Senate
Education and Employment Legislation Committee

Inquiry into

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

February 2018
NTEU Submission

Introduction

The National Tertiary Education Union (NTEU) represents the professional and industrial interests of some 28,000 people employed by Australian universities, research organisations and other tertiary education institutions.

According to the Explanatory Memorandum, this Bill will amend aspects of the Higher Education Loan Program (HELP) and Student Financial Supplement Scheme (SFSS) by**:**

- setting new repayment thresholds for HELP from 1 July 2018, starting with a lower minimum repayment threshold of $45,000 with a one per cent repayment rate, with a further 17 thresholds and repayment rates, up to a top threshold of $131,989 at which ten per cent of income is repayable;
- aligning the indexation of the HELP repayment thresholds to the Consumer Price Index (CPI) instead of Average Weekly Earnings (AWE);
- bringing repayment thresholds for SFSS managed by the Social Services portfolio in line with the HELP repayment thresholds from 2019–20, and making changes to the order of repayment of student loan debts with consequential implications for Student Start-up Loans and Trade Support Loan debt repayment;
- retaining the current three-tier repayment threshold for SFSS, with the existing indexation, for 2018–19; and
- introducing a new combined loan limit to how much students can borrow under HELP to cover their tuition fees from 1 January 2019. The combined limit is $150,000 for students studying medicine, dentistry and veterinary science courses, and $104,440 for other students.

The NTEU contends that these amendments continue to shift the burden of managing the cost of higher education and HELP onto the shoulders of students and their families and thus we make the following recommendations.

The NTEU Recommends

1. **That all SFSS debts be forgiven and written off.**

2. **That the contribution (tuition fee) Commonwealth supported students are required to make to make should be significantly reduce and eventually be eliminated. If the student contribution amount was zero then the concerns about outstanding HELP debts would rapidly brought under control.**

3. **That rather than impose a lifetime limit on the amount an individual is allowed to borrow through HELP, that government consider imposing caps on fees and the number of eligible courses for which HELP loans are available.**

4. **That the income threshold level for HELP debt repayments be maintained at current real level of about $55,000 per annum.**

5. **That HELP repayment schedule be totally redesigned so that it is structured as a series of marginal rates as in the income tax schedule. That this new schedule include new higher marginal rates for people earning above $113,000 as proposed.**

6. **That the proposal to lower the income threshold not proceed on the basis that it disproportionally affects women.**

The Issues

Student Financial Supplement Scheme (SFSS)

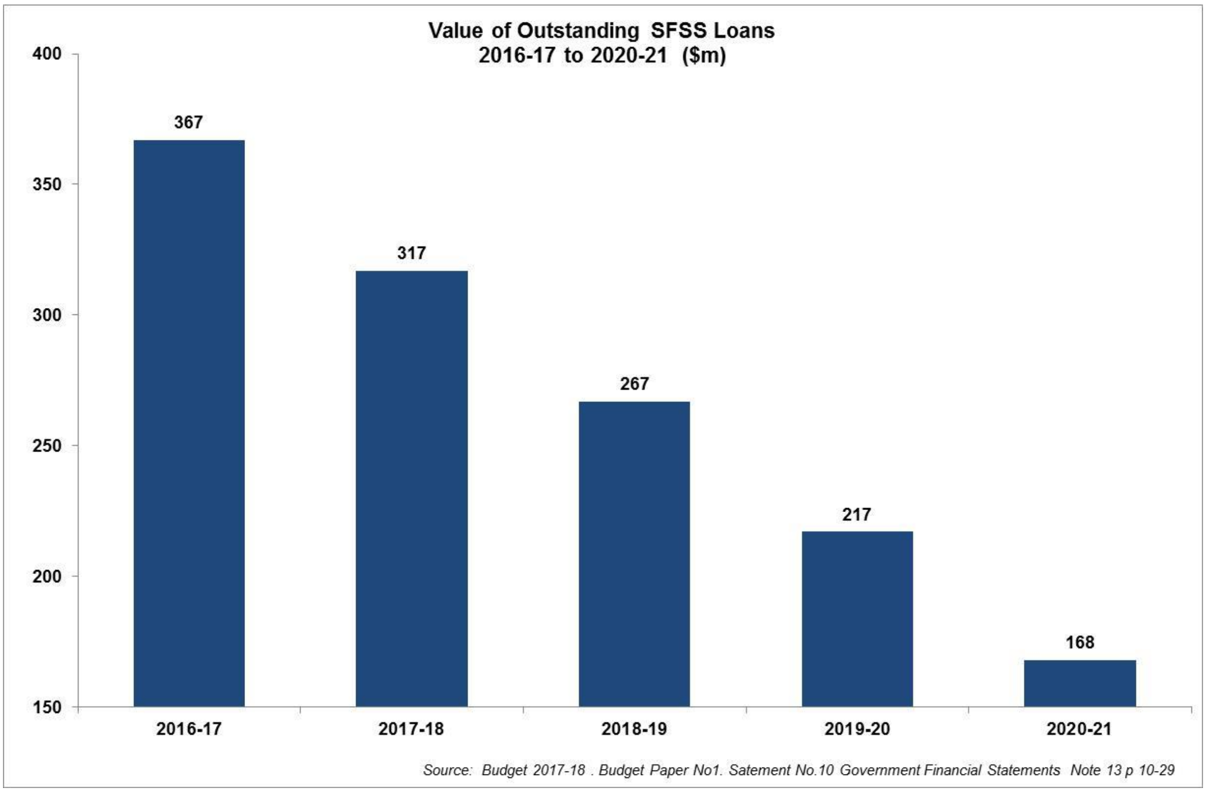
The SFSS was a scheme that allowed eligible tertiary education students to trade-in or all part of their income support payments (Youth Allowance, Austudy, Abstudy or Pension Education Supplement) for twice the amount of the entitlement in the form of a loan.

The SFSS, was closed on 1 January 2004. The NTEU supported this because the scheme was grossly unfair in that it encouraged the most disadvantaged students to "trade-in" their income support entitlements to borrow a larger amount. For example, a student could forgo $5,000 of Austudy for a $10,000 SFSS loan, all of which had to be repaid. Over three or four years this could add $30,000 to $40,000 to a student's debt just to cover their living expenses while studying. The scheme was taken up in disproportionately high numbers by the most disadvantaged students, including Aboriginal and Torres Strait Islander students.

