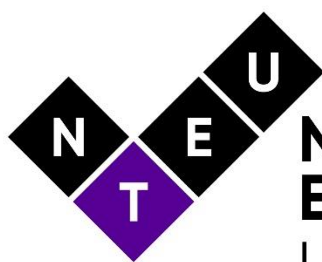

National Tertiary Education Union
Let's aim higher

NTEU submission to the

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

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EXECUTIVE SUMMARY

The National Tertiary Education Union (NTEU) represents the industrial and professional rights of over 25,000 members working in Australian higher education and research.

We welcome the opportunity to make a written submission to the Senate Education and Employment Committee on the *Education and Other Legislation Amendment (Abolishing Indexation and Raising the Minimum Repayment Income for Education and Training Loans) Bill 2022*.

Thanks to the Job Ready Graduates changes, the tuition fees paid by students are higher than ever before. At the same time wage growth is low, and inflation (and therefore HECS-HELP indexation) is high. In this environment the current HECS-HELPS repayment regime means that many students could end up with a tax liability for life. NTEU supports the simple measures in this bill aimed at returning the system to its original intention to be a loan scheme where repayments are contingent upon earning at least an average income, rather than being a tax for life.

RECCOMENDATIONS

Recommendation 1: The Parliament should adopt the measures in this bill that end the practice of debt indexation as applied to all income contingent student loan schemes.

Recommendation 2: The Parliament should adopt the measures in the bill that increase the minimum loan repayment threshold for graduates to the median national income.

BACKGROUND

DOMESTIC STUDENT FEES AND DEBT IN PUBLIC UNIVERSITIES

The Dawkins reforms of 1988 established a system of flat yearly student contributions for tertiary study ($1,800 at the time), with these payments being deferred to an income contingent loan provided by the government, and recovered via the tax system starting when the graduate later met a pre-determined income level. This level was initially set at $22,000 – the average annual earnings at that time.[1] This policy was part of a broader package designed to increase the number of university places and increase student accessibility to tertiary education.

In 1996 flat rate payments were replaced by three different payment bands – these differential bands varied by course area and were based on cost of course delivery, and also on the expected financial returns to the student. In 1996 HECS income only accounted for 11.6 percent of university income.[2] By 2020 this had risen to 18.2 percent after fee increases in 2005, and most recently under the Job Ready Graduates reforms. This is despite

[1] Timothy Higgins, "The Higher Education Contribution Scheme: Keeping tertiary education affordable and accessible" in *Successful Public Policy: Lessons from Australia and New Zealand*, 2019, pp. 71

[2] Timothy Higgins, "The Higher Education Contribution Scheme: Keeping tertiary education affordable and accessible" in *Successful Public Policy: Lessons from Australia and New Zealand*, 2019, pp. 79

income from international student fees also rising rapidly over the same period to make up 23 percent of university income.[3] This means that student fees now account for around 40 percent of all university income.

IMPACT OF JOB READY GRADUATES REFORMS ON STUDENT COSTS

The Jobs Ready Graduate program, first implemented in 2021, made changes to the student contributions and government funding per student by field of study under the HECS-HELP bands with an overall net impact of 10 percent higher student contributions overall.

In some programs, these increases have been extreme:

- 113 per cent increase for humanities degrees, including society and culture, communications, behavioural science and social studies.
- 28 per cent increase for economics, law, commerce and accounting.

Government funding per student has dropped by between 50 per cent and 91 per cent for humanities, economics and law degrees. The exception to the trend for social sciences is English, linguistics and literature – which has received a 113 per cent boost in government funding alongside a decrease of 42 per cent in student fees.

While one of the stated objectives of the Job Ready Graduates reforms was to increase the number of graduates in areas of proposed current and future "employment demand", namely: science, technology, engineering and mathematics (STEM), agriculture, teaching, nursing, and IT fields, the policy has failed even to meet this basic premise. Analysis shows that as a result of the Jobs Ready Graduate changes:

- Universities receive the biggest total funding boost per student for English (32 percent), society and culture (19.7 percent), psychology and social work (19 percent), and law and economics (14.8 percent), incentivizing universities to increase enrolments;
- Overall funding will decrease for some priority fields, including math (-17 percent), engineering and science (-16.4 percent), agriculture (-9.4 percent), nursing (-7.9 percent), and education (-5.8percent), creating disincentives to increase enrolments.

Put simply, the Jobs Ready Graduate changes have resulted in universities receiving a lower rate of funding per student in many fields in which they are expected to expand enrolment while also incentivising universities to increase enrolments in subjects that were supposedly not preferred by the former Coalition Government.

