

March 2016

## HELP for the future

Fairer repayment of student debt

Andrew Norton



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## Grattan Institute Report No. 2016-4, March 2016

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## Overview

Since 1989 nearly four million Australians have taken out HELP student loans, greatly expanding access to tertiary education. But too many HELP borrowers either do not repay what they owe, or take too long to clear their debts. Without change, HELP's costs will escalate, putting other education programs at risk of cuts.

In 2014-15, the government lent students \$7.8 billion. An estimated 20 per cent, or \$1.6 billion, won't be repaid. Interest subsidies on outstanding HELP debt add \$200 million to HELP's costs, but would be five times higher if interest rates return to previous levels.

A major cause of HELP's problems is that debtors who earn less than its initial threshold – currently \$54,126 – do not repay. A lower \$42,000 threshold in 2016-17 would be a more realistic way to address major trends in the earnings of those with HELP debts.

Lower thresholds would increase total HELP repayments by at least \$500 million a year, reducing interest costs and doubtful debt. Fewer well-off people would receive HELP subsidies, which would be more targeted toward people facing genuine financial hardship. The savings would reduce pressure to cut teaching and research grants.

A growing proportion of all graduates work part-time, but most part-time jobs earn less than the current threshold. Vocational education diploma students now get HELP, and are less likely than higher education graduates to earn \$54,126 or more. With the new threshold, almost 50 per cent more debtors would repay.

International experience suggests that even with a lower threshold, students are still attracted to tertiary education. The English student loan repayment threshold is set at a level similar to A\$42,000, while in New Zealand the threshold is much lower.

Although a \$42,000 threshold would affect debtors who are not well-off, overall it is a fair level that still protects against financial hardship. The initial threshold for repaying HELP is \$20,000 more than the Newstart and low income health care card thresholds. Graduates do not have special needs compared to non-graduates who receive government financial assistance.

Threshold reform affects more women than men, due to high rates of part-time work, but most debtors who would be affected are not the only income earner in their household. Half live with a partner, and the combined disposable income of 70 per cent of these couples exceeds \$80,000 a year.

At \$54,126, HELP debtors repay 4 per cent of their income each year. At \$42,000, a rate of 3 per cent of their income should apply. As they do now, repayment rates should increase with income, up to a maximum of 8 per cent. Each threshold would be lower than current one, so that more debt is repaid each year.

Lower thresholds are both efficient and fair. Unlike other possible cuts to education spending, expenditure on HELP can be reduced without damaging its vital education and social policy goals.

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## 1 Introduction

The Higher Education Loan Program (HELP) has major achievements. Introduced in 1989 as the Higher Education Contribution Scheme (HECS), it has increased access to tertiary education, reduced pressure on the national budget, and helped students and graduates manage their finances.

Due to its success, HELP has been expanded many times. It now includes subsidised and full-fee higher education students and upper level vocational qualifications, mostly diplomas.

HELP's distinctive feature, compared to other types of loans, is that repayments are income contingent. Debtors earning less than \$54,126 in 2014-15 do not need to repay. Once their income reaches this initial threshold, debtors repay a proportion of income starting at 4 per cent, up to a maximum of 8 per cent. HELP repayment is progressive; repayments go up with income.

As HELP eligibility has expanded, and student numbers and fees have increased, total annual HELP lending has escalated rapidly. It doubled between 2010-11 and 2014-15, to reach \$7.8 billion. As of mid-2015, \$42 billion of HELP debt was outstanding.

With HELP now a major government program, its finances deserve more scrutiny. It has two major costs: interest subsidies and doubtful debt, as chapter 2 outlines. Since HELP debtors are charged inflation rate interest rather than the government's cost of borrowing, there is an interest subsidy. The longer debtors take to repay, the higher the interest subsidy. The largest HELP cost is debt that is not paid back. The government expects that about 20 per cent of new lending each year will eventually be written-off.

While HELP lending is increasing rapidly, repayments are stalling. Chapter 3 explains why. Some factors should be temporary, such as an enrolment boom, an unfavourable labour market, and unscrupulous marketing of vocational education courses. But longer-term factors are also important. Because HELP thresholds have increased in real terms over time, fewer debtors earn enough to repay. Graduates increasingly work part-time, but most part-time jobs pay below the threshold. Diploma holders generally earn less than higher education graduates, leaving many of them with poor repayment prospects. The changing debtor population requires a new threshold that reflects their income.

