SUBMISSION TO THE ENQUIRY INTO THE HIGHER EDUCATION SUPPORT LEGISLATION AMENDMENT (STUDENT LOAN SUSTAINABILITY) BILL 2018

5 March, 2018

Universities Australia (UA) welcomes the opportunity to make a submission to the Senate Committee on Education and Employment Legislation Committee's enquiry into the provisions of the *Higher Education Support Legislation Amendment (Student Loan Sustainability) Bill 2018* ('the Bill').

UA has been on the record for several years stating that the financial sustainability of Australia's world-leading income-contingent student loan system is critical to ensuring affordable access to higher education. It is essential that the loan scheme remain affordable for both taxpayers and students.

HELP is a cornerstone of Australia's higher education system. HELP has enabled millions of Australians to gain access to higher education, and to realise the benefits that higher education brings. By enabling students to defer paying their fees until they are earning a reasonable income, HELP facilitates access to university for students regardless of their financial background

From time to time, changes to HELP policy settings may be needed to ensure that the HELP scheme remains fair and effective, and is fit for purpose under changed circumstances. However, any changes to HELP must 'first, do no harm'. Damaging HELP, or making it less effective or less fair would be detrimental to equity and accessibility in Australian higher education.

HELP was designed to make it easier to enrol in university and to reduce the influence of students' financial circumstances in enrolment decisions. Any change that set up a financial barrier to study for some groups of students would subvert the key principles of the scheme:

- repayment rates and repayment schedules are based on income, rather than the size of the debt, avoiding excessive and unfair repayment burdens on graduates; and
- graduates repay when they realise a return on their studies.

In April 1988 the Wran Committee on Higher Education Funding recommended a contribution scheme whereby higher education students would pay a contribution to the cost of their degrees at a rate of two per cent of their taxable income. The repayment threshold was set at average earnings of all working Australians[1]. In today's dollars, this would be around $62,000.

[1] Kim Jackson (2003), *The Higher Education Contribution* Scheme, Parliamentary Library, https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/Publications_Archive/archive/hecs

The Dawkins Green Paper (1987) proposed a student contribution toward the cost of higher education on the basis that 'graduates of higher education. experience, on average, highly favourable labour market outcomes compared with those without tertiary qualifications'[2].

Provided that these two key principles are upheld, the details of HELP repayment rules are more closely related to the tax system than to higher education policy. As long as HELP continues to enable qualified Australian students from all backgrounds to undertake university study, and recovers debts in proportion to graduates' income on the basis of the graduate earnings premium, precisely how HELP works is a matter for Government, more than for universities.

UA encourages the Committee to consider whether new settings proposed in the Bill:

- facilitate access to higher education;
- support access and participation by students from less advantaged backgrounds and under-represented groups;
- contribute to a fair sharing of the cost of higher education between Government and students;
- maintain the principle that graduates repay when they realise a private benefit from their studies;
- encourage supply of skills required by the existing and future labour market;
- support students and universities to develop the skills that the labour market needs;
- support lifelong learning;
- protect the Commonwealth's investment in higher education, and recover a reasonable share of borrowed funds;
- avoid allocating subsidies in an unfair or distortionary way; and
- are durable enough to remain effective in the medium term.

The Bill includes four main measures:

- changes to HELP repayment thresholds and repayment rates;
- indexation of repayment thresholds by CPI (instead of average weekly earnings);
- a new lifetime loan limit covering all components of the HELP loan, including HECS-HELP; and
- a change to the order of payment of income-contingent debts under HELP and the Student Financial Supplement Scheme (SFSS).

This submission deals with each of these measures in turn.

HELP LENDING OVER TIME

Increases in HELP lending are a consequence of increases in higher education participation. Increases in the total amount owing similarly reflect increasing degree attainment.

An increase in HELP lending is not of itself a problem.

Most HELP debt is repaid. The design of the HELP scheme – as an income-contingent loan – means that a proportion of the debt will not be recovered. This is not a flaw or a failing – it is an essential and intended feature of the scheme.