The SFSS was unconscionable in that it induced the most disadvantaged students to pursue a course of action that was often not in their best interests. The scheme should never have been introduced and it is time to remove it entirely from the books. The 2017-18 Budget papers (see Figure 1) show that the outstanding value of SFSS debt is expected to decline from $367m in 2016-17 to $168m by 2020-21.

While the NTEU has no objections, *per se,* to the proposed changes in the Bill that would bring the SFSS repayment schedules into line with HECS-HELP, our very strong recommendation is that all SFSS loans be immediately forgiven and that outstanding SFSS debts be written off. The SFSS denied tens of thousands of student their income support entitlements, and also burdened those students with considerable additional debt. It should be removed from the books.

Figure 1



RECOMMENDATION 1

That all SFSS debts be forgiven and written off.

Higher Education Loans Program (HELP)

The NTEU opposes the proposed changes to HELP repayment schedule, especially the lowering of the income threshold to $45,000. The reasons for our opposition include that:

- the solution does not address the cause of escalating outstanding HELP debt;
- such a change in not consistent with the original rationale underlying HECS (now HELP) as an income contingent loans scheme; and
- the proposed changes will disproportionately impact on women.

The cause of the problem

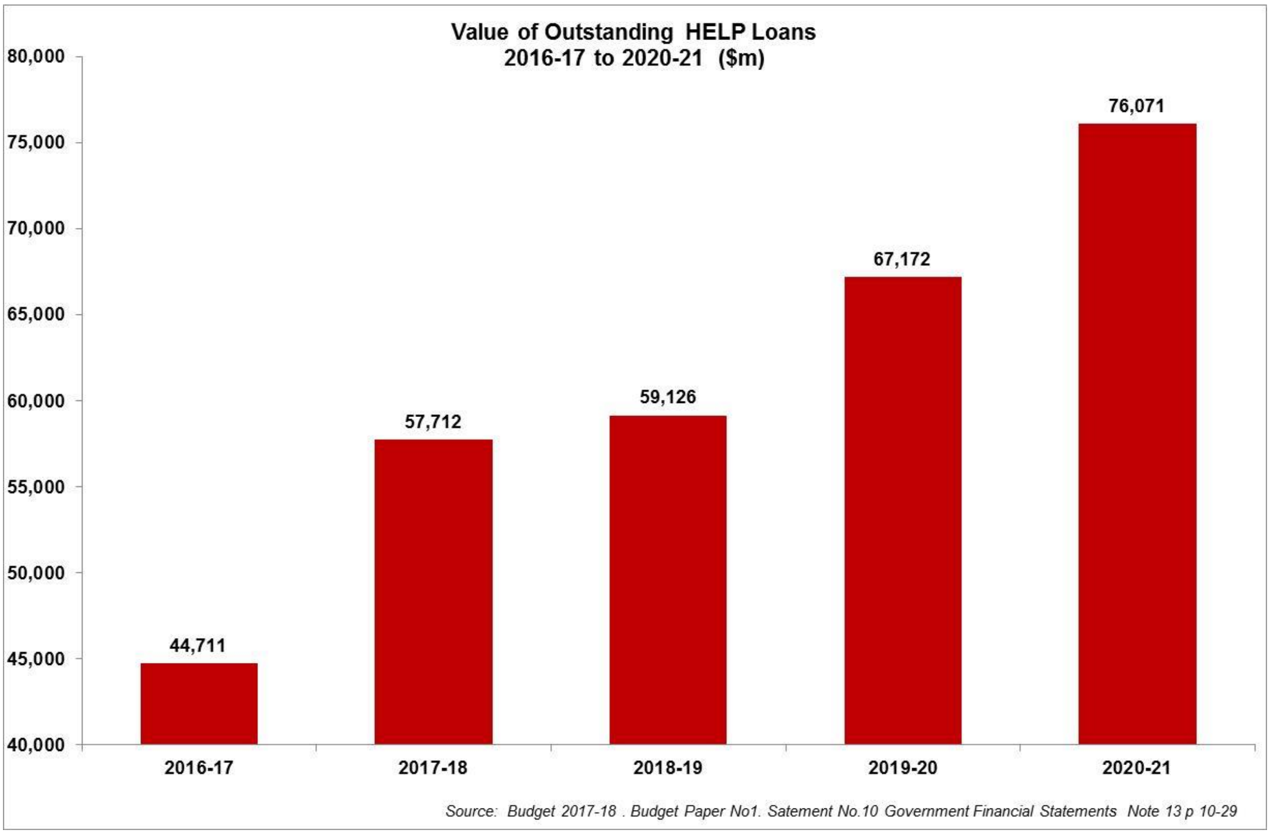
While the NTEU understands the government's concerns about the ever escalating level of outstanding HELP debt, which according to the 2017-18 Budget Papers is expected to rise from some $44.7billion in 2016-17 to $76.1billion in 2020-21 (see Figure 2), we do not believe changing the repayment schedule addresses the fundamental cause of this problem.

The escalating level of HELP debt shown in **Figure 2** is not a consequence of students failing to repay their debts. The rising level of HELP debt is being driven by:

- the increase in the number of Commonwealth Supported Places (CSPs) being offered by our universities and,
- significant increases in the contribution students are being asked to make toward the cost of these CSPs and therefore the amount each student is borrowing through HELP to finance those contributions.

The increase in CSP load was facilitated by the introduction of the Demand Driven System (DDS) for the allocation of places, which was announced in 2009. Over the seven years between 2001 and 2008, the year before the phase-in of the DDS the full time equivalent student load (EFTSL) rose from about 415,000 CSPs to about 440,000 CSPs an increase of 6%. Over the eight years since 2008 there has been a significant surge in the CSP EFSL. By 2016 the EFTSL had grown to over 615,000 CSPs, an increase of almost 40% over 2008.

Figure 2



In addition to increasing CSP, the other important factor contributing to the rapidly escalating level of HELP debt has been a more than doubling of the real amount that each student is required to contribute to the cost of their CSP.