A new threshold should enable HELP to keep achieving its social purposes while ensuring the program fits with other government income protection programs. Chapters 4 and 5 look at how HELP manages student and debtor risks and smooths their living standards over time. HELP is intended to reduce the risk of student debt causing financial hardship. But debtors are allowed an income well above most social security benefits for working-age people, and well above the minimum wage, before they must repay anything. This is more risk protection than HELP needs to encourage enrolment in tertiary education. It also gives HELP debtors an unfairly privileged position. Since the HELP threshold does not include family income, the HELP subsidy is poorly targeted.

Chapter 6 proposes a lower initial HELP threshold – \$42,000 in 2016-17 rather than nearly \$55,000 under current policy. Using 2013-14 tax statistics, nearly 50 per cent more debtors would repay under the lower threshold. This estimate is conservative,



due to the enrolment boom in both higher education and diploma markets since 2013-14. This report recommends a 3 per cent first repayment rate instead of the current 4 per cent to preserve the living standard smoothing benefit of HELP.

Chapter 7 shows that lowering the upper thresholds can also improve HELP's finances, as debtors would make higher annual repayments. Debtors would repay more of what they owe before leaving the workforce, reducing interest subsidies and doubtful debt. The chapter proposes that instead of keeping the current unsystematic gaps between thresholds, each threshold should be 8 per cent higher than the one before it. As their income passes each threshold, debtors pay an extra half percentage point of their annual income, up to a maximum repayment rate of 8 per cent, for people earning around \$91,000. Together with reducing the initial threshold, this reform would add at least 31 per cent to annual HELP repayments, or more than \$500 million.

Chapter 8 investigates how HELP's threshold indexation system contributes to declining repayment levels. At present, indexation is based on movements in average weekly earnings. AWE generally grows more quickly than inflation. Since 2004-05, the thresholds have grown by 17 per cent in real terms. They should, in future, be updated in line with the consumer price index. This would preserve their real value, while ensuring that threshold reform has lasting effects.

## 2 HELP and its costs

One major reason for reforming HELP repayment settings is to control costs – one of the scheme’s original goals. HELP’s two main costs are interest subsidies and doubtful debt: loans that are not expected to be repaid.

### 2.1 HELP

In 1989, Australia introduced the Higher Education Contribution Scheme (HECS). The HECS terminology is still widely used, but since 2005 the income contingent loan has officially been called the Higher Education Loan Program (HELP).

For lending purposes, there are now several different HELP schemes: HECS-HELP for the student contributions paid by students who are also receiving tuition subsidies, FEE-HELP for full-fee higher education students, OS-HELP for study overseas, SA-HELP for student amenities fees and VET FEE-HELP for vocational education students.<sup>1</sup>

While lending rules differ among the schemes, for repayment purposes student borrowing from all the schemes is consolidated by the Australian Taxation Office (ATO) into a single HELP debt.

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<sup>1</sup> Although not officially part of HELP, there are other income contingent loan schemes with similar repayment systems. In July 2014, the Trade Support Loans Programme commenced lending to apprentices. Repayments are made on an income-contingent basis like HELP. In 2014-15, nearly 27,000 borrowed: Department of Education and Training (2015d), appendix 5, table 26. More recently, in January 2016, a Student Start-Up income support loan began with a similar repayment method to HELP: Department of Human Services (2016b)

#### 2.1.1 Interest costs

Interest subsidies occur because there is zero real interest on HELP debt. Outstanding debt is indexed each year to movements in the consumer price index (CPI), but financed with government borrowing. Interest subsidies are the difference between CPI indexation and the interest paid on government debt. So if the government pays 3 per cent interest on debt it owes, and lends to students at 2 per cent interest, the interest subsidy is 1 per cent. In the government’s accounts, annual allowance is made for the future cost of new lending at a discounted interest rate. Another way of calculating the interest subsidy is to work out how much interest the government pays on the stock of HELP debt – or how much they would save if all the debt (Figure 1) was suddenly repaid.

As of 30 June 2015, total HELP debt was \$42.3 billion. A 1 per cent interest subsidy would cost over \$400 million a year. Fortunately, because the government is currently borrowing cheaply, interest subsidies at 0.4 per cent cost around \$170 million in 2015.<sup>2</sup> Yet historically the interest subsidy has been about 2 per cent a year and occasionally exceeded 4 per cent.<sup>3</sup> A more typical long-term interest rate on government debt would make HELP’s interest costs five times higher than now.