Nevertheless, there has been a rapid increase in HELP lending in recent years. Over the six years to 2015, annual HELP lending increased (in nominal terms) from around $3.5 billion (in 2010) to $8.7 billion in 2015[3].

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[2] John Dawkins (1987), *Higher Education: A Policy Discussion* Paper, p.87

[3] Data in this section are from unpublished UA analysis of HELP data. 2016 is the latest available data.

It is important to note that a disproportionate share of the total increase is due to the discredited - and now wisely abandoned – VET FEE-HELP scheme. In 2010, VET FEE-HELP accounted for three per cent of total annual HELP outgoings. By 2015, the figure was an alarming 34 per cent. In dollar terms, VET FEE-HELP lending rose from $117m in 2010 to $2.9 billion in 2015. This makes up the majority of the increase in lending across all HELP loans.

With VET FEE-HELP removed from the total, growth in annual HELP lending in the six years to 2015 falls from $5.2 billion to $2.4 billion. Growth in HECS-HELP lending over the same period was $1.7 billion. This growth is directly correlated with growth in enrolments from 2010 to 2015.

Since the Government moved against uncontrolled lending through VET FEE-HELP, the cost has fallen. VET FEE-HELP lending fell by around 40 per cent between 2015 and 2016. Modest growth continued in other HELP loan categories – reflecting inflation and enrolment growth at around the level of population growth.

CHANGES TO HELP REPAYMENT THRESHOLDS AND REPAYMENT RATES

The Bill proposes a further reduction of the minimum repayment threshold to $44,999 (at a repayment rate of one per cent) in 2018-19. This follows the earlier reduction – enacted in the *Budget Savings Omnibus Act 2016* – which reduced the minimum threshold to $51,957 (at a repayment rate of two per cent) in 2018-19.

UA is concerned about any proposal that would increase the financial burden on graduates earning modest salaries. The new threshold proposed in the Bill is higher than the $42,000 threshold proposed in last year's Budget package, and may avoid the worst effects of last year's proposal on graduates' disposable income and effective marginal tax rates. Nevertheless, the income-contingent HELP loan system was originally set up to collect financial contributions from graduates proportionate to the earnings premium accruing from their higher education qualifications. The threshold was set accordingly at a level reflecting this policy intention. A $45,000 threshold would require graduates earning significantly less than the median starting salary for Bachelor degree graduates in full-time employment ($60,000 in 2017[4]) to start making repayments.

The Bill sets out a clearer schedule of repayment thresholds above the minimum, under which repayment rates will increase by half a percentage point for every six per cent increase in income.

The proposed new schedule includes higher repayment rates than the current maximum (eight per cent) at higher levels of income (above $110,000). The proposed new maximum repayment rate is 10 per cent (at an income of nearly $132,000).

The proposed new schedule is clear, transparent and progressive. Setting slightly higher repayment rates at higher income levels is a progressive initiative that recovers loan debt faster without disadvantaging less well off graduates.

INDEXATION OF REPAYMENT THRESHOLDS BY CPI

Indexing HELP repayment thresholds by CPI is consistent with indexation of grants and student contributions in the higher education sector. Moving to CPI indexation improves the financial sustainability of the HELP scheme without disadvantaging students.

LIFETIME LOAN LIMIT

The Bill proposes to include HECS-HELP borrowing within a lifetime loan cap.

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[4] QILT (2018) *Graduate Outcomes Survey 2017 National Report*, p.ii, https://www.qilt.edu.au/docs/default-source/gos-reports/2017/2017_gos_national_report_final_accessiblea45d8791b1e86477b58fff00006709da.pdf?sfvrsn=ceb5e33c_4

The overarching policy intent of this provision is to reduce HELP debt not expected to be repaid (DNER). As discussed above, increases in HELP lending have been driven by the blowout in VET FEE-HELP and – within the university sector – by growth in enrolments.

