Think Forward

A fair go for those with higher education debt.

February, 2023

1. Executive summary

Think Forward welcomes the opportunity to provide policy analysis and recommendations to the Senate Education and Employment Committees inquiry **(inquiry)** into the Education and Other Legislation Amendment (Abolishing Indexation and Raising the Minimum Repayment Income for Education and Training Loans) Bill 2022 **(bill).**

HECS debt being tied to inflation is one example of many in which Australia's tax and transfer system undermines intergenerational fairness. Intergenerational fairness describes the idea that there should be economic and social fairness between generations. Intergenerational fairness is not about pitting generations against each other, it is about the implicit generational bargain that underpins the relationship between younger and older Australians and our tax and spending priorities. It comprises two fundamental ideas. One, working-age Australians contribute to the care of older and younger Australians (who are not working) and can expect the generation after them to support them in the same way. And two, that economic growth and social development will enable each successive generation to enjoy rising living standards. But this intergenerational bargain is under strain. Australia's millennial generation is at risk of being the first generation since federation to have worse economic outcomes than the generation before.

This submission highlights the following:

1. **The benefits of freezing the indexation of HECS debt for a specific time period.** With the cost of living at an all time high, freezing indexation will keep money in the pockets of young people when they need it most.
2. **The consequences of tying HECS debt to inflation on young people.** Young workers are already at a disadvantage when it comes to wealth generation. Tying HECS debt to inflation means they are paying more than they can afford, particularly as the cost of living skyrockets.
3. **The need for broad tax and economic reform that will ensure intergenerational fairness.** Small steps such as freezing indexation are positive, however Australia's young people and future generations need broad economic reform to secure their long term prosperity.

Summary of recommendations

Think Forward recommends that the Senate Education and Employment Committees take the following actions in relation to the Bill:

1. Recommend putting a freeze on the inflation of HECS debts for 12 months.
2. Recommend indexing HECS debt to real wages growth rather than inflation.

We recommend that the Committee also consider recommending that the Australian Parliament:

3. Holds an inquiry into intergenerational fairness with a specific review of the ways in which Australia's young people are being impacted unfairly through our tax and transfer system, including indexation and repayment of student debts which disproportionately impact young workers.

2. The benefits of freezing the indexation of HECS debt for a specific time period.

Millennial and Gen Z workers currently need as much money as possible to counter the cost-of-living crisis, buy a home or start a family. Unlike older Australians, young workers don't have a deep pool of wealth to draw on. They are the same groups that will be most impacted by the upcoming indexation of HECS debt on June 1st. In a time when rents and mortgage repayments are increasing and the gap between the wellbeing of our older and younger generations is growing,[1] it does not make sense to push those already struggling into further economic stress.

RECOMMENDATION 1

The indexation of HECS debt should be frozen for 12 months in which time the government should review whether the inflation rate is the best rate to use for indexation.

3. The consequences of tying HECS debt to inflation on young people.

Young people did the right thing and undertook an education to further their own lives, but also contribute to Australia's future prosperity. Now they are saddled with rapidly growing debts indexed to inflation. Many young families are already being hit with the rising basics (food and energy), the rising cost of housing (whether rental costs or mortgage repayments) and increasing student loan debts which, tied to inflation as they are right now could see the average student debt rise by as much as $1700.[2]

University is more expensive than ever and HECS repayments reduce the incomes of young people by 5-10%[3] during the phase of their life when they are trying to buy a house and have a family. With the cost of living crisis, many young families, students and millennial workers need as much money as possible to counter the cost-of-living crisis, buy a home or start a family. Unlike older Australians, they don't have a deep pool of wealth to draw on. Indexing HECS debt to real wages growth will limit the debt burden already resting on the shoulders of our young people. It means debt taken on with the aim of securing prosperous employment, is aligned with a person's ability to repay it with earnings from said employment.

While older Australians are the richest in Australia's history off the back of the housing boom[4] young people are being left behind. The indexation of student loans to inflation further erodes the capacity of millennials to build wealth like generations before, many of whom benefited greatly from a free education.

[1] Actuaries Institute (2020) "Mind the Gap - The Australian Actuaries Intergenerational Equity Index." Available at: https://www.actuaries.asn.au/public-policy-and-media/thought-leadership/green-papers/mind-the-gap-the-australian-actuaries-intergenerational-equity-index
[2] Cassidy (2023) "Inflation-driven higher education debt increases to hit millions of Australians." Available at: https://www.theguardian.com/australia-news/2023/jan/28/inflation-driven-higher-education-debt-increases-to-hit-millions-of-australians
[3] Australian Taxation Office (2023) "Study and training loan repayment thresholds and rates." Available at: https://www.ato.gov.au/Rates/HELP -TSL-and-SFSS-repayment-thresholds-and-rates/
[4] Wood & Williams (2019) "Generation gap: ensuring a fair go for younger Australians." Available at https://grattan.edu.au/report/generation-gap/