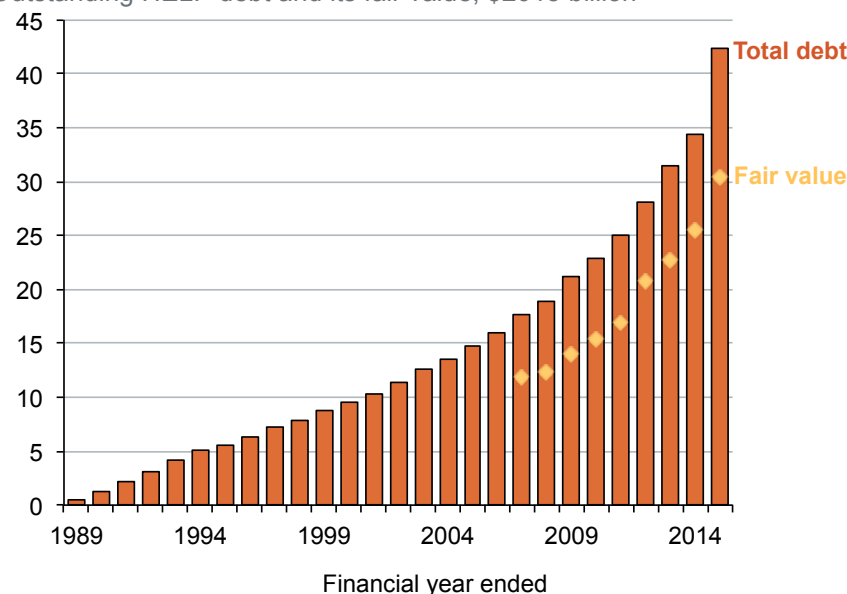
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<sup>2</sup> Interest subsidies can be calculated various ways, with this estimate based on 10 year government bond rates. This follows the government’s plan when it proposed, unsuccessfully, to charge real interest on the HELP debt: Department of Education (2014b)

<sup>3</sup> RBA (2015)

**Figure 1: Total outstanding HELP debt is escalating rapidly**

Outstanding HELP debt and its fair value; \$2015 billion



Sources: DIICSRTE (2013a); b); DIISRTE (various years); Department of Education (2014a); Department of Education and Training (2015d); communication from the Department of Education and Training

The base of HELP debt on which interest has to be paid will keep increasing. Figure 2 shows that annual HELP lending doubled since 2010-11 to reach \$7.8 billion by 2014-15. Annual lending is likely to increase to all student groups except vocational education students, where regulatory action on VET FEE-HELP should curb lending.<sup>4</sup> The number of higher education borrowers is unlimited,

<sup>4</sup> There a temporary freeze on lending for each provider at 2015 levels: Knott (2015). There are also new rules around marketing, admission and refunds for students who leave their courses: *Higher Education Support (VET) Guideline 2015*.

and enrolments continue to grow, although less quickly than in recent years.<sup>5</sup> How much any individual can borrow is only partly capped.<sup>6</sup>

While lending is rising rapidly, Figure 2 shows that repayments are stagnating, and hence not reducing debt as much as they might. Repayment delays contribute to growing debt levels and interest costs. The next chapter discusses reasons for slow repayment growth and the rest of the report discusses remedies.

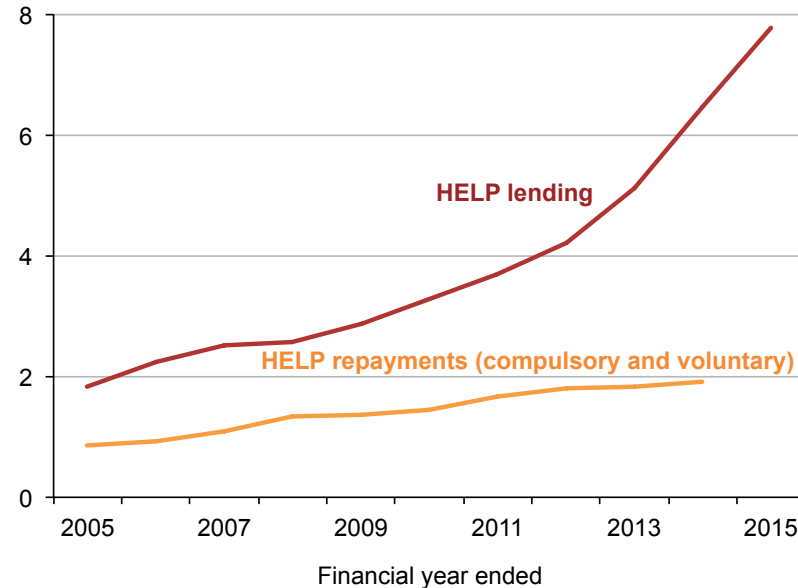
### 2.1.2 Doubtful debt costs

HELP's other major cost – indeed, its largest cost – is debt that is not expected to be repaid, known as doubtful debt. Figure 1 shows the 'fair value' of HELP debt: an estimate of how much the debt is really worth to the government. Most of the difference between the nominal and fair value stems from debt not expected to be repaid. The government expects \$10.2 billion of outstanding HELP debt – nearly a quarter of the total – to go bad.

