IRU Executive Director Comment
Conor King, Executive Director IRU
M: 0434 601 691 **W:** iru.edu.au

Paying extra to not pay now: the issues with a loan fee for the Higher Education Loans Program

Andrew Norton and Ittima Cherastidtham of the Grattan Institute have released *Shared interest: a universal loan fee for HELP*. It proposes that the Government introduce a common 15% loan fee for each element of the Higher Education Loans Program (HELP).

The proposal needs to be taken seriously to think through its implications. Mr Norton is one of Senator Birmingham's four higher education Counsellors. It is reasonable to assume his argument will have influence.

The major weakness is the reliance on the exaggerated estimates of the cost of supporting HELP on Government borrowings.

The comment below targets the implications of a loan fee and the case made for it. It then considers the transformation in how Government underwriting of student payments is portrayed from being a 'contribution' to being a 'loan'.

Whether a loan fee should be part of the Government's next package is an open question.

We need to assess a whole package to see what a loan fee, if included, contributes. As a means for some reduction in the cost of higher education for Government a loan fee is better than cutting into university funding or imposing real interest in HELP balances. It is worse than directing any additional payment from students to their education now.

Impact of a general loan fee

HELP pays for students their student charges or fees on the basis that the student later pays the charge or fee when their income is sufficient. There is no fee for the Government paying for the two largest groups of students:

- undergraduate and postgraduate students in Government funded places, accessing HECS-HELP for their degree studies and OS-HELP for overseas study and work experience; and
- postgraduate students using FEE-HELP to pay their fees.

There is a loan fee for:

- undergraduates using FEE-HELP, primarily at the few non-funded private universities and non university providers – a 20% loan fee; and
- vocational education and training students using VET FEE-HELP – a 25% loan fee.

The loan fee is added to the base fee. It increases the student total debt. For example, a $10,000 undergraduate course fee attracts a 20%, or $2000, loan fee if the student uses FEE-HELP rather than pay upfront.

Under the Grattan 15% proposal, the cost for most university students would increase by 15%. For students in Government funded places, the increase would be between $938 and $1,566 a year on 2016 student contribution rates (see Table One).

Table One: Estimate of Grattan loan fee on 2016 student contributions

		2016 rates	Loan fee	Total cost
Band 1	Humanities, social sciences, education, nursing	$6,256	$938	$7,194
Band 2	Science, engineering, allied health, agriculture	$8,917	$1,338	$10,255
Band 3	Law, business, high status health professions	$10,440	$1,566	$12,006

The impact on fee based postgraduate courses would be much more extreme.

A Graduate Certificate in Security Management for a private who recently left the army who wants to upskill would go from $10,300 to $11,845. Masters courses for professional qualifications which can be $30,000 now would cost an additional $4500 if using FEE-HELP.

The university or other provider gains nothing from it. The education delivered is not any better resourced. In essence the proposal asks most students to sign up to 15% more for no improvement in the education they receive.

The Grattan arguments

The Grattan report advances four main arguments to support its proposal.

1. The alleged long term cost of HELP to Government

The Grattan case relies heavily on the alleged long term cost of HELP to Government.

HELP should not be subject to hyperbolic estimates built on assumed Government borrowings. It is time for the arguments from the Parliamentary Budget Office and others about the costs of HELP to be pulled down to size.

At page 6, footnote 1 the Report rightly observes that the Government does not borrow funds specifically for HELP and shows that it is but one of many Government programs:

> "HELP lending, tuition funding, and most other higher education programs are special appropriations from consolidated government revenue. The government therefore does not borrow specifically for HELP, but HELP requires it to borrow more than it otherwise would if students were required to pay their student charges upfront."

Despite this, the financial analysis in the Report acts as though all of HELP is financed through Government borrowing. In doing so, it follows the approach of the Parliamentary Budget Office (PBO). I wrote about this previously in Four Questions on the true cost of HECS HELP and Three problems: the Supplementary Report on HELP from the Parliamentary Budget Office. Subsequent useful discussion with the PBO helped firm my argument.

In effect, Grattan argues that each year the Government has a deficit – more expenditure than revenue – HELP is the prime reason for this and therefore it is responsible for the Government borrowings to finance the deficit.

By contrast, The Treasury does not allocate borrowings to particular programs – it borrows to cover the overall gap between revenue and expenditure. Its assumption is that the Government decides the mix of revenue and expenditure such that all expenditure programs contribute to the overall deficit.

The reality is that HELP is responsible for a small proportion of the Government borrowing requirement – and in years of a surplus it is responsible for none.

The footnote makes clear that the argument could be applied to any higher education program. Indeed, it could be made of any Government program across the board such as pensions, defence, and agriculture.

