Australian Government
Department of Education and Training

Government submission

Inquiry into the provisions of the Higher Education Support Legislation Amendment (Student Loan Sustainability) Bill 2018

Opportunity through learning

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Introduction

Reforming Australia's higher education system

Australia's higher education system has substantially evolved since the introduction of the demand driven system for bachelor level courses. The number of Australians participating in higher education has more than doubled since 1989 from around 0.4 million to over 1.0 million Australians in 2016. The increase in students has led to a significant increase in taxpayer funding for higher education and has placed substantial pressure on the Commonwealth budget.

Over the past several years, the government has pursued a range of measures to redesign Australia's higher education system. These measures were to ensure that higher education funding is sustainable over the long-term so that Australians can continue to access an affordable, world-class higher education.

On 18 December 2017, the Turnbull Government released its Mid-Year Economic and Fiscal Outlook (MYEFO) and announced that it would not proceed with the previous legislative proposals from its 2017–18 Budget higher education package[1] in the Higher Education Support Amendment (A More Sustainable, Responsive and Transparent Higher Education System) Bill 2017.

Instead, it would introduce measures to set a new schedule of repayment thresholds for the Higher Education Loan Program from 1 July 2018, change the indexation arrangements of thresholds to align with the consumer price index (CPI), and introduce a new combined loan limit on how much students can borrow under HELP to cover their tuition fees.

At the same time, the government agreed to changes to repayment arrangements for the Student Financial Supplementary Scheme (SFSS) administered by the Department of Social Services. Portfolio ministers agreed to combine these related loan measures in a single Bill.

The Higher Education Support Legislation Amendment (Student Loan Sustainability) Bill 2018 (the Bill) was introduced on 14 February 2018.

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[1] Further information is available at: https://ministers.education.gov.au/birmingham/sustainability-and-excellence-higher-education

The case for further controls on HELP

Growth in HELP lending

HECS was introduced in 1989 to enable students to defer their student contribution amount for their subsidised higher education place to an income contingent loan. The availability of student loans removed the upfront cost barrier to higher education with repayments being made when the individual could afford to do so.

In 2005, HELP replaced HECS and the loan program was expanded to include FEE-HELP for full fee-paying higher education places and OS-HELP for students undertaking overseas study. In 2008, VET FEE-HELP was introduced to allow vocational education and training (VET) students at higher level VET courses to defer their fees in the same way as higher education students are able to. In 2012, SA-HELP was introduced and in 2017, the VET student loan program was introduced replacing VET FEE-HELP.

Expansion of the loan program and introduction of the demand driven system has led to substantial growth in higher education spending and HELP lending. Since 2009, funding for Commonwealth supported places has grown at twice the rate of the economy. Similarly, the amount of HECS-HELP loans accessed has increased from over $2.2 billion in 2009[2] to over $4.3 billion in 2016[3]. The nominal value of HELP debt has increased from $23 billion[4] in 2010-11 to over $55 billion in 2016-17[5] and will continue to rise (see Figure 1). As at 30 June 2017, the fair value of the HELP debt is around $36 billion or 65 per cent of the nominal value. The fiscal challenge is that HELP repayments have not kept pace with HELP lending growth. From 2010-11 to 2016-17, the level of new debt not expected to be repaid (DNER) has increased from 16 per cent[6] to 25 per cent[7].

It is no longer possible to ignore the long-term burden of this debt on the taxpayer. The rise in the level of the DNER, as the value of loans has increased, means that, in order to sustain the program and ensure that its benefits are available to future generations of students, changes need to be made. The expanding gap between the nominal and fair value, as seen in Figure 1, is a policy problem requiring action.

The policy measures announced in MYEFO will ensure that Australia's world-leading, income-contingent student loan system remains sustainable and continues to be available to future generations of students. The measures in this Bill are proportionate and they help achieve that goal.