<sup>5</sup> Department of Education and Training (2016a)

<sup>6</sup> For students borrowing under HECS-HELP, which applies to government-supported coursework places, the amount that can be lent per subject is restricted by the student contribution cap. However, there is no limit on the number of courses one individual can take. For students borrowing under FEE-HELP, which supports full-fee students, and VET FEE-HELP for vocational education, the lifetime lending cap is \$124,238 for medicine, dentistry and veterinary science, and \$99,389 for all other courses: Department of Education and Training (2016c)

**Figure 2: HELP lending is increasing much faster than repayments**  
HELP lending and repayments; \$billions, nominal



Notes: HELP lending includes all HELP programs. In 2014-15, VET FEE-HELP lending was estimated to be around \$2.4 billion.

Sources: Department of Education and Training (2015f); b); data supplied by the Department of Education and Training; Senate (2015) p.9567

To arrive at this estimate, the Australian Government Actuary (AGA) uses ATO HELP receipts to calculate income projections and HELP repayments. In 2013, the last time it released an estimate, the AGA anticipated that 17 per cent of new debt would not be repaid.<sup>7</sup> The Department of Education and Training also includes doubtful debt 'key performance indicators', its own guides to potential losses, in the Budget.<sup>8</sup> For the 2014-15

<sup>7</sup> Communication from the Department of Education and Training

<sup>8</sup> Department of Education and Training (2015h), p. 50

financial year, the Department expects 20 per cent of HELP lending not to be repaid – or nearly \$1.6 billion of the \$7.8 billion lent that year (Figure 2). In future years, it anticipates 21 per cent non-repayment.<sup>9</sup>

The actual expense of bad loans in current HELP debt will not be known for decades, as HELP debt is not finally written off until a debtor dies. As of mid-2015 only 0.35 per cent of people who had ever taken out a HELP debt had died before fully repaying.<sup>10</sup> Since HELP is used mainly by young people and only started in 1989, it will be some time before annual write-offs are large. While realised losses are low, the trends described in this report suggest that, without policy change, doubtful debt provisions will keep increasing.

## 2.2 Are these costs too high?

People with diverse ideological views argue that some or all of HELP's costs are not a problem. The classical liberal economist Sinclair Davidson argues that the HELP write-off on death is a 'design feature of the policy, not a bug'.<sup>11</sup> Paul Kniest from the left-wing National Tertiary Education Union agrees, suggesting that only people with a direct personal benefit from their education should pay for it.<sup>12</sup> James Griffiths from the Commonwealth

<sup>9</sup> This is lower than the quarter of total HELP debt regarded as doubtful, due to the accumulating effects of doubtful debt from preceding years.

<sup>10</sup> As at 30 June 2015, 3.7 million people had ever taken out a HELP debt. Of this number, 2.2 million have an outstanding debt, 1.4 million have repaid and 12,849 have died: ATO annual report to the Department of Education and Training.

<sup>11</sup> Davidson (2015)

<sup>12</sup> Kniest (2015)

Parliamentary Library argues that diverse views on HELP's costs reflect a lack of clarity around the loan scheme's purposes.<sup>13</sup>

HECS was meant to save money compared to full government funding of higher education. But it was not meant to recover all its costs. HELP deliberately transfers financial risks from students to taxpayers; that is indeed a design feature. So the ideal subsidy to HELP is not zero. But this report argues that the ideal subsidy to HELP is not the current amount either.

This position relies on several inter-related arguments. They all assume that we should not turn HELP features that are based on political judgments of their time, or on assumptions that no longer apply, into principles that cannot be overturned. Chapters 4 and 5 look at the core purposes of income contingent loans: encouraging investment in education, managing financial risk and smoothing living standards. These purposes can be achieved with a lower threshold. The idea that HELP debtors should not repay unless a personal financial benefit is received is left lacking a strong rationale. When compared to other government income protection programs, HELP appears both overly generous and poorly targeted. A lower threshold would be fairer.

Over time, HELP lending policy has changed dramatically. New loan schemes and more students have increased the risk and scale of non-repayment. The next chapter explores some of these changes. A different debtor population has implications for HELP's repayment system, yet its current iteration dates largely from 2004-05 and takes no account of changed circumstances.<sup>14</sup>

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<sup>13</sup> Griffiths (2015)

<sup>14</sup> The main change has been a reduced 'bonus' for voluntary HELP repayments. It will be zero from 1 January 2017.