Very few HELP debtors have an outstanding debt in excess of $100,000 (less than 0.5 per cent). While numbers of debtors with high outstanding balances has increased in recent years, they remain a small proportion of all debtors and contribute a relatively small amount to the total HELP balance (2.8 per cent)[5].

It is not clear that this small group of HELP debtors is less likely to repay their loans. Indeed, it is likely that a significant proportion of debtors with large HELP debts are in well paid professional employment, and experience little difficulty in repaying their loans.

UA does not oppose a limit covering all HELP borrowing. In principle, setting a loan limit is a prudent way of protecting the Commonwealth's investment in higher education. Including HECS-HELP under a loan limit is a fair and consistent treatment of different loans and different types of students.

But a lifetime loan limit that can only be used once – regardless of a graduate's repayment record would work against lifelong learning, constrict opportunity for individuals and restrict skills supply to the economy. UA believes that better options are available.

A limit on outstanding debt – rather than gross lifetime borrowing – would be better targeted at managing the Commonwealth's credit risk while maintaining the integrity of the HELP scheme. An entitlement that could be 'recharged' as debt was paid back would achieve the policy intent of the Bill while not arbitrarily constraining opportunity for students and skills supply. Importantly, this would avoid the negative implications of a single, one use only lifetime limit, and would not impose any additional cost on the Commonwealth.

If the aim is to reduce bad debt, a single, non-rechargeable lifetime limit on HELP borrowing is a poorly targeted measure. The level at which a limit is set is arbitrary, and bears no relation to credit risk. A limit unfairly penalises student who borrow more – and then repay their debt. It would limit opportunity, especially to engage in reskilling and lifelong learning. At the same time, a loan limit would not address non-repayment among the HELP debtors who borrow less than the limit.

The Bill proposes to include HECS-HELP under the loan limit without significantly changing where the limit is set. A one-off, non-rechargeable loan limit would make this is an effective reduction in the level of support for Australians of all ages to obtain the skills and qualifications that they – and the labour market – need.

The new limit is very closely based on FEE-HELP loan limits that have applied for many years. For students in the most expensive disciplines (Medicine, Dentistry, Veterinary Science) the new limit will be higher than the current FEE-HELP limit. For all other students, the new limit will be at exactly the same level as the current limit on FEE-HELP.

Given a typical student contribution for a Bachelor degree of $35,000, retaining a cap at the same level to include HECS-HELP borrowing is a $35,000 reduction in a student's entitlement.

For students in Medicine, Dentistry and Veterinary Science, the loan limit will be $150,000 – around $20,000 higher than the FEE-HELP limit. But the higher cost of Bachelor degrees in these disciplines – more than $50,000 for a five year degree – means that undergraduate study financed through HECS-HELP will still use up a significant proportion of the total.

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[5] ATO data, proportion of HELP debtors by size of debt, financial year 2015-16 (latest available data)

Like other negative impacts of the proposed one off limit, this would be removed by making the lifetime loan entitlement rechargeable.

The proposed, inflexible cap makes little sense in an era of accelerating labour market change, requiring more people to retrain and reskill. The proposal is difficult to reconcile with a commitment to lifelong learning. Trends towards requiring Masters level qualifications for initial professional registration also raise questions about the implications of the proposed limit.

STUDENT FINANCIAL SUPPLEMENT SCHEME

The Bill includes other provisions to align repayment thresholds of the Student Financial Supplement Scheme (SFSS) to those of the HELP scheme. The Bill also changes the order in which debts are repaid, so that SFSS debts are paid back after HELP debts, rather than concurrently. These are sensible improvements to the administration of the loans schemes.

Recommendations

UA recommends that the Senate amend the Bill to:

- avoid setting the minimum repayment threshold below a level that reflects a reasonable graduate earnings premium; and
- alter the lifetime loan limit so that it takes account of HELP debtors' repayment of previously incurred debts.