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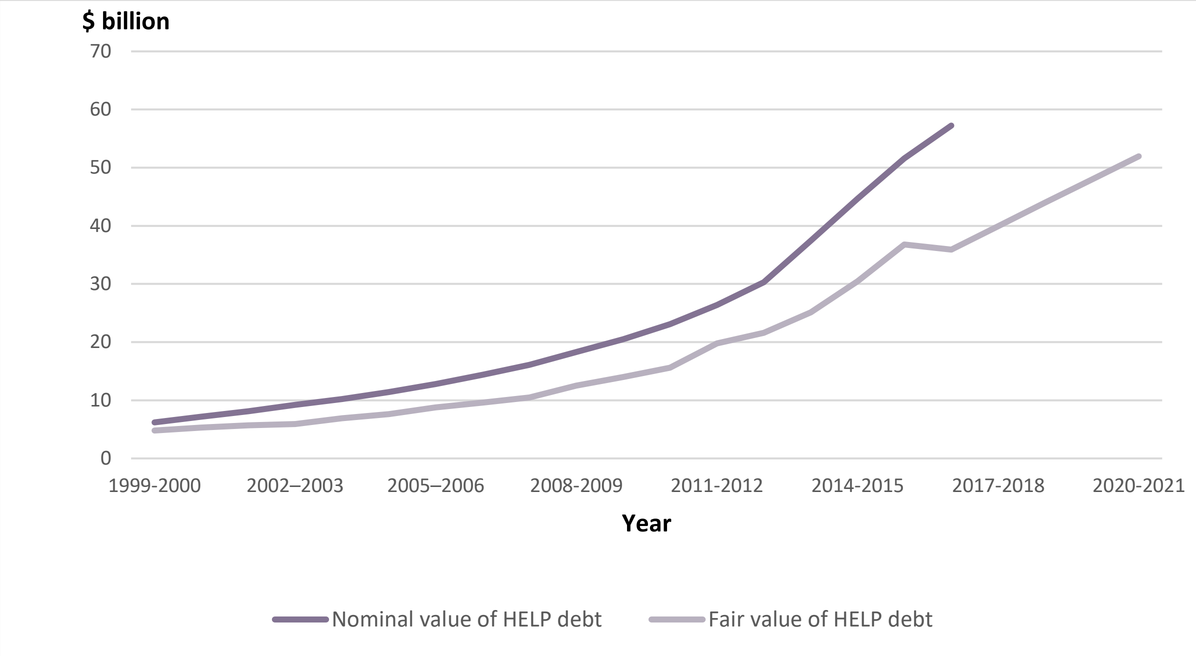
[2] 2011-2013 Higher Education Report, pg 123.
[3] Department of Education and Training Higher Education Statistics – 2016 Liability Status Categories, sheet 8.
[4] 2010-11 Department of Industry, Innovation, Science, Research and Tertiary Education Annual Report, pg 241.
[5] 2016-17 Department of Education and Training Annual Report, pg 128.
[6] 2011-12 Department of Industry, Innovation, Science, Research and Tertiary Education Annual Report, pg 64.
[7] 2016-17 Department of Education and Training Annual Report, pg 53.

Figure 1: Nominal and expected value of HELP debt ($ billion)



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

Introduction of new HELP repayment thresholds

Introduction of a new schedule of HELP repayment thresholds and rates from 1 July 2018 will improve the sustainability of the loan system. The new minimum HELP repayment threshold will be $45,000 with a modest one per cent repayment rate, the second threshold will be $51,957 with a two per cent repayment rate, and the new maximum threshold will be $131,989 with a repayment rate of 10 per cent.

From the second income threshold each progressive threshold is set at six per cent higher than the preceding threshold, while repayment rates increase in 0.5 percentage point increments. There are 18 repayment thresholds in the proposed Bill, up from only 10 thresholds currently. The lower minimum repayment threshold will increase the number of HELP debtors who will be required to make repayments. The higher repayment rates for those at the higher end of the income scale will ensure more rapid repayment rates for those who can afford it. These changes will thereby improve the sustainability of the scheme and ensure it remains available for future generations of students. This new schedule of thresholds will reduce debt not expected to be repaid (DNER) on new debt from 25 per cent in 2016-17[8] to 17 per cent in 2017-18[9].

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[8] Department of Education and Training Annual Report 2016-17, pg 53.
[9] Portfolio Budget Statements 2017–18 Budget Related Paper No. 1.5, pg 55.