HELP's fiscal context is also very different. In 2004-05 the government had a large budget surplus; now it has a large budget deficit. Higher education cannot be exempt from measures to bring the budget back into balance, and both the Labor and Liberal parties have proposed significant higher education cuts. The question we should ask is which cuts do least harm to higher education policy objectives? If HELP can achieve its income contingent repayment goals at lower expense, we should reform it. That would be better than freezing public funding for teaching or reducing research funding, which are easier but more damaging ways to save money in higher education.<sup>15</sup>

This report concentrates on the HELP repayment thresholds. While important, threshold reform on its own does not solve HELP's problems. A 2014 Grattan report, *Doubtful debt: the rising cost of student loans*, examined another necessary reform, abolishing the write-off on death.<sup>16</sup> A further expected publication in 2016 will look in more detail at interest subsidy costs.

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<sup>15</sup> Each can be done without parliamentary approval. The government can use funding agreements with the universities to set maximum annual payments, although these cannot be less than the year before: section 30-27, *Higher Education Support Act 2003*. The provisions funding research block grants specify maximum but not minimum spending: section 41-45, *Higher Education Support Act 2003*. HELP reform does require changing the legislation.

<sup>16</sup> Norton and Cherastidtham (2014)

### 3 HELP's initial threshold and repayments

HELP repayments are growing much less quickly than HELP lending. The initial HELP threshold, below which no repayment is required, exempts a growing number of debtors from paying back their student loans.

#### 3.1 A falling share of HELP debtors is repaying

The number of HELP debtors is rising significantly. Between mid-2007 and mid-2015 the number increased by a million, to 2.2 million.<sup>17</sup> The number of people repaying their debt has not kept pace, as Figure 3 shows. Only 24 per cent of debtors were in repayment in 2012-13, down from a recent peak of 28 per cent in 2007-08. These figures partly explain the weak growth in HELP repayments seen in Figure 2 in the last chapter.

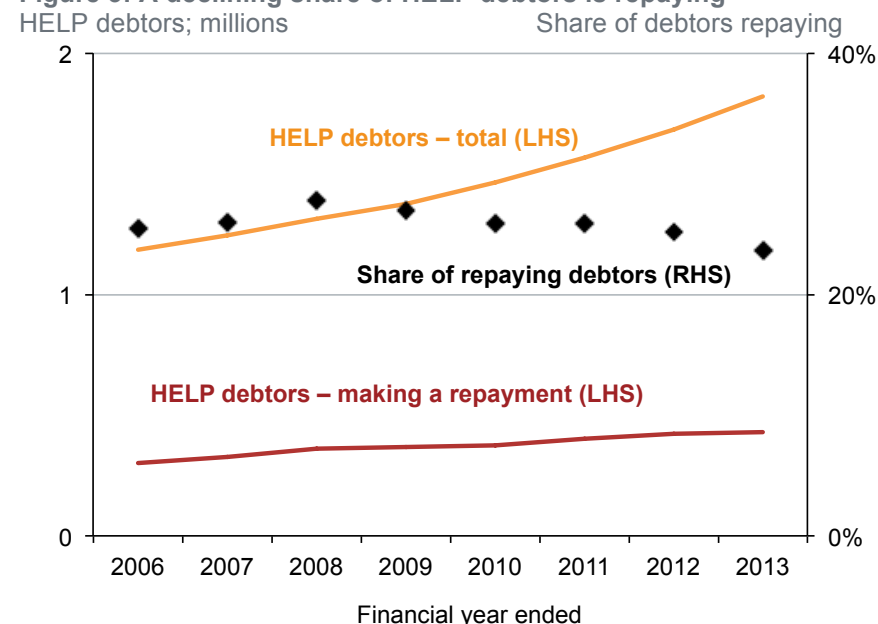
##### 3.1.1 Temporary influences on repayment rates

Temporary factors partly explain the declining repayment rate. The higher education enrolment boom that started in 2009 has increased the number of HELP borrowers in every subsequent year. Few full-time students earn enough to repay while they are studying, so HELP debtors will grow more quickly than repayers during periods when enrolments increase.

A weak graduate labour market has compounded the enrolment boom's effect on HELP repayment rates. The boom's first graduates had to compete for a declining number of jobs. Between 2008 and 2014 the new bachelor-degree graduate unemployment and under-employment rate doubled, to 32 per

cent.<sup>18</sup> Over time, employment rates increase and more graduates earn enough to enter repayment.<sup>19</sup>

**Figure 3: A declining share of HELP debtors is repaying**



Notes: The ATO has published the number of HELP debtors making repayments for 2013-14, but as these will be revised due to late submission of tax returns we have not incorporated them into the chart. 425,864 persons had made compulsory repayments by 31 October 2014.