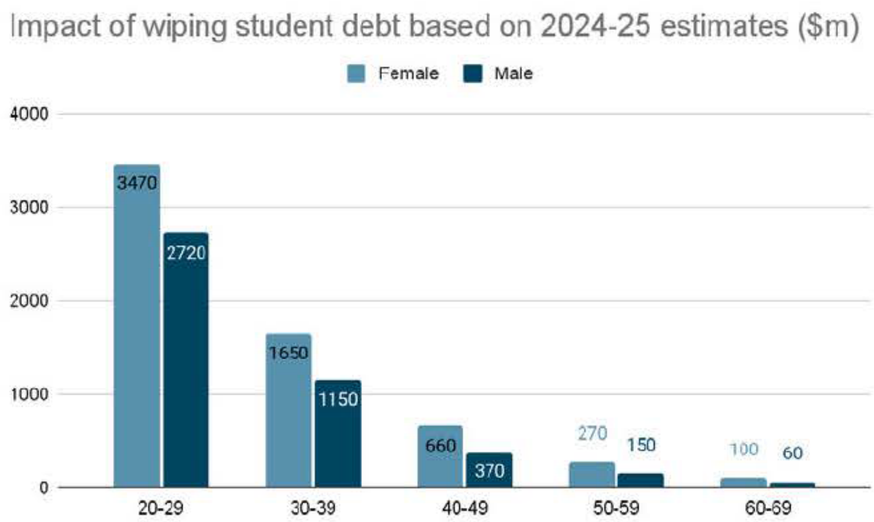
RECOMMENDATION 2

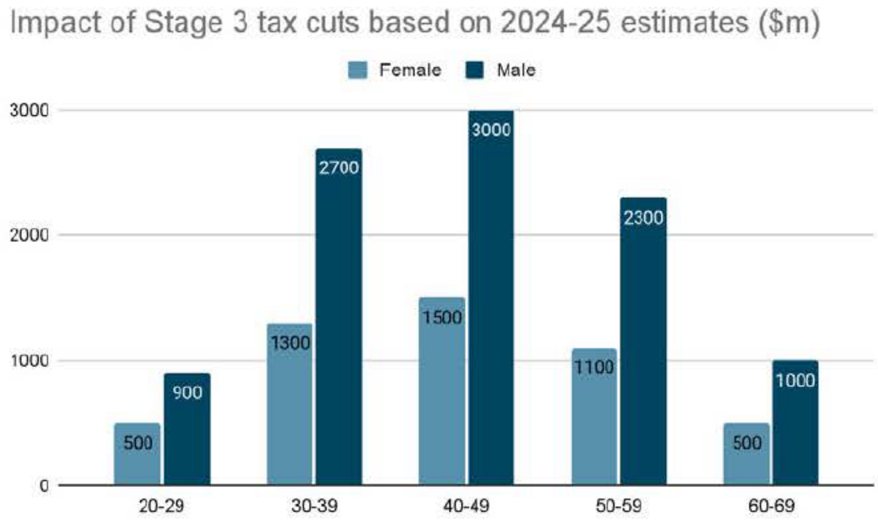
HECS debts should be indexed to real wages growth, not inflation. This more correctly reflects the ability of people to pay for their education.

4. The need for broad tax and economic reform that will ensure intergenerational fairness.

Current government tax and spending policies, including tax-free superannuation income in retirement, refundable franking credits, and special tax offsets for seniors, are underwriting unprecedented transfers from younger households to older ones. As such, intergenerational fairness is being undermined. The short-term thinking approach to economic policy making in Australia means getting an education or buying a home is locking young people into a lifetime of debt.

As another example, the Stage 3 tax cuts disproportionately benefit older people who are less likely to be repaying student loans and with higher amounts of accumulated wealth.





By freezing indexation or wiping student debt entirely, the Australian Government can reduce financial hardship experienced by 20-29 year old renters with the highest rates of student debts and lowest average weekly earnings - instead of Stage 3 tax cuts which disproportionately benefit older, male homeowners with already high incomes and wealth.

The government should be looking at ways to reduce the economic burden currently resting on the shoulders of young people and future generations. Stopping the indexation of HECS debt to inflation is one positive step. However, Think Forward knows that broad economic and tax reform is needed to secure the prosperity of our country's young people. The intelligent and fair thing to do is for Australia to consider these complex issues profoundly and constructively. We believe a parliamentary inquiry into intergenerational fairness is the best avenue from which to start this conversation.

RECOMMENDATION 3

Holds an inquiry into intergenerational fairness with a specific review of the ways in which Australia's young people are being impacted unfairly through our tax and transfer system.

About Think Forward

We are a think and do tank that conducts advocacy, research and education around issues of intergenerational fairness and the tax and economic reform that will see equity between generations realised. With a coalition of youth organisations, we are currently calling for an inquiry into the intergenerational fairness of Australia's tax system and spending priorities.

Our vision is for all political parties to develop and implement policies that secure the prosperity of current and future generations of Australians.

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