While the minimum threshold will be lowered, it remains well above most social security thresholds and the minimum wage (currently around $36,100 for a full-time worker from 1 July 2017, according to Fair Work Australia)[10]. At a repayment rate of just one per cent, an employee earning at the minimum threshold of $45,000 per annum will pay back less than $9 per week.

In 2017, the median salary for graduates from the previous year with an undergraduate qualification, and who were employed on a full-time basis, was $60,000. For graduates with an undergraduate teaching qualification or an undergraduate social work qualification the median full-time salary was higher – at $63,500 and 62,600 respectively.[11]

Professor Bruce Chapman has made the following public statements in relation to the Government's previously proposed HELP threshold commencing from $42,000:

> *"…importantly, the rate of collection of the debt will be cut as well, from 4 per cent to 1 per cent of income. This will mean that the effect on the majority of debtors will be small. Most affected will be current part-time workers, and the increased obligation essentially means a faster rate of repayment, and not a major impost."* (The Conversation website, May 2017)
>
> *"The evidence is now overwhelming that changes to the level of the charge, or other aspects of HECS-HELP, such as the first threshold of repayment, have no discernible effects on student behaviour or choices."* (CBE Blogisphere, May 2017)

There are existing arrangements in the HELP system to provide relief for those who face difficult financial circumstances. Under the *Higher Education Support Act 2003*, where a person's financial and family circumstances result in them either being exempt or receiving a reduction in their Medicare levy, they are not required to make compulsory HELP repayments for that income year. For example, in 2016–17 a single person with one dependent child with an income below $49,871 was exempt from HELP repayments in that income year.

Figure 2 illustrates a group of debtors with their reported income just below the current minimum repayment threshold. This suggests that the current repayment rates create incentives for some debtors to minimise their reported HELP repayment income to deliberately avoid repayments. This is supported by Professor Richard Highfield and Professor Neil Warren (2015)[12]

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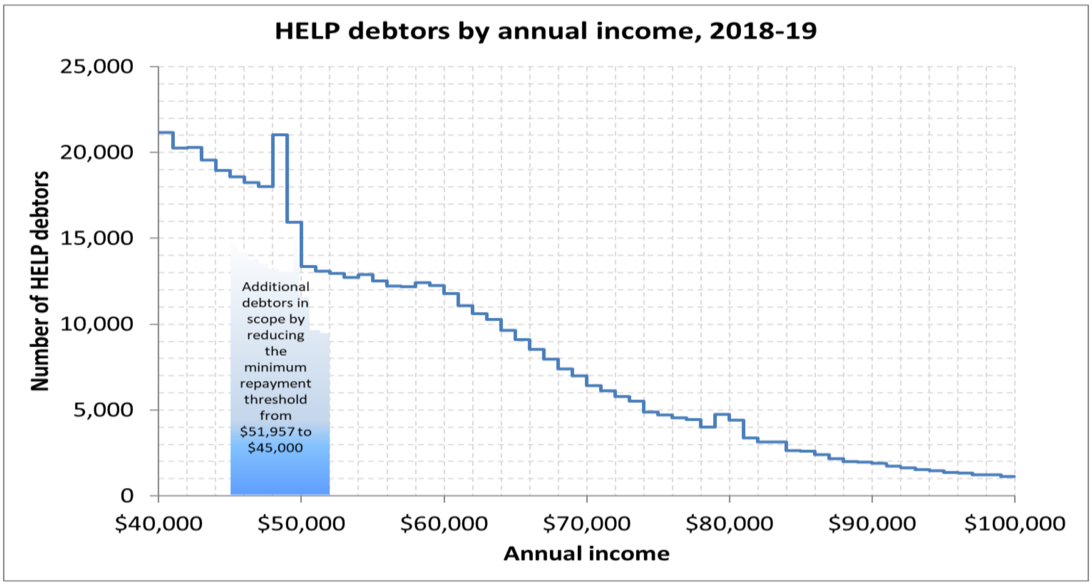
[10] https://www.fairwork.gov.au/how-we-will-help/templates-and-guides/fact-sheets/minimum-workplace-entitlements/minimum-wages

[11] Graduate Outcomes Survey, 2017 Graduate Outcomes Survey National Report, January 2018, p. 40.