Source: ATO (2016)

<sup>18</sup> GCA (2015e). The percentage is of all those in or seeking full-time work.

<sup>19</sup> A three-year out graduate survey demonstrates this for the earlier new graduate cohorts: GCA (2015b)

<sup>17</sup> ATO (2016), table 20



While temporary factors will pass, that alone will not fix HELP's problems. Many other factors also contribute to HELP's repayment system collecting too little of what is owed.

### 3.1.2 The initial threshold has grown more quickly than graduate starting salaries

Every year, students graduate and enter the period when most should start repaying their HELP debt. But an increasing share of new bachelor degree graduates earn less than the initial HELP threshold. Figure 4 shows the narrowing gap between the threshold and median starting salaries in full-time jobs. The two had almost converged by early 2015, exempting nearly half of the younger graduates in full-time work from making a HELP debt repayment.

The convergence is partly due to a weak labour market, especially since 2008-09. While the economy should improve over time, long-term factors could preserve this soft market. Large increases in graduate numbers, caused by the enrolment boom, may increase competition for professional jobs, putting downward pressure on salaries. More graduates could end up in lower-paid jobs that do not require degrees, pushing down median salaries.<sup>20</sup>

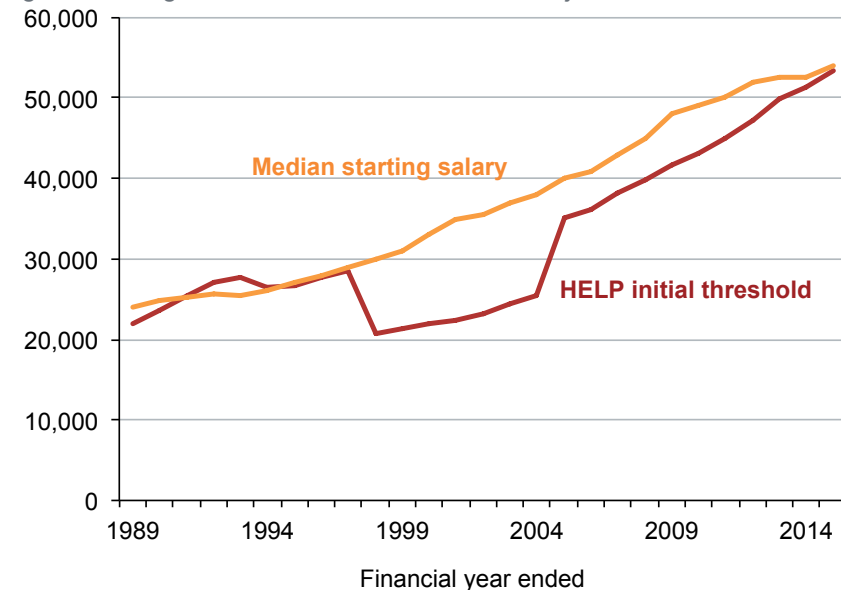
The way HELP thresholds are indexed also exempts new graduates from repaying their student debt. Thresholds are adjusted each year according to movements in average weekly earnings. AWE is influenced not just by pay increases in particular jobs, but by the types of jobs people hold: the occupation, the

<sup>20</sup> For working new bachelor-degree graduates, the share with professional or managerial work declined ten percentage points between 2008 and 2014, although among new bachelor-degree graduates with a full-time job, the decline was only 3 percentage points: GCA (2015a)

level of experience required, whether it is full-time or part-time, and so on. (This issue is discussed in more detail in chapter 8.)

**Figure 4: Over time fewer recent graduates have earned enough to start repaying their HELP debt**

HELP threshold and median starting salaries for bachelor-degree graduates aged under 25 in their first full-time job; \$ nominal



*Note: Major changes in the HELP threshold in 1997-98 and in 2004-05 were due to government decisions to rebase them rather than indexation.*