Most importantly, the overall result of this unbalanced policy change has been an average reduction of funding per undergraduate place.

Students will in aggregate pay an extra $414 million a year to study, and the federal government saved $1 billion (or 15 percent) of CGS funding in 2022 under the new model.

It is in this context that changes to the indexation and repayment regime must be considered.

[3] Most recent year for which public data is available. https://www.education.gov.au/higher-education-publications/finance-publication

MEASURES ADDRESSING THE INDEXATION OF STUDENT DEBT

Under the current HECS-HELP scheme outstanding loan balances are increased by an indexation factor on June 1 each year. The original intention of this measure was to maintain the real value of the debt – but not to charge a positive real interest rate. The increase on June 1 2022 was higher than the average mortgage interest rate at the time, and the increase that will occur in 2023 if this bill is not passed is again likely to be above market interest rates for long term debt. NTEU therefore supports the removal of indexation, as proposed in this bill.

STUDENT DEBT TODAY

Current total outstanding HELP debt stands at $74.3 billion for the financial year ending 2022, around four times as much as 2009. The average amount of student debt is now $24,770 per student, up from $15,191 in 2012.[4] Debt repayments are an increasing burden during important early-career years. Students now take an average of 9.5 years to pay off their degree, compared to 7.3 years in 2006.[5] This trend will continue to worsen under the current model - with high inflation-based indexation, low wage growth, and all-time high fees feeding into higher debt burdens for students and graduates.

The people carrying these debts are not just young graduates and students. Of the three million people with HELP debts, 300,000 are aged over 50, and of these two thirds are women. Meaning older women are disproportionally affected by indexations.[6] This compounds existing issues for women when it comes to saving for retirement and building independence Iit is notable that women are much more likely to work in careers that, while important, don't attract high incomes, such as social work and in the community sectors and that conversely, these areas are also often placed in the highest student contribution bands - where the student is expected to cover around 90 per cent of the cost of teaching – despite going to a public university.

We know that many cohorts of potential students are debt adverse, including those who would be first in family to attend higher education, mature age students (especially women) and those who are from Aboriginal and/or Torres Strait Islander communities. It is also very possible that the increasing levels of debt may also act as a disincentive in the future to access and participation in higher education.

Increasing levels of debt does not only have consequences for the individual, but there are broader socio-economic impacts. High debt impacts on the ability to save and the loan burden can be detrimental to applying for finance for major investments such as a home or starting a business. It can have ramifications for access to health, education, and other social-welfare services, and can even prevent or delay starting a family. All of these have socio-economic impacts beyond the individual.

THE NEED FOR ACCESS

Removing the financial barriers to higher education allows for greater social mobility, ensuring that students from diverse backgrounds have access to education and in turn previously unavailable employment and life opportunities. Lack of education is a key driver of inter-generational inequality. Improving equal access to education helps to break down the connection between family socio-economic status and the future economic prospects of the next generation, by shifting the financial responsibility of education to the public sector.

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[4] ATO, 2022, Higher Education Loan Program Data Series, https://data.gov.au/dataset/ds-dga-ce4c58ec-c930-4a05-8a37-f244d960e5f8/details?q=

[5] ATO, 2021, Higher Education Loan Program (HELP), Higher Education Loan Program (HELP) | Datasets | data.gov.au - beta

[6] ATO, 2021, Higher Education Loan Program (HELP), Higher Education Loan Program (HELP) | Datasets | data.gov.au - beta

Today, 68 per cent of Australians aged 15-74 years hold a tertiary qualification or are studying towards obtaining one (including vocational qualifications), this is up from 62 per cent in 2013. The increasing need for tertiary qualifications makes it harder for those without credentials to compete for work.[7] According to government estimates, 52 per cent of new jobs in the five years to 2025 will require a university degree or higher qualification.[8] University graduates also enjoy greater success in the job market compared to those without degrees. Of those between the ages of 25-44, 88.5 per cent with a bachelor's degree or higher are employed, compared to only 78 per cent of those with year 12 or equivalent.[9]

Ensuring that income contingent loans do not become a life-long debt burden is crucial to ensuring access to and take-up of tertiary education.

UNFAIR IMPACT OF JRGP ON CPI AND INDEXATION RATE

The use of CPI to determine the interest rate changed on student debt has recently been subject to a concerning and likely unintended dynamic. ABS CPI figures on the March quarter (Mar Qtr 2021 to Mar Qtr 2022) show that the cost of Tertiary education rose 6.3 percent due to the impact of the job-ready graduate package that commenced in January 2021.[10] This increase fed into the basket of goods that made up the CPI – which then in-turn is going to be used to increase the existing debts of past graduates.

