directly impacts on their capacity to borrow money to buy a house and/or start a business. Research also shows that the debt delays the timing of when graduates choose to start a family.

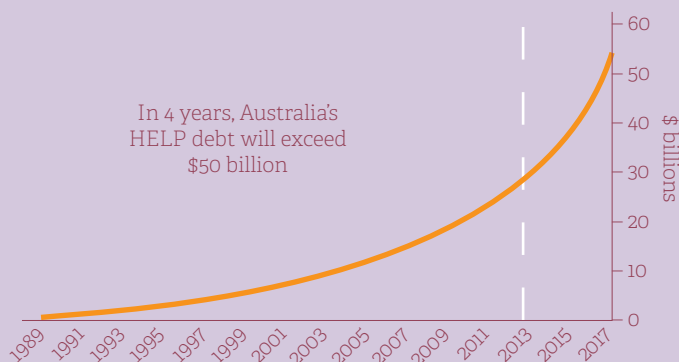
## Total HECS Debt

As the level of HECS fees and number of students incurring HECS fees have rapidly increased, so too has the total level of outstanding debt university students owe to Commonwealth Government. According to the latest published statistics the level of Higher Education Loan Program (HELP) debt was \$26 billion as at 30 June 2012. According to the NTEU estimates this debt is rising at a rate of:

- \$500,000 per hour, or
- \$12 million a day.

At this rate outstanding student HELP debts will exceed \$50 billion by 2017, as shown in Chart 2 below. A more detailed explanation underlying these assumptions is provided below.

**Chart 2: Higher Education Loans Program (HELP) Outstanding Debt (\$ billions) 1988-89 to 2016-17**



Given its current rate of growth NTEU estimates that the level of outstanding debt students owes the government will exceed total credit card debt (which is currently about \$44 billion) within three years.

The question people might want to ask is whether the total level of outstanding HELP debt is something that we need to be concerned about. At one level the answer this question is, no. The way the HECS-HELP system works is that the \$3 billion or so of student fees that the Commonwealth government pays to universities each year (Commonwealth supported students' contributions) doesn't count as government spending or expenditure. It is not expenditure because the payments are loans which are expected to be repaid. The total outstanding debt owed to the Commonwealth by current and former students (\$26 billion as at 30 June 2012) also counts as a Commonwealth government asset.

Given the particular national accounting treatment of student contributions and outstanding debt, many may be of the view that HECS is a magic pudding that has the capacity to keep on giving regardless of how much one charges students and/or the total level of outstanding debt. This however is not true, because there costs associated with the operation of HECS. These costs relate to the level of debt that the Commonwealth does not expect to recover. This may be due to the fact that graduates do not earn sufficient income or earn their income overseas which is not captured by the Australian income tax system.

While the total value of debt that is not expected to be paid is currently estimated to be a little over \$6 billion, the annual write down of fair value of outstanding HECS debt (the real cost of operating of HECS) remains relatively small. However, as the level of individual and total outstanding debt increases, so does the proportion of those debts that will not be recovered through the existing arrangements. Therefore, while HECS might not be an issue in the immediate term in the longer run as the number of students and average and fee increase, the cost of HECS will become a more important issue.

**It would be a travesty if the future financial viability of HECS is undermined by the temptation of current policy makers to exploit what might seem like a magic pudding. As Milton Freidman said "there's no such thing as a free lunch."**

## Living Costs

As noted above tuition fees are only part of the costs faced by students undertaking a university degree. Living costs, especially for those students who have to or elect not to live at home are substantial. The Australian Scholarship Group has developed cost calculators which allow students or prospective students or their parents to estimate the total costs of attaining a university degree ([www.asg.com.au/calculator/](http://www.asg.com.au/calculator/)). The costs vary depending on what you study, where you study and your living arrangements.

Table 2 shows the comparative total costs of attaining a three year nursing degree for a student living at home (almost \$53,000) to the cost of six year medical degree for a student living away from home in independent shared accommodation (almost \$240,000). Therefore when you take into account all of the costs, it is not an exaggeration to compare the cost of a university degree to a mortgage.

**Table 2: Comparative Total Costs for University Degree, 2013**

Profession	Nurse	Doctor
Length of Degree	3 Yrs	6 Yrs
Living Arrangements	Family Home	Shared Independent
Type of Costs	\$	\$
Tuition (HECS-HELP)	18,450	66,152
Student Amenities Fees	858	1844
Textbooks, stationery etc	3,463	7,002
Computer and internet	1,452	2,732
Establishment costs	0	9,455
Accommodation	0	47,036
Food	5,943	41,306
Utilities and Households	0	19,124
Public Transport	3,829	4,784
Leisure and Entertainment	9,775	19,491
Clothing, Medical etc.	9,207	19,185
<b>TOTAL</b>	<b>\$52,977</b>	<b>\$238,116</b>

Source: [www.asg.com.au/calculator](http://www.asg.com.au/calculator)

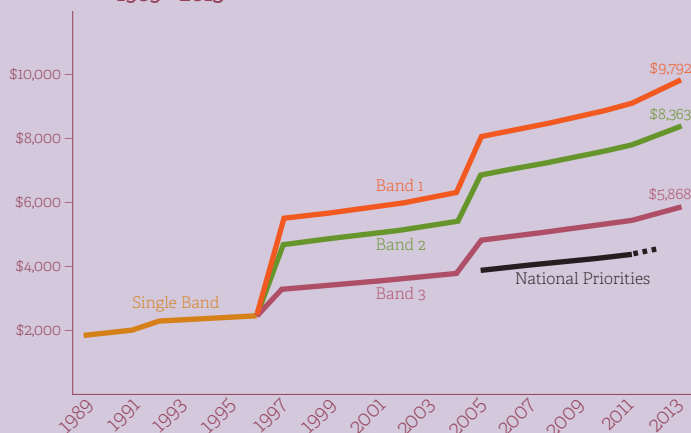
## Background: Higher Education Contribution Scheme (HECS)

Anyone who has studied or known someone who has studied at Australian university over the last 25 years will be very familiar with the term HECS. HECS, which stands for the Higher Education Contribution Scheme, was introduced in 1989 and was first income contingent loans scheme for university students introduced anywhere in the world. Education Minister, John Dawkins, introduced HECS in order to ensure that the re-introduction of university tuition fees would not be a present a barrier to participation under the new unified national system of higher education which resulted in a large expansion in the number of universities and university students.