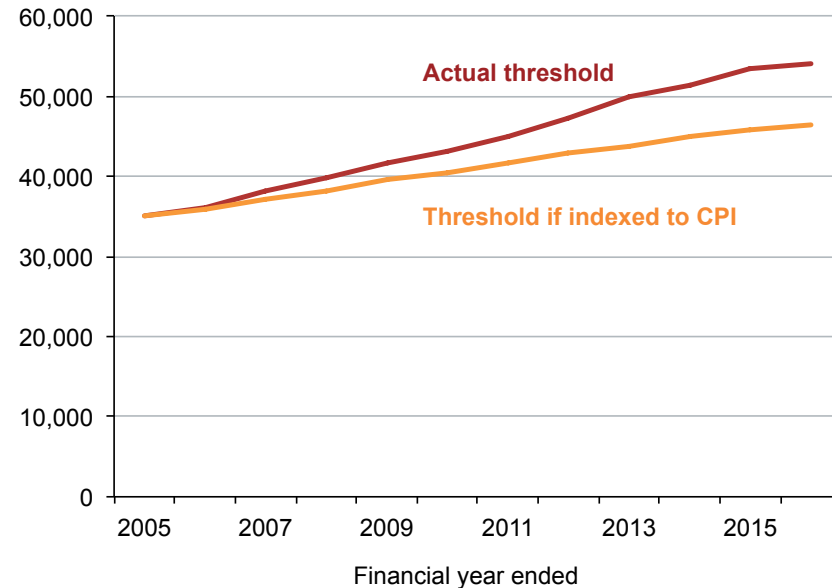
*Sources: Appendix A: Historical HECS and HELP thresholds; GCA (2015f)*

Average weekly earnings have tended to rise faster than measures of inflation. Figure 5 shows the indexation effect on the initial threshold. If the threshold had been indexed to the consumer price index (CPI) since 2004-05, it would have been \$46,457 in 2015-16. Instead, it is \$54,126. In real terms, the

thresholds are 17 per cent higher than they would be if they were indexed to CPI.

**Figure 5: The initial threshold has increased significantly since 2004-05**

HELP threshold; \$ nominal



Sources: Appendix A: Historical HECS and HELP thresholds; ABS (2016a)

### 3.1.3 The increase in diploma qualifications

The changing HELP debtor population is also decreasing repayment levels. Since 2009 HELP has been available for upper-level vocational qualifications, mostly diplomas, through the VET

FEE-HELP scheme.<sup>21</sup> The number of students borrowing under VET FEE-HELP has increased dramatically, from 5300 in its first year to 203,000 in 2014.<sup>22</sup> The scale of growth is due partly to unscrupulous vocational education providers enrolling large numbers of students with limited earnings prospects.<sup>23</sup> Most will never complete their qualification, triggering high rates of bad debt.<sup>24</sup> Rapidly escalating average tuition fees have compounded the financial problems caused by enrolment growth.<sup>25</sup> While new regulations and enforcement measures should reduce provider malpractice and borrower numbers, they will not be enough.<sup>26</sup> VET FEE-HELP will remain costly, even if most students complete their qualifications.

Across all age groups people with diplomas are more likely than higher education graduates to earn less than the initial HELP threshold, as Figure 6 shows. Using a different data source, previous Grattan analysis suggests that about 40 per cent of VET FEE-HELP lending to diploma students who do complete will not

<sup>21</sup> Initially, VET FEE-HELP was only available for courses with a credit transfer arrangements in place with a higher education provider. This restriction was lifted in 2012, triggering many of the subsequent problems.

<sup>22</sup> Department of Education and Training (2014), figure 1

<sup>23</sup> Senate Education and Employment References Committee (2015)

<sup>24</sup> The three-year course completion rate for VET FEE-HELP students starting in 2012 is 22 per cent: Department of Education and Training (2015c). There is a literature showing that the financial benefit of completing a qualification in the trades can be low, for example Lu (2015). However, this is influenced by existing workers upgrading skills for existing jobs. Less than half of VET FEE-HELP borrowers are employed: NCVER (2015), p. 16. Unemployed borrowers are less likely to benefit from an incomplete course.

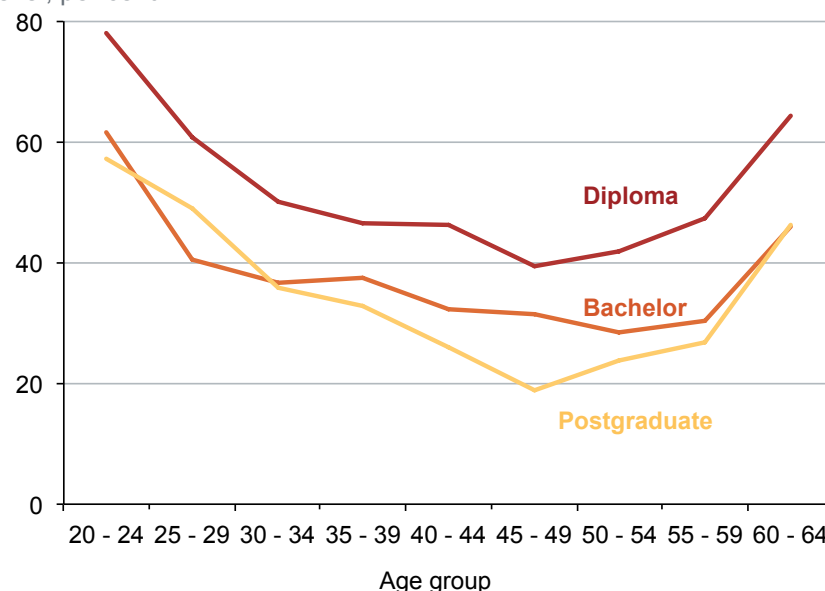
<sup>25</sup> Department of Education and Training (2015a)

