

## EXECUTIVE SUMMARY

1. The Department of Education, Science and Training (DEST) has requested that Australian Government Actuary (AGA) provide an estimate of the doubtful debt associated with outstanding HECS deferred debt liabilities as at 30 June 2002. This estimate is required for inclusion in the HECS financial tables and Financial Statements in the DEST Annual Report. The analysis included in the following report should not be used for any other purpose without first seeking the advice of AGA.

2. **The estimate of doubtful debt as at 30 June 2002 is \$1,722.7m.** This represents an estimate of that part of the outstanding debt which it is estimated will ultimately be written off as irrecoverable due to the death of the taxpayer.

3. This estimate has been produced using a microsimulation model of individual income and repayment profiles. The model was developed in 1997/98 and has been substantially revised as more data has become available and model projections can be tested against experience. The model outputs are still subject to considerable uncertainty, both because of our imperfect knowledge of the future and limitations in the model specifications.

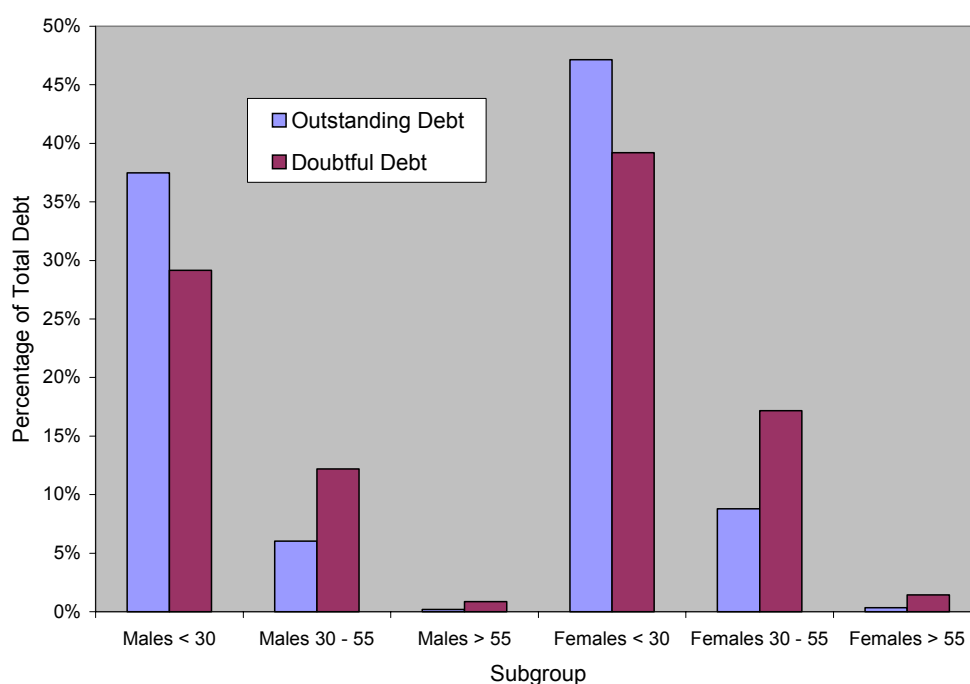
4. The chart and table overleaf show the distribution of debt and doubtful debt between the six groups we have used over recent years for classification of debtors. As in previous years, the young completers group hold the majority of both the outstanding debt and the doubtful debt. The middle age completers hold a disproportionately large amount of the doubtful debt - around 29% of doubtful debt compared with 15% of outstanding debt. The older age groups continue to have the poorest prospects for repayment, but hold a negligible proportion of the debt

5. The doubtful debt as a percentage of outstanding debt (before allowing for PAYG receipts) has risen by 1.8 percentage points, from 18.0% in 2000/01 to 19.8% in 2001/02. Doubtful debt as a percentage of debt on completion (that is, ignoring any subsequent repayments) has risen by 0.7 percentage points from 13.4% in 2000/01 to 14.1%, primarily due to the increasing size of debt on completion as a result of the introduction of differential HECS charges. The residual increase in doubtful debt as a percentage of outstanding debt is due to the increasing importance of unpaid debt from the earlier years of operation of the scheme, which remains on the books long after the corresponding non-doubtful debt has been repaid. This latter effect is referred to as debt creep in the body of the report.

6. Females hold more of the debt, and associated doubtful debt, in all age groups. However, doubtful debt as a percentage of outstanding debt is similar between males and females in the same age group.

7. The microsimulation model allows the present value of repayments to be calculated. Using a discount rate of 6% p.a. (that is, 3.5 percentage points higher than the assumed inflation rate of 2.5% p.a.), we calculated the actuarial value of the debt expected to be repaid as \$5.66 billion.

## Distribution of Debt and Doubtful Debt



Group (Gender and age on completion)	Outstanding Debt \$m	Doubtful Debt \$m	Doubtful debt as a percentage of outstanding debt %	Expected doubtful debt on completion %
Males < 30	3,268.1	502.3	15.4	10.8
Males 30 - 55	526.4	210.1	39.9	27.8
Males > 55	17.5	14.7	83.8	68.7
<b>All males</b>	<b>3,812.0</b>	<b>727.1</b>	<b>19.1</b>	<b>13.4</b>
Females < 30	4,110.0	675.4	16.4	12.0
Females 30 - 55	765.6	295.7	38.6	27.0
Females > 55	30.3	24.5	80.7	66.9
<b>All females</b>	<b>4,906.0</b>	<b>995.6</b>	<b>20.3</b>	<b>14.7</b>
<b>Total</b>	<b>8,718.0</b>	<b>1,722.7</b>	<b>19.8</b>	<b>14.1</b>