The ABS notes that when the new fee structure was introduced in 2021, fees for existing students were 'grandfathered' so that existing students paid either the same or lower fees, depending on the course they were doing. As students graduate, proportionately fewer are covered by the grandfathering arrangements, meaning that fees will, on average, continue to increase.

EXPECTED INDEXATION IN 2023 (IF BILL IS NOT ADOPTED)

HELP debt is increased each year on June 1 by an indexation factor based on the consumer price index. This is measured using the average consumer price index (CPI) of the preceding two-year period ending in the March quarter. In 2022 the rate applied was 3.9 percent. **For 2023 the rate will be much higher if this bill is not passed.** If we are to use a reasonable estimate of 1.8 per cent inflation for the current quarter (a slight decrease from the previous quarter) **this produces an indexation rate for June 1 2023 of 6.15 percent -** higher than the current average outstanding home loan rate.[11]

[7] ABS, 2021, Education and Work, Australia, Table 27, https://www.abs.gov.au/statistics/people/education/education-and-work-australia/latest-release

[8] National Skills Commission (2020) Skill Level projections – five years to November 2025, https://lmip.gov.au/default.aspx?LMIP/EmploymentProjections

[9] ABS, 2021, Education and Work, Australia, May 2021, Table 23, https://www.abs.gov.au/statistics/people/education/education-and-work-australia/latest release#data-download

[10] ABS, 2022, Consumer Price Index, Australia, https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release

[11] RBA shows the average interest rate for outstanding home loans in December 2022 was 5.5% https://www.rba.gov.au/statistics/interest-rates/

QUARTERLY INFLATION PRECEEDING NEXT DEBT INDEXATION[12]

Jun-2021	0.8
Sep-2021	0.8
Dec-2021	1.3
Mar-2022	2.1
Jun-2022	1.8
Sep-2022	1.8
Dec-2022	1.9
Mar-2023	1.8*
2 Year Average	**6.15**

*Estimated

For the average graduate this means $1523 will be added to their debt on June 1 this year – more than a week's gross pay lost for the average full-time worker.

This is an unprecedented increase in the costs of public tertiary education in Australia, and NTEU supports measures in the bill that would stop this indexation from occurring.

Recommendation 1: The Parliament should adopt the measures in this bill that end the practice of debt indexation as applied to all income contingent student loan schemes.

[12] Author's calculations based on ABS dataset 6401.0 Consumer Price Index, Australia, TABLES 1 and 2. CPI: All Groups, Index Numbers and Percentage Changes

MEASURES ADDRESSING THE MINIMUM REPAYMENT THRESHOLD

The also bill proposes that the minimum payment threshold be increased from the current figure of $48,361 and tied to the median annual wage. This is an important measure and correctly addresses the problematic scenario that occurs when aggressive indexation is combined with new low repayment thresholds.

As of the 2022-23 financial year the minimum repayment threshold is set at $48,361 (in a band up to $55,836) at this income level a graduate will have a compulsory repayment of 1 percent of their income or $484 – this does not come close to the amount added on to their debt by indexation (using the average outstanding debt).

In fact, a graduate must earn around $60,500 before **their mandatory repayments will even cover the indexation amount** (see table below)– meaning that any graduates with incomes lower than this will be going backwards this year. **Under these circumstances a HECS-HELP debt could become a tax liability for life**.

NET GRADUATE DEBT CHANGE AFTER PROJECTED INDEXATION[13]

Graduate Income	Repayment Rate	Repayment Amount	Projected Indexation	New Debt Created	Net position change after repayment
$ 48,361	1%	$ 484	6.15%	$1,523	**-$ 1,039**
$ 55,837	2%	$ 1,117	6.15%	$1,523	**-$ 406**
$ 59,187	2.50%	$ 1,480	6.15%	$1,523	**-$ 43**
$ 62,739	3%	$ 1,882	6.15%	$1,523	**$ 359**

* Based on ***average*** *outstanding* HECS-HELP debt of $24,770. New debt created 1 June, repayment date 30 June

Under the bill the median ABS income used would today be $1250 which equates to a minimum repayment threshold of $65,000. This amount is still much lower than the *full time* median wage of $1516 which equates to an annual income of $78,832.

Moving to this level will ensure that graduates will below average incomes are not making contribution they cannot afford, and will ensure that once payments begin real progress towards total repayment is made.

Recommendation 2: The Parliament should adopt the measures in the bill that increase the minimum loan repayment threshold for graduates to the median national income.

[13] Based on 2022-2023 repayment bands, and average debt in ATO 2021, Higher Education Loan Program (HELP), Higher Education Loan Program (HELP) | Datasets | data.gov.au - beta