Submission

to

Senate Employment, Workplace Relations and Education
References Committee

Inquiry into Student Assistance Legislation Amendment Bill 2005

Submitter: Felix Eldridge

Organisation: National Union of Students

Address: Suite 64, Victorian Trades Hall, 54 Victoria St, Carlton South

Phone: 03 9650 8908

Fax: 03 9650 8906

Email: President@nus.asn.au

NUS RESEARCH

Submission
to

Senate Employment, Workplace Relations and Education
References Committee

Inquiry into provisions of Student Assistance Legislation Amendment Bill 2005

Presented By
Felix Eldridge (NUS President)

Prepared By
Graham Hastings (NUS Research Co-ordinator),

Submitted: 26/9/05

Introduction

NUS appreciates the interest by the committee on this matter. We wish to address three matters related to the *Student Assistance Legislation Bill 2005*, which formally closes (the already suspended) Student Financial Supplement Scheme (SFSS),

1. Should the program be abolished (by passing the bill) or alternatively be unsuspended.
2. If it is closed, what are the broader policy implications – is there a program gap that means that other programs need to be adjusted or new schemes developed
3. Issue of aligning existing SFSS debts with (HECS and FEE) HELP arrangements

Background

Should the SFSS be scrapped or resurrected ? The pros and cons about the value of the Student Financial Supplement Scheme don't lend themselves to simple left-right ideological dichotomies. It is a very grey policy area. Nevertheless in 2003 NUS decided to support the government's decision to shut down the program. This was controversial, and some students on the SFSS argued that NUS was wrong on this. Here we will outline the evolution of our policy behind this position.

The Student Financial Supplement Scheme (SFSS) which began in 1993 was widely known as the AUSTUDY/ABSTUDY Supplement. After the program was moved to the Department of Family and Community Services in 1998 it was renamed the SFSS. In the final year of operation of the scheme (2003) it provided for a Category One loans of up to $7000 per annum to Youth Allowance, Pension Education Supplement, Austudy and Abstudy recipients who were prepared to trade in one dollar of the income entitlement for every two dollars of loan received. The maximum net gain to their income is $3,500 ($135 a fortnight). Other students could qualify for a Category Two loan of up to $2000 if they were a dependent tertiary student not eligible for income support due to parental income or family actual means test.

The scheme was run through the Commonwealth Bank with repayments not having to commence for up to five years from the time the loan was taken out. Voluntary payments during this period attracted a 15% bonus. After the five year period the Commonwealth paid the bank the outstanding mount of the loan and collected the debt through a HECS style arrangement. The Commonwealth repayment thresholds were different from HECS with the minimum threshold - the current (2005-6) repayment thresholds are $39,,218 (SFSS) and $36,185 (HECS).

When the scheme was first raised in the 1992 Chapman report NUS, along with campus student unions, parent groups and the NTEU, was opposed to the scheme on the basis the loans scheme would be used as a wedge for further legislative change where grants-based forms of student assistance would be replaced with loans-based forms of assistance. NUS policy (democratically determined by the delegates at national conference) at the time reflected this:

NUS believes that a loans scheme to assist with repayments of tuition fees or act as a replacement or adjunct to a grants based system of student financial assistance is a key element in the push towards the entrenchment of 'user pays' and market principles in tertiary education.

According to Department of Family and Community Services data the program was accessed by between 40 – 60,000 students with its peak usage coming in 1995-99 and tapering off sharply by a third in the ensuing years. The low take-up rate in the first year of the program may have partly a result of the campaign run by NUS and many campus student unions in 1993 warning that scheme was a debt trap.

FACS data on Student Usage of SFSS 1993-2002[1]

YEAR	STUDENTS	YEAR	STUDENTS
1993	44,372	1998	60,602
1994	56,710	1999	60,124

[1] Senate Community Affairs Committee, Answers to Estimates Questions on Notice: Family and Community Services Portfolio, 2003-4 Budget Estimates, 4-5 June 2003, Question No. 49

1995	59,752	2000	55,437
1996	64,616	2001	42,347
1997	60,605	2002	40,909

Who used it ? According to data derived from FACS in 2002 22% were on Austudy payments, 37% were on Youth Allowance, 22% were on the Pensioner Education Supplement and 16% were on Abstudy or Abstudy PES. The majority of recipients were mature age (52.9% were 25 and over).[2] Senator Stott Despoja told the Senate in 2003 that the Minister provided her with data which showed that 15.2% of SFSS recipients were single parents. [3] The Bill Digest prepared by the Parliamentary Library comments that: *"the proportion of students who take out loans appears to be rather higher than is the case for recipients of Youth Allowance. These students are more likely to be parents (sole or partnered), people with disabilities or indigenous people than are youth allowance students."*

The available data indicates that the major groups accessing were those who could no longer reasonably ask to be supplemented by their parents and faced time and/or discrimination constraints in casual labour market (single parents, disabled and indigenous students). NUS has not found a breakdown of how many SFSS recipients were VET students and how many were from low SES backgrounds. However, the Actuary Report figure which estimated that 56% of loans may never be repaid is indicative. The main reason for non-repayment is that the person's income remains below the $34,494 repayment threshold. This would seem to suggest that SFSS was being accessed by low income earners who were mainly also ending up with low income outcomes in the years following their education (well below average graduate starting salaries). SFSS despite being a regressive debt trap was being accessed by the most financially vulnerable members of the student body. When the scheme was administratively shut down a number of students contacted NUS and told us that if the scheme was discontinued that they would not be able to complete their studies.