Figure 3 shows changes to nominal value of student contribution amounts since the inception of the Higher Education Contribution Scheme in 1989. The chart reveals that there have been two significant policy decisions that resulted in significant increases in student contribution amounts. The first of these were the Howard Government 1996 changes, which saw both the introduction of three HECS contribution bands as well and a significant increase in average fees. The second major increase was in 2005, which allowed universities to increase student contribution amounts by 25%.

The increases in student contributions amounts shown in **Figure 3** are in nominal values, which is important because the HELP debt is measured in nominal terms. Therefore, for someone studying a Band 3 course (medicine, economics or law for example) the nominal cost would have increased from $1,800 per year in 1989 to $10,754 in 2018 - an increase of almost 500%. For Band 2 the increase is about 400% (engineering or science) and for Band 1 (social science and humanities) the increase is in the order of 250%.

These increases do not allow for the effects of inflation. However, when the effects of inflation are taken into account these increases still translate into large real increases in the "real" value of contributions made students. For example someone enrolled in Band 1 course would be paying something like 50% more in real terms in 2018 than they would have in 1989. For Band 2 course the increase is about 120% and for Band 3 students 180%.

On average, it is estimated that the real contribution students have made to the cost of their CSPs has more doubled between 1989 and now. In 1989 student contributed about 20% of the cost of their education and by 2018 that is estimated to be about 42%.

As a consequence policy changes have resulted in:

- a surge in the number of CSP students enrolled at our universities, and
- a large increase in the value of average student HELP debt as direct consequence of real increases in student contribution amounts, as clearly shown in Figure 3 which depicts the Department of Education and Training estimates of HELP debt which expected to increase from $20,700 to $26,500 between 2016-17 and 2020-21. The average time to repay is also estimated to increase from 8.9 years to 9.5 years over the same period, and
- the introduction of VET-FEE HELP which the government addressed in the latter half of 2016 .

Any subsequent increase in the proportion of students not repaying their HELP debts is also a direct consequence of this increase in average student debts.

Therefore, the major cause of the escalating outstanding HELP debts shown in Figure 2 is not a consequence of students failing to repay their debts but rather a direct consequence of government policies that have encouraged universities to enrol more CSPs and increases in student contribution amounts or tuition fees.

The best way to address this problem is to address its cause, and that is increasing average student debt. The NTEU has always argued and continues argue that the only effective way of reducing escalating outstanding HELP debts is to reduce the student contribution amount (tuition fees) CSPs are required to pay and thus borrow through HELP.

RECOMMENDATION 2

That the contribution (tuition fee) Commonwealth supported students are required to make to make should be significantly reduced and eventually be eliminated. If the student contribution amount was zero then the concerns about outstanding HELP debts would rapidly brought under control.

Figure 3

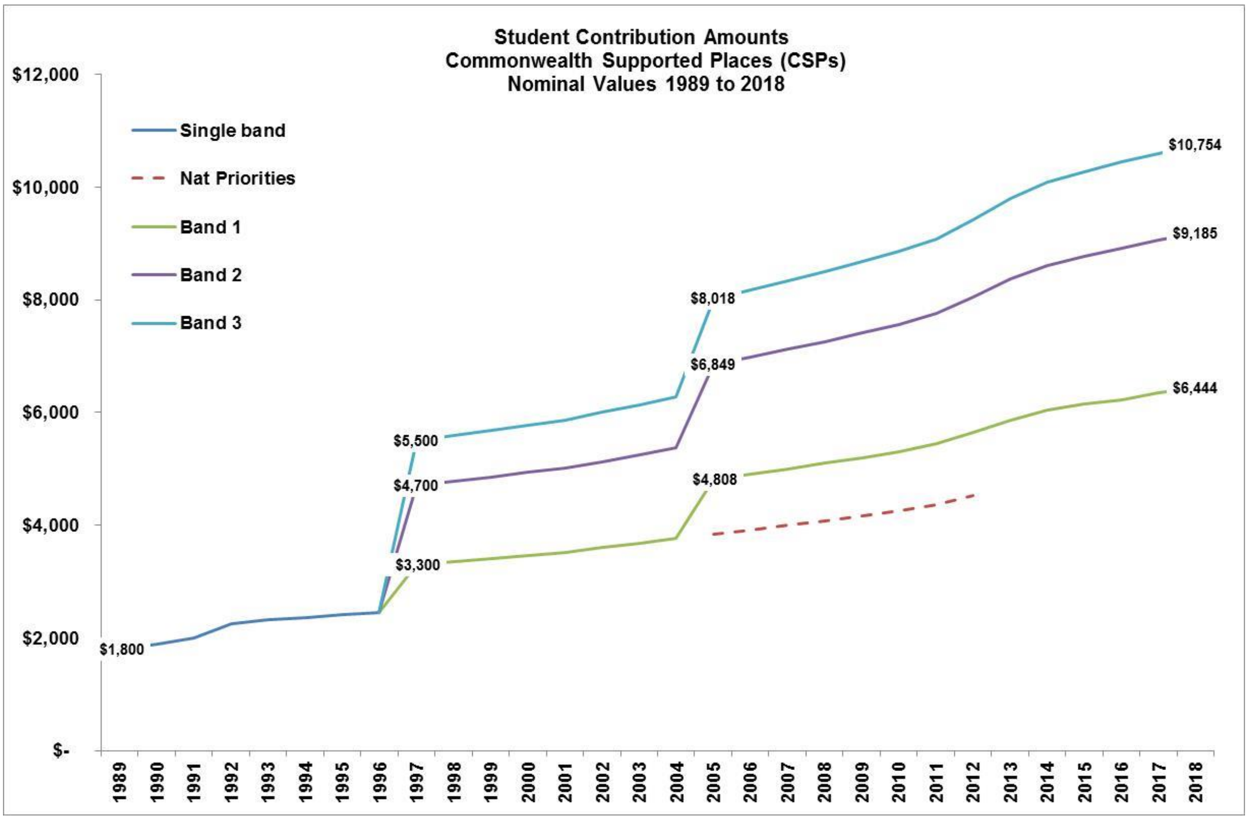
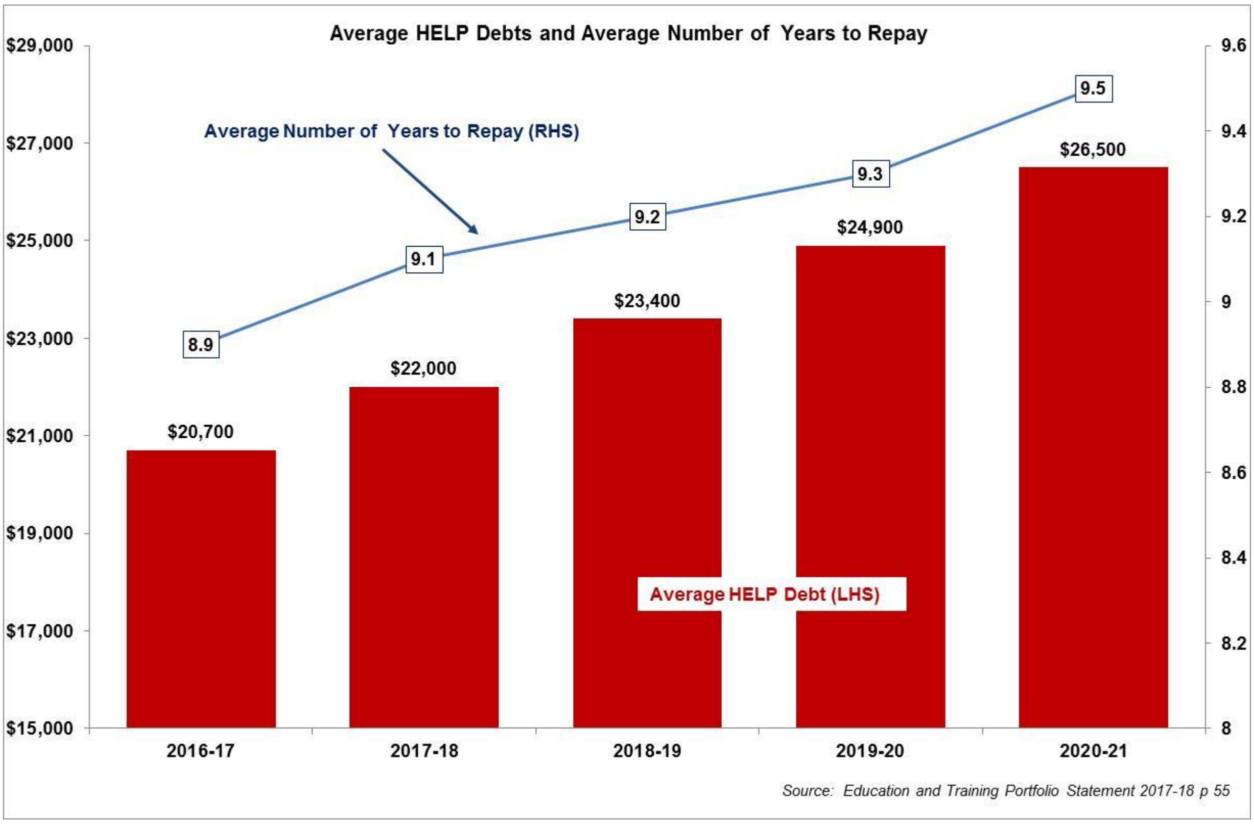