But it cannot be said of all of them at once. The borrowing costing approach is useful for assessing changes to a program but it is not a valid model for assessing the long term cost of a program.

The difference for HELP is that some of the expenditure comes back. That is not true of most other programs. It is the expectation of return payments that leads to estimates of the precise value of those payments. In contrast for standard expenditure programs there is no direct financial return so the long term cost of the money 'borrowed' to pay for them would be ever increasing. Hence this estimate is not actually made.

I agree there should be an estimate of the cost of Government covering student contributions and fees. Government budgeting should allow a reasonable cost for HELP, based on estimates of non repayment and the future value of payments (whether a dollar in the future is more or less valuable than a dollar today). At most, the borrowing cost included should be the proportion of the annual borrowing that HELP represents of all Government expenditure.

2. An argument of fairness

The second Grattan argument is that a loan fee should apply equally to all students whom the Government supports to pay student contributions and fees. In a sense I agree there should be common treatment: there is a strong case for no loan fee or discount.

However, it is important to understand the differences across the HELP elements to understand why a loan fee only applies currently to some.

HECS-HELP is the prime and still dominant element. Originally it referred to the students' payments – the Higher Education Contribution Scheme, regardless of whether the student paid upfront or once income required it.

The introduction of HECS, and all but one increase since, replaced direct Government funding[1]. Any payment back is a gain to Government. Further, student contributions are capped containing the amount required for any one student. Most students leave university with student contribution charges of between $20,000 and $40,000 to be paid.

Higher Education students using FEE-HELP to cover fees can use it to cover much larger fees – up to $99,389 for most courses and $124,389 for the high cost health professions. The higher the charge covered, the more time required to repay it, with the greater risk of non-repayment. Hence from a cost to Government perspective FEE-HELP is likely to cost more than HECS-HELP.

Creating FEE-HELP allowed the Howard Government under David Kemp as Minister to transform many postgraduate courses from Government funded into fee based courses. The advantage to Government replacing a direct subsidy with advancing the fee, expecting much of it to be paid back, was clear – and remains so.

Providing FEE-HELP for undergraduate fee based courses extended Government support to students not previously supported with no offset from Government direct funding. A loan fee was added to reduce the cost.

[1] The 2005 Nelson era increase in most HECS rates by 25% was additional revenue for universities.

The inclusion of a loan fee for VET FEE-HELP only adds to the sense that that program was designed with little thought for the high risk of debt burdens for people who as a group do not earn high incomes.

3. An incentive for upfront payment

The experience of the first twenty years of HECS and then FEE-HELP is that those who can and want to pay up front do so, largely regardless of discounts that reduce the charge if paid up front.

The Report shows a falling percentage of upfront payments, particularly since 2010. It appears associated with the growth in student numbers from demand driven funding. The Report does not provide the actual numbers of students whose charge or fee is paid upfront. Follow up information from Grattan indicates that the number has also fallen.

The result is likely a combination of the newer students brought into the system through demand driven funding being less able or willing to pay upfront and interest in upfront payments narrowing down to parents determined to avoid HELP debt for their children.

Whether avoiding a loan fee would encourage a great number more to pay upfront is an open question. I am sceptical that it would be a large number.

Whether students should pay upfront is clearer. The report makes much of postgraduates studying while working and receiving income above the HELP repayment threshold. To argue such students could pay the fee upfront is a substantial leap. There is a difference between paying $2000, $4000 or so required by their income and paying the whole $10,000 or $30,000 of their course.

The intent of HECS then HELP is to encourage study with an end of improving future prospects. The system requires students with income to pay a portion but avoids implying they ought to pay the lot.

4. It is a progressive option compared with other proposed HELP reforms

Grattan argues that because the loan fee is paid after a student has repaid the base loan, only successful graduates will actually pay it. In doing so they would cover the cost to Government of other students who earn less.

Hence Grattan is correct to position a loan fee as being progressive in its impact. A loan fee comes ahead of other HELP 'reforms' such as imposing a real interest rate on HELP balances.

The argument also makes clear that any advantage to Government is a decade or so away when the first students who would incur a loan fee would begin to pay it, altering the cash position for the Government.

The changing conceptualisation of HECS and HELP

HECS was initially described as a "contribution scheme". The creation of other elements has turned all into a "loan". The problem with "loan" is the expectation it creates that it should be repaid in full and, at a minimum, at no loss to the lender.

What tends to be lost is that the fundamental driver of the schemes is to encourage all Australians to pursue higher education opportunities without seeing costs as a barrier. Intentionally that means that the study will not pay off for all but that it does for most with benefits for all Australians.

Government must keep this in mind when balancing the year to year cost of HELP and other higher education programs against the positive outcomes created. These outcomes among other things underpin Government revenue, completing a positive loop.

Conor King
5 December 2016