[2] Senate, Answer to Question on Notice, 27 October 2003 No. 1794 (FACS: Financial Supplement Loan)
[3] Senate, 26 November 2003, *Hansard*, pg 17838

The Closure of the Program

In April 2003 the Hon. Larry Anthony (Minister for Youth Affairs) announced his intention to close the scheme on the basis that:

- The scheme is administratively cumbersome and poorly targeted;
- The mechanism where income support entitlement is traded in for a loan operates effectively as a hidden interest charge;
- The scheme is creating high levels of student debt;
- Up to 50% of loans are unlikely to be repaid according to an unpublished report from an Australian Government Actuary;
- In 1993 there were few commercial loans available to students and interest rates were high, but now commercial loans at competitive rates and campus loans are available and;
- Youth Allowance now provides flexible benefits so take up rates for the loans have declined by one third.

NUS's original political objection to the SFSS in the early 1990s was that it would be used as a wedge to drive through a more general conversion of grant-based forms of student assistance into loans systems. The fear had some basis as the New Zealand Government of the time embarked on doing that. However, a decade on there has been no move by any Australian parliamentary party to follow the New Zealand route. However, the in principle objection to using loans schemes to deliver assistance to disadvantaged students remains. The unfairness of such debt trap schemes was put very concretely in the Senate debate on the closure of SFSS. The Hon. Senator Patterson, Minister for Family and Community Services colourfully explained to the Senate why the SFSS was a debt trap for students:

"*Under the Student Financial Supplement scheme some 7,800 students have accumulated over $20,000 each in debt - $10,000 of it was theirs, which they gave up, before they entered into this stupid scheme. A former student with a supplement scheme debt of $28,000 who earns $35,000 is going to have that debt for 40 years before it is fully* *repaid. A graduate who finishes their studies at 25 with a supplement loan of this size could be in debt to the government until they qualify for the age pension."*

NUS was somewhat mystified at the time as to why the Howard Government was so concerned about lifelong study debt here when at the same time it was pushing a package of higher education reforms to increase study debts associate with university HECS and fee arrangements. Nevertheless NUS concurs with Senator Patterson that the SFSS was acting as a debt trap for some of the most financially vulnerable students. The trade-in component of Category One loans was particularly harsh, pushing up the effective interest rate to around 16%. Another very harsh measure was that the SFSS debt was repaid concurrently with HECS repayments. The combined HECS and SFSS repayments meant that many graduates were losing 10% of their gross income (on top of tax) at a time when shortly after they had entered the full time workforce. While there has been a lot of media in the last couple of years around the issue of study debt there is unfortunately a paucity of serious research into its social impact, particularly those facing the double whammy of HECS and SFSS. Certainly the anecdotal feedback from many graduates to NUS is that they now regretted taking out the SFSS.

While the Government's position seemed heavily motivated by Treasury concerns over 'bad debt' they also argued that it was desirable that the scheme could be scrapped. They argued that unlike the early 1990s there was now a range of commercial loans available to students on offer that offered a better deal than the effective 16% being charged under SFSS once the trade-in is taken into account. Secondly the government argued that the Student Income Bank (which allows full time students on Youth Allowance and Austudy to accumulate any unused part of their fortnightly income free are to offset high income in other fortnights) gives greater flexibility for students to spread their income more evenly over the year.

From NUS's point of view the 'bad debt' is really just a progressive function of the income repayment threshold mechanism associated with the loan. The principle behind this mechanism is that those who are receiving a substantial private benefit (financial) from their education should make a contribution towards the cost of that education. The 56% non-repayment rate (84% for indigenous students) reflects that the reality that a large proportion of SFSS recipients have not received a substantial private benefit from their education. This is not surprising as sole parents, disabled students and indigenous students often face structural barriers to accessing regular, full time, well paid work and will continue to do so even after successful completion of a degree. However, there are many benefits that flow to the community from their participation in higher education, including their part-time and causal work. NUS has no problem with the notion of extra financial support flowing to some of the most disadvantaged members of our society.

It is true that there are a number of commercial operations that are in operation that offer students personal loans at a lower rate of interest. However NUS believes the equity groups that are affected by the closure of the SFSS are likely to be adverse to taking out loans without at least the safety net of the income contingent repayment threshold. A more unsavoury possibility is that students will be left juggling credit card debts or dropping out of study all together. A second issue is related to the new FEE-HELP provisions that come in place in 2005 to assist the increased numbers full fee paying domestic students. The $50,000 cap on the FEE-HELP loan is insufficient to cover the fees for longer degrees such as medicine and veterinary science. The government's response to this objection is that they can take out a commercial loan to cover the cost of the additional fees. There is already concerns that the caps on the commercial loans (often around $20,000) means that they are insufficient to cover the fee gap. How will these students access be able to get an additional loan to cover living expenses ?

