

IRU response to the Government's proposed changes to the Higher Education Loans Program

The *Higher Education Support Legislation Amendment (Student Loan Sustainability) Bill 2018* proposes four changes to the Higher Education Loans Program of which the lower first repayment threshold and the inclusion of HECS-HELP within a lifelong loan cap are the most significant for the Committee to consider.

In summary the IRU:

1. supports the revamp of the HELP repayment thresholds to have a regular sequence of increases tied to steps up in the proportion of income to be paid;
2. accepts that the revised first threshold of \$45,000 reduces the negative impact likely from the previously proposed \$42,000 threshold sufficient to allow the amendment to be passed;
3. recommends raising the lower HELP life time limit by \$25,000 to \$129,440 to match the increase for the upper life time limit that applies for medical, dentistry and veterinary courses;
4. recommends that the ongoing rationale for the HELP limit not be renewed as payments are made be reconsidered;
5. supports the change of index for HELP thresholds; and
6. supports the changes to the Student Financial Supplement Scheme repayment arrangements.

The cost of HELP to the Commonwealth budget is over estimated

There is considerable hyperbole about the significance of the HELP balances Australians hold. The critical question is how much each individual has to pay, not how much in total is outstanding. It is the size of the individual balance that drives how long it takes to repay or whether it will be repaid. one million balances of \$10,000 are much more likely to be paid than 100,000 balances of \$100,000, although both represent a total outstanding balance of \$10 billion.

As student charges have risen, the role of HECS has transformed from a contribution to a loan and hence debt that should be repaid to maintain moral standing. It is useful to remember that HECS-HELP serves to reduce Government expenditure on higher education, replacing previous grant funding. Any level of repayment is a fiscal improvement compared with a grant payment.

The IRU has previously challenged the Parliamentary Budget Office's assessment of the cost of the HELP program to Government. See [Four questions for the Parliamentary Budget Office on the true cost of HECS-HELP](#) and [Three problems with the Supplementary Report on HELP from the Parliamentary Budget Office](#) centred on its assumption that all the funding for HELP is necessarily borrowed by Government while Government direct funding uses taxation revenue only.

Nevertheless, it is important that there be a reasonable relationship between using HECS-HELP to underpin student contributions to their education and a repayment regime that sees much of the money paid. We consider the Government's particular proposals against this objective in the four sections below.

1. The repayment thresholds

The issue is whether the first threshold is still too low at \$45,000 with a payment rate of 1%.

IRU questioned the previous proposal to lower the first threshold to \$42,000. That proposal would have returned the minimum threshold to a point similar to that between 1997-98 and 2003-04. The repayment rate was then 3% of income, a harsh approach to paying HELP.

There is considerable debate about the impact on former students. We need to balance the value of some repayment, which holds down the long-term balance that is indexed each year, against the impact on an individual's capacity to meet living costs. The interaction with other factors in the life cycle following graduation such as housing, also need consideration.

The proposed 1% payment at the first threshold minimises the impact on people earning at or around the threshold, while serving to prevent their future repayments growing through the annual indexation of the outstanding balance.

On balance the IRU accepts the proposal as containing the notional cost of HELP, allowing it to remain an effective part of the Australian higher education system. At a time where the Government is determined to reduce investment in higher education, this change does less harm than the impact of constraining the number of students universities can educate well.

The conceptual change of a graduated increase from 1% to 10% at regular intervals puts the schedule onto a more rational basis.

The IRU:

1. **supports the revamp of the HELP repayment thresholds to have a regular sequence of increases tied to steps up in the proportion of income to be paid; and**
2. **accepts that the revised first threshold of \$45,000 reduces the negative impact likely from the previously proposed \$42,000 threshold.**

2. Lifetime HELP loan limit

The impact of a lifetime limit on HELP is yet to be fully understood. Applied to FEE-HELP only, it has affected some people enrolling in particularly expensive fee-based programs.

It is less clear how many people have reached the limit through renewing their skills on a regular basis over the period of the thirteen years since FEE-HELP began. As people do, it will bring into question why the limit is not renewable as the balance owed is repaid. We face constraining workers in their 40s and 50s from renewing their skills at a crucial time for maintaining employment through to a reasonable retirement age because they reached the maximum earlier in their lives.

This will be exacerbated through the new combined lifetime HELP loan limit. It will inhibit access to postgraduate training, re-skilling and life-long learning by including Australian students' cost for their undergraduate degree under the cap without any increase to the maximum debt permitted.

The issue applies for most individuals except those who can access the cap for medicine, dentistry and veterinary science courses. For those courses the life time cap has been increased by about \$20,000.

Many Australians use HECS-HELP to meet the student contribution costs of their undergraduate degrees, with most graduating with required repayments of \$20,000 to \$40,000.

Under current arrangements these graduates can access a further \$100,879 (indexed) over their lifetime to cover fees for further courses, notably postgraduate certificates, diplomas and masters.

The Government proposes to raise the higher life time limit for people enrolled in medical courses but not raise the lower life time limit HECS-HELP. The result is to squeeze access to postgraduate courses putting more pressure on those the Government directly funds.

Both life time limits should be raised by \$25,000 to largely offset the inclusion of an initial HECS-HELP undergraduate degree within the limit. The limit would still operate to prevent extensive use of HELP by the very few people who have incurred very high HECS loans.

The Government should reconsider the ongoing rationale for the limit not be renewed as payments are made.

3. **The IRU recommends raising both HELP life time limits by \$25,000 to \$129,440 and \$150,000 match the increase for the upper life time limit that applies for medical, dentistry and veterinary courses.**
4. **The IRU Recommends that the ongoing rationale for the HELP limit not be renewed as payments are made be reconsidered.**

3. New indexation arrangements for repayment thresholds for the HELP

The change from Average Weekly Wages to the Consumer Price Index as the basis for annual changes to the repayment thresholds mimics the index applied to increase the student contribution rates. In the current period of low wage growth the change may advantage those with HELP balances. If wage growth returns to previous levels the additional income ought to cover the slightly higher level of repayments.

5. **The IRU supports the change of index for HELP thresholds.**

4. Student Financial Supplement Scheme

Under current arrangements students who have used the Student Financial Supplement Scheme repay it in parallel with HELP repayments. The threshold for repayment is different from that used for HELP being 2% for income above \$56,000 reaching 4% at income over \$97,000. The proposal would integrate the Scheme with HELP. This would remove making two similar payments in parallel but would bring in repayment earlier should a person hold a Student Financial Supplement Scheme debt only.

On balance, the IRU considers the changes to the Student Financial Supplement Scheme appropriate.

6. **The IRU supports the changes to the Student Financial Supplement Scheme repayment arrangements.**

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