Figure 4



Lifetime borrowing limit

We would also note that reducing student contribution amounts (tuition fees) for undergraduate CSPs would also reduce the importance of the question related to imposing a limit on lifetime borrowing for HELP which are also subject of the Bill. While the NTEU is lobbying for the eventual elimination of student contribution amounts for CSPs, we recognise that HELP debts, in the form of FEE-HELP or VET FEE HELP or example, can be used to help finance full-fee paying courses.

While a lifetime borrowing limit might be considered desirable by some because it provides a “soft cap” on the fees charged for these courses, the NTEU’s preferred position is that the government directly controls and caps the fees for courses for which HELP is available. This would allow the government to directly control the associated level of HELP borrowing arising from these full fee paying courses not only by capping fees but also by limiting eligible courses. Again our preferred approach is to limit the amount students need to borrow in the first place.

RECOMMENDATION 3

That rather than impose a lifetime limit on the amount an individual is allowed to borrow through HELP, that government consider imposing caps on fees and the number of eligible courses for which HELP loans are available.

Proposed changes not consistent with rationale of HELP

In addition to failing to address the fundamental issue underlying escalating HELP debt the NTEU is also opposed to proposed changes because they are not consistent with the rational of the Higher Education Scheme (HECS) and because the changes are highly unfair as they will disproportionately impact on women.

The Higher Education Contribution Scheme (HECS) when introduced in 1989 was a breakthrough in the way higher education was funded because while asking every student to make a contribution to the cost of their university education (at the time, an average of 20% of the cost) it also guaranteed that they would not have to meet the cost of that contribution up-front. Each eligible student was given access to a government loan (now known as HELP loans), the repayments of which were contingent on the level of students' incomes. That is, students would only be required to repay their loans if they earn a level of income which is considered to be benefit of having attained a university degree.

Perhaps the best way to articulate this idea, is rely on the words of Professor Bruce Chapman, one of the key architects of the original HECS, where he says:

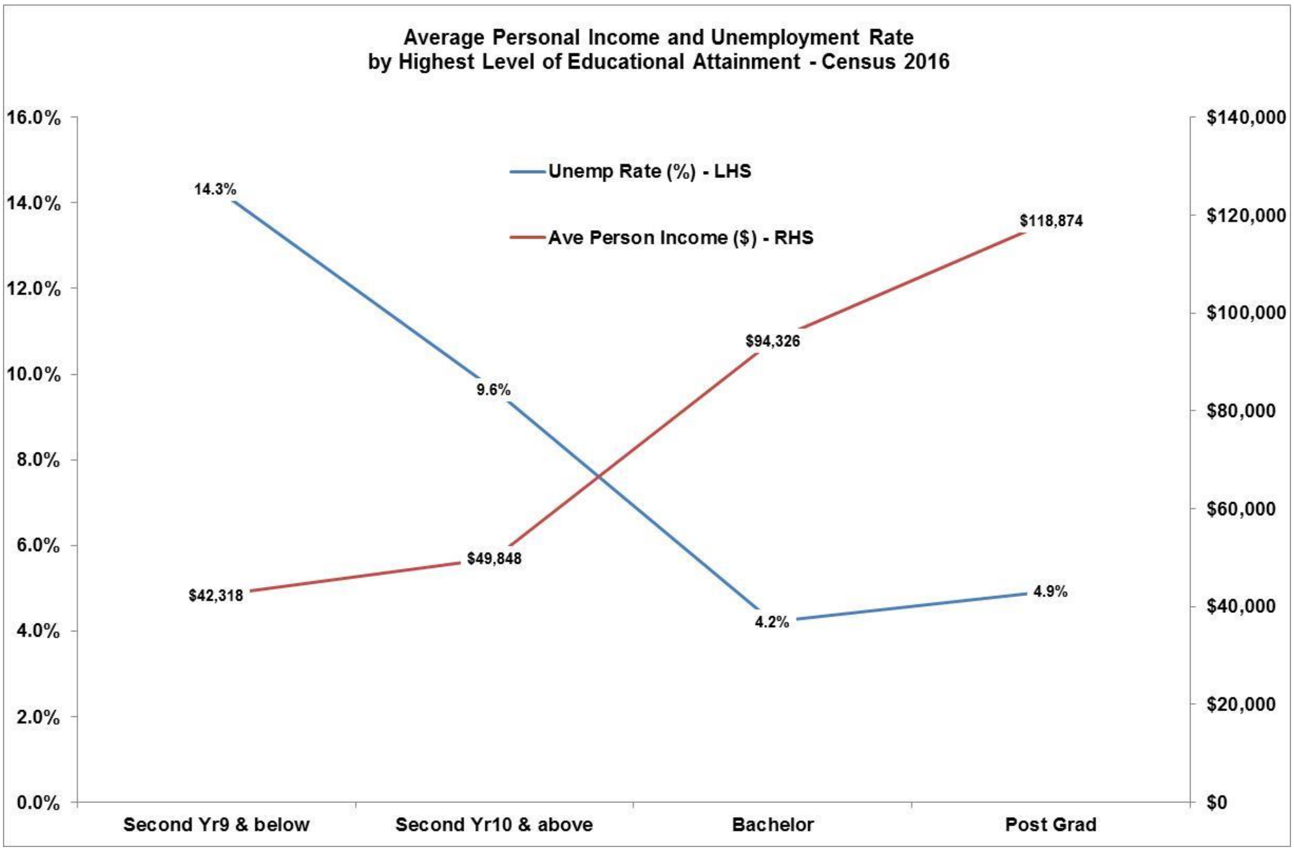
> *HECS was designed and motivated by not having people need to sign any money at all, and if they had bad luck in the future – if they didn't graduate or they weren't in a good job or unemployed – they didn't have to pay anything. So the design aspect of it was essentially motivated not to deter poor people and also to be fair so people who didn't get income benefits from going to university, wouldn't have to pay.*
>
> *Source: Professor Bruce Chapman* (August 06, 2014) *as q*uoted in Hijacked) HECS explained: All of your questions answered by one of the scheme's founders. (http://hijacked.com.au/hecs-explained-all-of-your-questions-answered-by-one-of-the-schemes-founders)

As Professor Chapman says, HECS was designed so *people who didn't get income benefits from going to university, wouldn't have to pay.* In effect HECS, was designed to operate as a public insurance policy or safety net for people about to make a one of the most important investment decisions of their lives. When you first decide to enrol in a university degree you have no guarantees that the successful completion of that degree will deliver you a higher life time income. Changes to technology or the structure of the economy or labour market might render your qualifications irrelevant. Likewise, changes to your own personal circumstances might also mean you are unwilling or unable to exploit your qualifications to earn a higher income. HECS meant you would only have to pay if you actually derived a direct private benefit.

Lowering the income threshold to $45,000

The NTEU is not disputing that, on average university graduates experience lower levels of unemployment and higher incomes when compared to those with lower levels of educational attainment. This is clearly shown by data in **Figure 5**, which is sourced from labour market participation and personal income levels as reported in 2016 Census.

Figure 5



Therefore if the design of the HELP system is to remain true its original conception as explained by Professor Chapman, then the relevant question is what is the level of income above which university graduates should be expected to commence repaying their HELP debts?. That is, at what level of income is a graduate starting to derive a benefit from their university education?

The answer to this question is not as straight forward as it would seem, because the Australian Bureau of Statistics (ABS) regular Employee Earnings data does not provide a breakdown of earning by level of educational attainment. The most recent relevant data the NTEU had access was obtained from the 2016 Census.