When introduced in 1989 every Australian university student was charged a tuition or HECS fee of \$1800 per year. This was estimated to be equivalent to 20% of the average cost of a university education. Under HECS, the government paid students tuition fees to universities, which students were required to repay (through the income tax system) once they started earning sufficient income. It had the advantage of not creating an upfront barrier to university study (because students did not have to find or save the money up front) and unlike a bank loan has the big advantages of not attracting commercial interest rates and only needing to be repaid, if and when the recipient only earned sufficient income.

However, as Chart 3 below clearly shows, there have been several significant changes to and increases in HECS fees since 1989. The first major change occurred in 1997 under the Howard Government which saw the introduction of three HECS bands which resulted in the doubling of HECS fees for students enrolled in courses covered by the highest HECS bands which included medicine and law.

**Chart 3: The Evolution of Student HECS Contributions 1989–2013**



## Higher Education Loans Program (HELP)

Since 2005 HECS has been renamed the Higher Education Loans Program – HELP in order to accommodate an series of new income contingent loans for tertiary education students which now include:

- HECS-HELP (original HECS for Commonwealth Supported Place)
- FEE-HELP (for domestic full fee paying students)
- OS-HELP (to finance domestic student studying abroad as part of an Australian university)
- SA-HELP (finance student amenity fees)
- VET FEE HELP (for student enrolled in eligible VET courses).

Under HELP, the Government lends students the money to pay their contribution (tuition fees). HECS loan repayments are contingent on an individual's level of income and collected by the Australian Tax Office. In 2012-13 a student or former student is not required to repay their HECS debts until they earn in the order of \$50,000.

Under HECS-HELP, the funding each university receives for each Commonwealth supported place (CSP) is comprised of a Commonwealth contribution (direct government subsidy) and a Student contribution (which students can borrow from government). As Table 3 shows the total funding a university receives each year per student varies depending upon the degree in which a student is enrolled and ranges from about \$11,000 for students enrolled in the humanities to almost \$31,000 for students enrolled in medicine, dentistry and veterinary science. Table 3 also shows that the relative contribution students are required to make to the cost of their degree is a little as 21.8% for agriculture students and as much as 83.5% for law, accounting and economics students.

**Table 3: Total Funding per Commonwealth Supported Place 2013**

Discipline	Contribution		Total Funding	Student Contribution %
	Cwlth	Student		
Agriculture	\$21,075	\$5,868	\$26,943	21.8%
Nursing	\$13,041	\$5,868	\$18,909	31.0%
Dentistry, Medicine, Vet	\$21,075	\$9,792	\$30,867	31.7%
Clinical Psych, Languages, Visual & Perf Arts	\$11,681	\$5,868	\$17,549	33.4%
Engineer, Science, Survey	\$16,606	\$8,363	\$24,969	33.5%
Education	\$9,882	\$5,868	\$15,750	37.3%
Behav Sci, Social Studies	\$9,498	\$5,686	\$15,184	37.4%
Allied Health	\$11,681	\$8,363	\$20,044	41.7%
Maths, Stats, Computing, Built Enviro, Other Health	\$9,498	\$8,363	\$17,861	46.8%
Humanities	\$5,369	\$5,868	\$11,237	52.2%
Law, Accounting, Admin, Economics, Commerce	\$1,933	\$9,792	\$11,725	83.5%

## Growth in Outstanding Debt

Chart 1 shows that outstanding HEL P debt had reached \$26.3 billion by 2011-12. It also shows that the NTEU estimates it will be in excess of \$50billion within four years. To put these figures in perspective in 2011-12:

- Net general Commonwealth debt is in order of \$140billion
- Credit Card Debt is in the order of \$50billion.

Since the introduction HECS in 1989 there has not only been a rapid expansion in the number of students eligible to access HELP income contingent loans but there has been:

- HECS tuition fees have increased rapidly from being less than \$2,000 in 1989 to almost \$10,000 students in some degrees today. In real terms on average students now contribute about 40% to cost of a government supported place compared to 20% in 1989.
- The number of government supported students eligible for HECS has increased by more than 50% being in order of 400,000 in 1989 to in excess of 600,000 by 2015. There has been a rapid acceleration in the rate growth of Commonwealth Supported Places (CSPs) since 2009 as a direct result of the announcement of the demand driven system of allocating CSPs.

In addition to these reasons, NTEU is believes that the level and rate of growth of HELP debts will accelerate as a direct consequence of policy announcements made on 13 April 2013, and in particular:

- the conversion of the student start-up scholarships to HECS-HELP style loans (saving \$1.2 billion), and
- removal of discount for upfront or early repayment of HECS (\$229 million).

There is no doubt that some of the most economically disadvantaged students will have little choice but to option for the start-up loan option thus adding up to as much as an addition \$12,000 to their HECS debt for a five year degree. The removal of discounts for upfront payment of HECS also removes any financial incentive to pay early and therefore we would anticipate some students or families who in the past may have opted to pay up-front will now use the income contingent loan (HELP debt) option.

**visit MyStudentDebt.com.au**  
**for the most up-to-date estimate**  
**of Australia's student debt**