Nor is the Income Bank a solution for most who were accessing the SFSS. The Income Bank measure is helpful for those with who can get substantial amounts of paid work during the year to supplement their grant. However, as described above the Income Bank is no use for those facing structural discrimination in the casualised part-time labour force.

Program Gap

NUS's position is that the SFSS had to go. Not only was it a debt trap but it acted as a policy bulwark against meaningful reform to assist these students. However, there is a program gap – in 2002 there still 40,000 students were so desperate to find extra financial support that that they were prepared to put up with the terrible terms offered by the SFSS. Something better needs to be put in its place. The Government's solution so far – commercial loans, and the income bank - is woefully inadequate..

In 2003 the AVCC agreed with NUS that simply scrapping the scheme is not good enough.

"*In this context the AVCC agrees with the National Union of Students (NUS) that the debate over the Student Financial Supplementary Scheme (SFSS) misses the point. In its current form the Scheme does not work but reform must be more than simply abolishing the Scheme."(AVCC media release)*

The AVCC proposed that the SFSS should be modified so that students can borrow an extra amount to supplement their income without trading in part of their grant. This debt would be added to the HECS debt (or now also FEE-HELP debt) and repaid through the existing income contingent repayment mechanisms. NUS was concerned that the AVCC's revamped SFSS is based on the regressive principle that much-needed student financial assistance is being provided in the form of a loan rather than a grant. However, we do acknowledge that the AVCC's proposal is superior to the former SFSS arrangements or to students taking out personal loans at commercial rates without an income contingent safety net.

Another way of assisting many of the students who would have been previously eligible for the SFSS would be to make Austudy recipients eligible to receive rent assistance. NUS wrote extensively about the housing stress faced by students particularly AUSTUDY recipients) to this committee in 2004 during the student income inquiry. There was bipartisan support on the Inquiry Committee for looking at extending this

eligibility:
Rocommendation 9: *The committee recommends that Rent Assistance be made available for all recipients of Austudy, but not before a costing is undertaken by the Department of Education, Science and Training. The committee recommends that the costing be completed before the end of 2005 and reported to the Parliament.*

Alignment

The final issue is about aligning the outstanding SFSS debts with the (HECS/FEE) HELP arrangements. There is an argument for alignment in terms of administrative efficiency for what is a small and suspended program, and also the desirability for students to have a single easy-to-understand model of repaying their study related costs.

The one big sticking point from a student rather than an administrative point of view is that the alignment diminishes the progressivity of repayment threshold rates. In particular NUS is concerned that the alignment lowers the repayment threshold (in 2005-6 terms) from $39,218 to $36,185. The difference is quite significant as many graduate starting salaries are in this income range.

SFSS Repayment Rates, 2005-6

Income Repayment Deduction	Rate
Nil	Below $39,218
2%	$39,218 - $44,567
3%	$44,568 - $62396
4%	$62,397

HELP Repayment Rates, 2005-6

Income Repayment Deduction	**Rate**
Nil	Less than $36,185
4.0%	$36,185 0 $40,306
4.5%	$40,307 - $44,427
5.0%	$44,428 - $46,762
5.5%	$46,763 - $50,266
6.0%	$50.267 - $54,439
6.5%	$54,440 - $57,304
7.0%	$57,305 - $63,062
7.5%	$63,063 - $67, 199
8.0%	$67,200

A second concern lies with the fact that the SFSS is repaid on top of HECS-HELP or FEE-HELP repayments. In policy terms there are two ways this re-alignment could be done. On way would be to roll the SFSS debts into the HECS/FEE HELP debts and with the repayments being made according to the HELP repayment schedule. The other way would be to continue the current practice of deducting the SFSS repayments on top of the HELP repayments. The latter would lead the typical professional graduate earning 51K to be repaying 12% of their gross income to cover study costs. At salaries of over $67,200 this would become 16%. Hopefully many Senators would agree that this is a totally excessive impost (with a clear negative spin-off for the housing market) on top of tax obligations.

Unfortunately the Minister’s second reading speech and bill’s explanatory memorandum are silent on this matter. Due to the rushed nature of this inquiry NUS hasn’t had time to seek independent legal counsel on which version of alignment this bill would introduce. Hopefully this Committee will be able to establish the facts of the matter.

In conclusion, although NUS supports the closure of the SFSS, we can't support the bill in its current form due to its impact on the progessivity of repayment thresholds, and possibly an excessively large double whammy impact on graduates take home pay.

Notwithstanding our concerns over the income threshold that NUS recommends that both tuition and study costs be rolled into a single fair repayment rather than the possible overly onerous double whammy.

NUS also recommends that the Senate look at positive measures, such as extending rent assistance to AUSTUDY recipients, to help many of those who have been disadvantaged by the closure of the program.