Figure 6

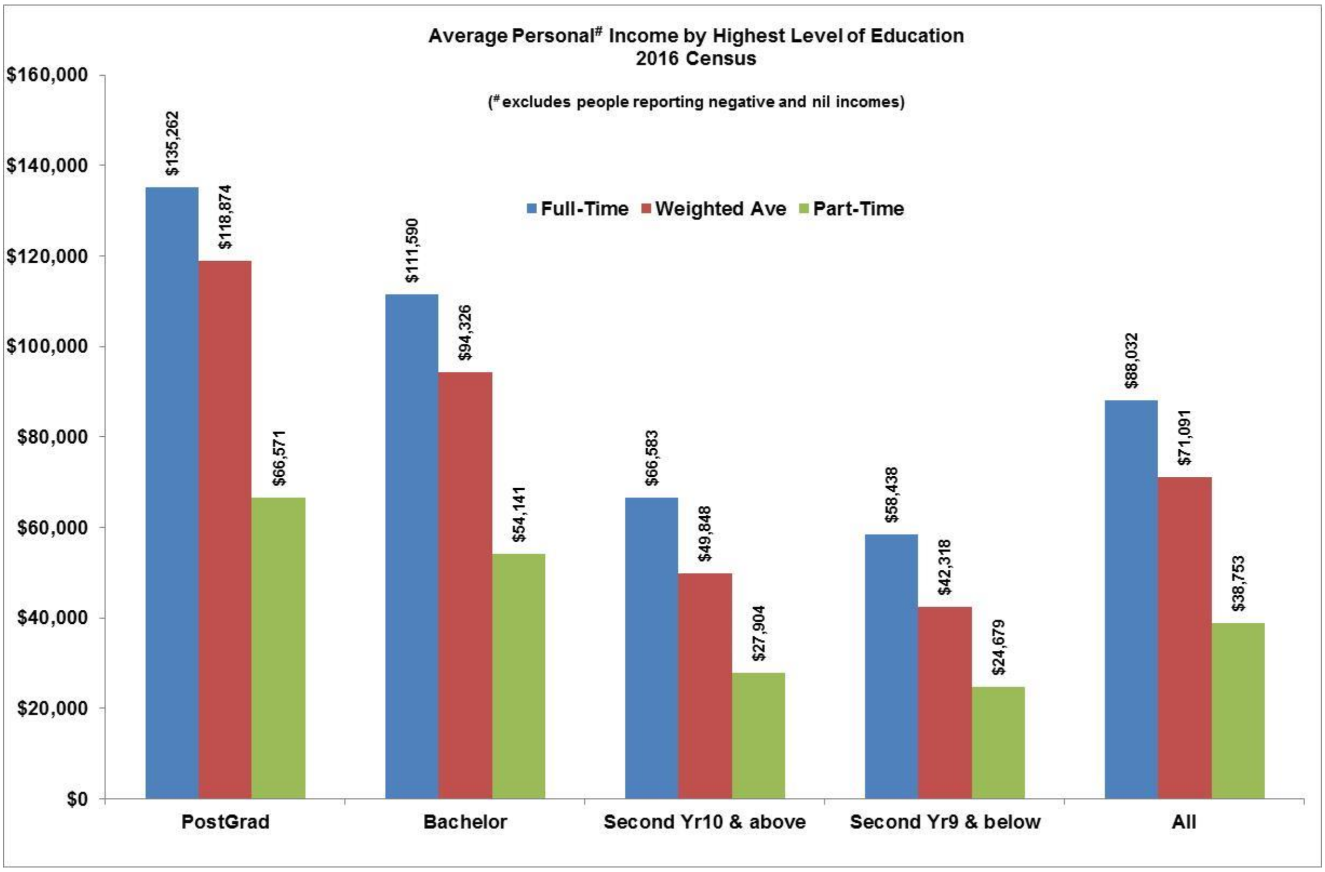


Figure 6 provides a summary of the earnings data from the 2016 Census by various levels of the highest level of education attained, namely, postgraduate qualifications (Masters or PhD), Bachelor's degree, Secondary Year 10 and above, Secondary Year 9 and below, and an average for all people earning an income above $1 per annum. The data is provided for full time employees, part-time employees as well the weighted average of both.

The data clearly show that persons with university qualifications earn a more than those without such qualifications. Full time employees with a Bachelor's degree earned on average about $45,000 more than someone with a Year 10 or above high school qualification. However, as the data makes clear not all graduates are engaged in full time employment and therefore the weighted average earnings as a truer indicator of actual earnings capacity as the data shows that someone with a Bachelor's degree earned on average about $94,000 compared to about $49,500 for someone with a Year 10 or above qualification. If these earnings were indexed to reflect 2018-19 values at 2% per annum or over three years, then the average earnings for someone without a upper secondary school qualification would be in the order or $53,000 per annum.

Therefore, the NTEU would argue that setting the repayment threshold at $45,000 is too low. On basis of the data above we recommend that the minimum income threshold not be lowered and at the very least be maintained at its current level of about $55,000.

RECOMMENDATION 4

That the income threshold level for HELP debt repayments be maintained at current real level of about $55.000 per annum.

Who would be affected by the proposed change in the repayment schedule?

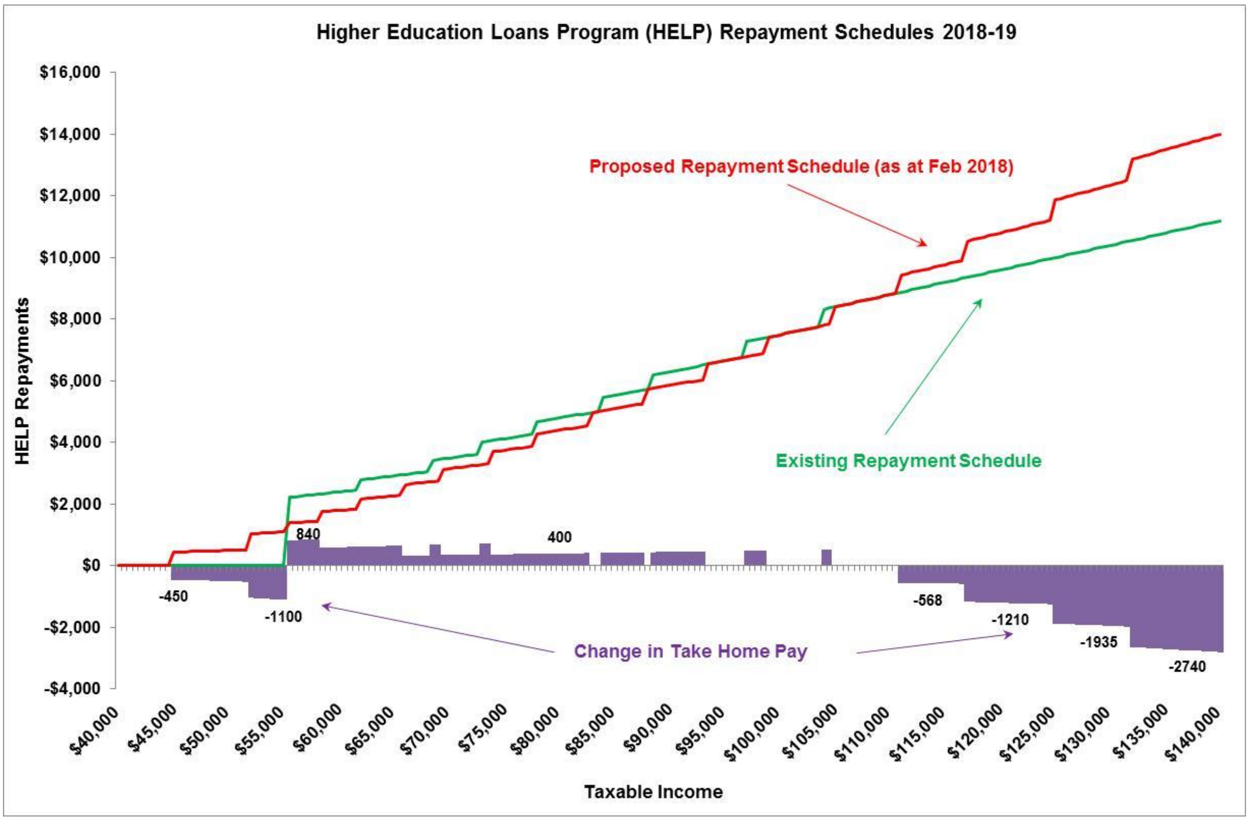
Table 1 shows, side by side, the existing HELP repayment schedule for 2018-19 according to the ATO and the new repayment schedule as proposed in the Bill.