[12] Highfield, R, Warren, N. 2015. Does the Australian Higher Education Loan Program (HELP) undermine personal income tax integrity?, *eJournal of Tax Research vol. 13, no. 1, pp. 202-261.*

Figure 2: Additional HELP debtors entering repayment as a result of reducing the minimum repayment threshold to $45,000 in 2018-19



New indexation arrangements for HELP thresholds

From 1 July 2019 onwards all HELP thresholds will be indexed at CPI instead of Average Weekly Earnings (AWE). For a number of years now, the HELP repayment thresholds have been rising relative to earnings. Indexing the HELP repayment thresholds at CPI will ensure the value of the thresholds is maintained in real terms, as the thresholds will increase in line with consumer prices rather than average wages. With AWE being typically higher than CPI, indexation by CPI will slow growth in repayment thresholds, bringing more individuals into the repayment scope over time.

This amendment also reflects a recommendation from the National Commission of Audit's 2014 Phase One report[13] to improve the sustainability of HELP by indexing using this method.

Order of repayment of student loan debts

The Bill makes changes to the order of repayment of various student loan debts. From 2019-20, when the full schedule of HELP thresholds will apply to student debts under the *Social Security Act 1991* and the *Student Assistance Act 1973*, compulsory repayments towards SFSS debts will commence after HELP debts are discharged, rather than concurrently. These changes benefit debtors who have both a HELP and SFSS debt.

Combined loan limit across HELP

The introduction of a new combined lifetime limit on the amount of tertiary education assistance a student can access for tuition fees from 1 January 2019 will improve the sustainability of HELP and distribute resources more fairly among students.

[13] National Commission of Audit, *The Report of the National Commission of Audit*, Phase One, February 2014, p. l

There is already a lifetime loan limit for FEE-HELP, VET FEE-HELP and VET student loans. The Government's extension of the loan limit to HECS-HELP borrowing makes it consistent across all loan schemes available for deferring tuition fees. The proposed lifetime HELP loan limits for 2019 are:

- $150,000 for students undertaking medicine, dentistry and veterinary science courses that lead to practitioner registration in these professions, and
- $104,440 for other students.

Under current arrangements, there is no restriction on the amount that a person can borrow under HECS-HELP. This has resulted in some borrowers exploiting the system and accumulating very large debts that would be difficult to fully repay in an average person's lifetime. In 2017, the ten individuals with the highest HELP debts had debts ranging from over $200,000 to over $450,000.

Medical, dental and veterinary science students who had previously reached their FEE-HELP limit will have access to additional funds up to the new $150,000 limit. The limit currently applied to students in other courses does not change (other than through indexation). The new combined HELP loan limit is more than adequate. In fact, it is sufficient to cover almost nine years of full-time study as a Commonwealth supported student in higher education, even in the most expensive courses. More broadly, the loan limit is sufficient to cover students who choose to undertake a mix of Commonwealth supported and fee-paying courses, and across both VET and higher education. The limit is unlikely to constrain the options of students progressing from VET to studies in higher education. Existing VET students are already subject to the FEE-HELP loan limit, and there are loan caps in place for VET student loans. In additional, VET courses are typically shorter in duration, and therefore less costly, than higher education courses.

Although a loan limit is unlikely to affect the majority of students, it acts as a ceiling that may discourage individuals or institutions from exploiting the generosity of the HELP scheme. It will encourage students to select courses carefully and the cap will thereby act as an incentive to complete a course of study. Currently, the department is aware that tuition fees for some fee-paying courses exceed the current lifetime loan limit; the new arrangements do not affect this. A lifetime loan limit sends a signal that there is a limit to how much time and taxpayer funding a student can expect to be able to access.

Conclusion

In December 2017, the Government announced measures which seek to improve the sustainability of HELP by ensuring access to loans is within the intended aim of the HELP scheme and through strengthening the repayment arrangements for HELP debt. These measures will ensure that eligible students are able to continue accessing higher education and vocational education without facing upfront cost barriers.

The legislative proposals under the 2017-18 MYEFO higher education reforms, reflected in the Higher Education Support Legislation Amendment (Student Loan Sustainability) Bill 2018, will help ensure the sustainability of Australia's HELP system for the future.