Table 1

Existing Schedule		Proposed Schedule	
Taxable Income	HELP %	Taxable Income	HELP %
	0.00%		0.00%
	0.00%	$44,999	1.00%
	0.00%	$51,957	2.00%
	0.00%	$55,074	2.50%
$55,874	4.00%		2.50%
	4.00%	$58,379	3.00%
	4.00%	$61,882	3.50%
$62,239	4.50%		3.50%
	4.50%	$65,595	4.00%
$68,603	5.00%		4.00%
	5.00%	$69,530	4.50%
$72,208	5.50%		4.50%
	5.50%	$73,702	5.00%
$77,619	6.00%		5.00%
	6.00%	$78,124	5.50%
	6.00%	$82,812	6.00%
$84,063	6.50%		6.00%
	6.50%	$87,780	6.50%
$88,487	7.00%		6.50%
	7.00%	$93,047	7.00%
$97,378	7.50%		7.00%
	7.50%	$98,630	7.50%
$103,766	8.00%		7.50%
	8.00%	$104,548	8.00%
	8.00%	$110,821	8.50%
	8.00%	$117,470	9.00%
	8.00%	$124,518	9.50%
	8.00%	$131,989	10.00%
	8.00%		10.00%

Figure 7 shows the impact the introduction of the proposed schedule will have on the take home pay of people on different income levels compared to existing repayments. As expected, the lowering of the minimum income threshold from approximately $55,000 to $45,000 means that anyone earning an income between these levels will be worse off by somewhere between $450 and $1,100. **Figure 7**, however also shows that anyone earning between about $55,000 and $113,000 is will be no worse off and in many cases better off. **Figure 7** also shows that the introduction of new threshold repayment levels of 8.5% to 10% for incomes above about $113,000 means that people on these levels of income will be required to repay considerably more.

Figure 7



While the NTEU agrees with the introduction of new higher scheduled repayment rates for incomes above $113,000, we are concerned that the analysis presented in **Figure 7** shows that the proposed changes significantly alter the impact that HELP repayments will have on individuals earning between $45,000 and about $113,000 per annum. People earning between $55,000 will be significantly worse off, while many those earning between $55,000 and about $113,000 will be better of.? These changes are therefore regressive and impact most heavily on people on what can only be considered low incomes of between $45,000 and $55,000, and especially for those with a university qualification.

As we noted in our submission to this Committee's June 2017 inquiry into *Higher Education Support Legislation Amendment (A More Sustainable, Responsive and Transparent Higher Education System) Bill* 2017 we believe that these, counterintuitive or peculiar outcomes have as much to do with a fundamental flaw in the way the HELP repayments schedule has been designed as it does with the proposed changes. The HELP repayments rates apply to total taxable income and are therefore incompatible with a marginal tax rate structure of the income tax system. As repeat our conclusion from that submission when we said:

> *Rather than trying to tinker around the edges with a fundamentally flawed system, as proposed in the Bill, the government should redesign the whole system and move toward one based on marginal repayments (where you pay a certain proportion of each extra dollar earned) rather the existing system.*

RECOMMENDATION 5

That HELP repayment schedule be totally redesigned so that it is structured as a series of marginal rates as in the income tax schedule.

That this new schedule include new higher marginal rates for people earning above $113,000 as proposed.

Disproportionate impact on women

The regressive nature of the proposed changes to HELP repayment schedule as discussed above will disproportionally impact on women.

The latest detailed tax office data related to 2014-15 shows that about 60% of all persons with a taxable income with an outstanding HELP debt are women. The data also show that on average taxable income for women of all ages was considerably lower than that for men (see **Figure 8**). This means that the distribution of HELP debts is heavily skewed against women, and women in the lower income ranges as shown in **Figure 9**.

Figure 8

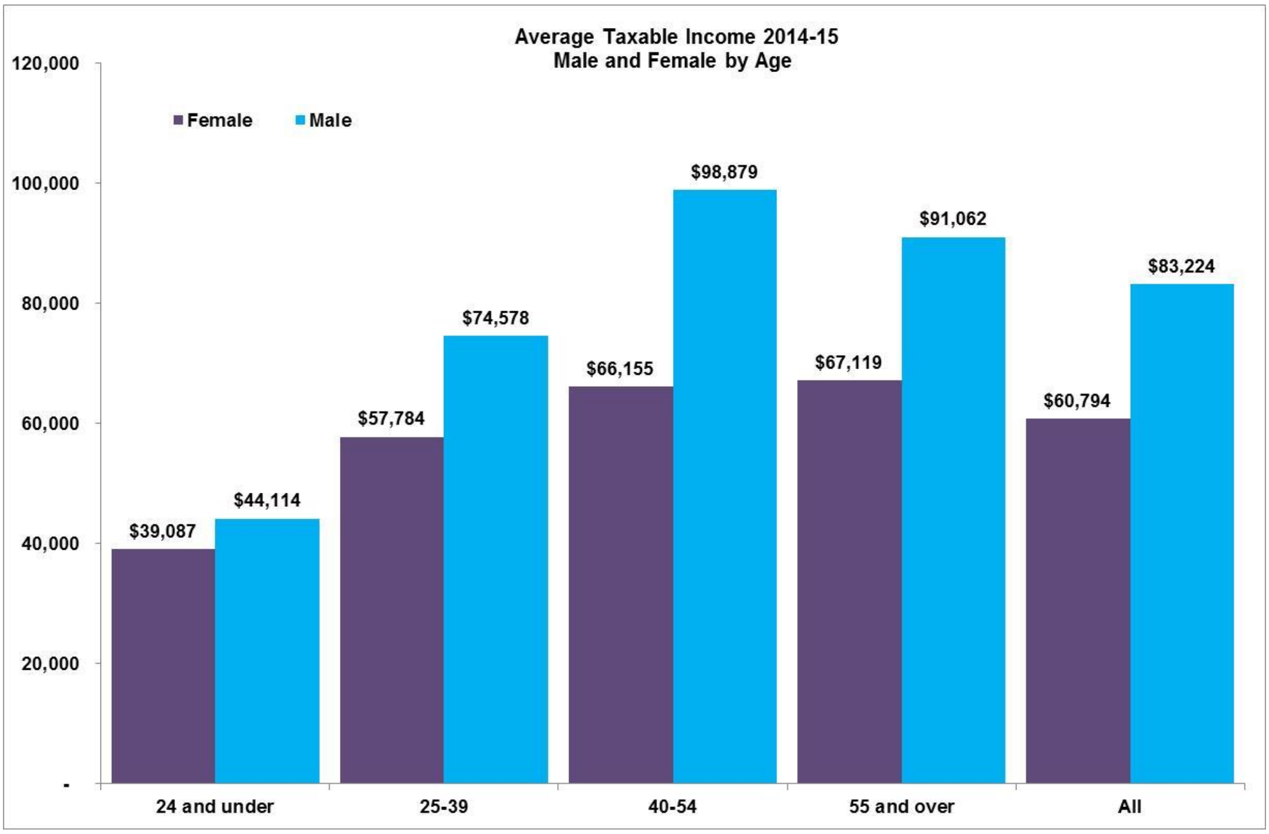
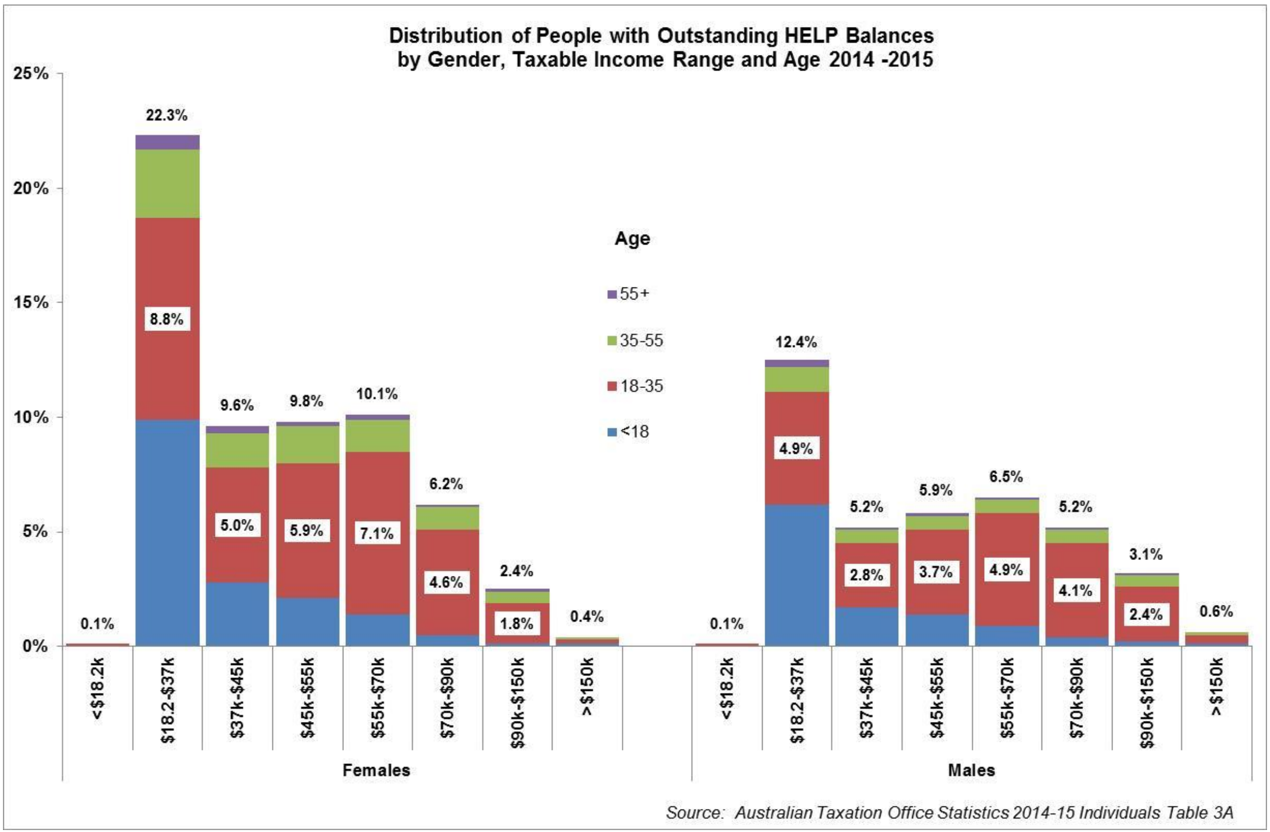


Figure 9 also shows that the number of women who might be caught by the lowering the income threshold from $55,000 to $45,000 (which we assume to be those earning between $37,00 and $55,000 in 2014-15 by the time the new schedule is introduced in 2018-19) is twice as high as the proportion of men.

Therefore, any moves to lower the income threshold from $55,000 to $45,000 will capture twice as many women as it does mean, which is another reason it should not be lowered.

Figure 9



RECOMMENDATION 6

That the proposal to lower the income threshold not proceed on the basis that it disproportionally affects women.

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