<sup>26</sup> *Higher Education Support (VET) Guideline 2015*. The Australian Competition and Consumer Commission (ACCC) has taken separate legal action under trade practices law against several VET FEE-HELP providers: ACCC (2015)

be repaid.<sup>27</sup> The current HELP initial threshold intended for bachelor-degree graduates is not suitable for people with vocational diplomas.

**Figure 6: Diploma holders are more likely than people with higher education qualifications to earn less than the threshold**

Share of people earning less than the 2014 threshold by qualification level; per cent



Notes: This chart shows all people with the relevant qualification, not just those with HELP debt. The chart shows the highest qualification for each person. Diplomas are awarded in both higher education and vocational education, but almost all in most national surveys are vocational.

Source: ABS (2015e)

<sup>27</sup> Norton (2015). Other analysts have come to similar conclusions: Higgins and Chapman (2015)

### 3.1.4 Part-time work and the threshold

HELP debtors who consistently work full-time are likely to repay their debt in full. In 2014, 77 per cent of full-time workers with diploma or advanced diploma qualifications, and 84 per cent of full-time workers with bachelor degrees, earned enough to reach the current HELP threshold (Figure 7). Because the student loan repayment system requires the debtor to pay a percentage of all income, not just income above the threshold, the minimum annual repayment is large enough to complete repayment within a normal working life.

While most full-time employees with HELP debt will make a repayment, that is not so for part-time workers. Less than 30 per cent of part-time workers with bachelor degrees, and less than 14 per cent of part-time workers with diploma or advanced diploma qualifications (Figure 7), make enough money to reach the HELP threshold. This is a problem for HELP repayment rates, because part-time work rates are increasing among graduates (Figure 8). Just below 20 per cent of graduates worked part-time at the turn of the century. Today more than a quarter do, and over 30 per cent of diploma holders.<sup>28</sup> There is little reason to think this trend will reverse itself anytime soon.<sup>29</sup> The proportion of new graduates working part-time and not seeking full-time work has steadily increased in recent years.<sup>30</sup> Only one in five graduates working part-time would prefer longer hours.<sup>31</sup>

<sup>28</sup> ABS (2015d)

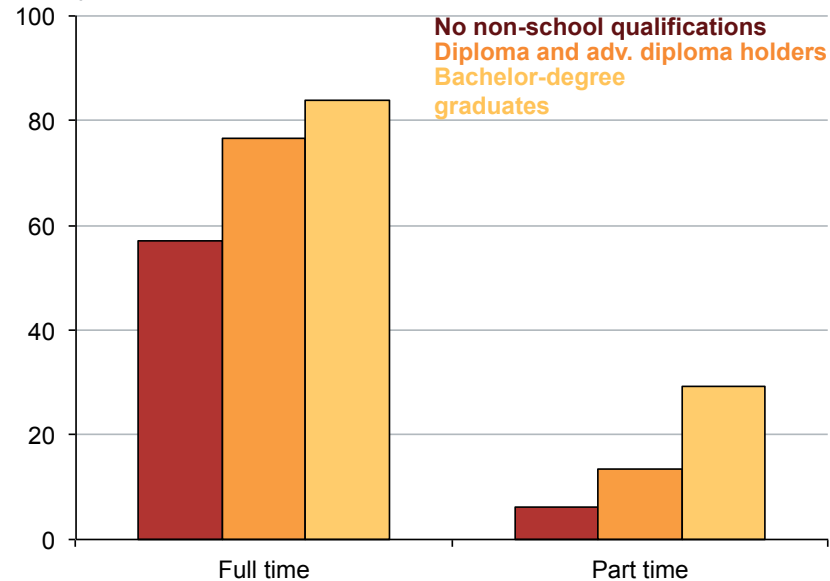
<sup>29</sup> Part-time work rates in the general workforce are also increasing across all age groups: Borland (2016), chart 6

<sup>30</sup> GCA (2015e); GCA (2015d)

<sup>31</sup> In May 2015, 11 per cent usually worked part-time but preferred full-time work, and 10 per cent preferred more part-time hours: ABS (2016d)

**Figure 7: Most people who work part-time earn less than the initial HELP threshold**

Proportion of employees aged 20-64 earning the 2014 threshold or more; per cent

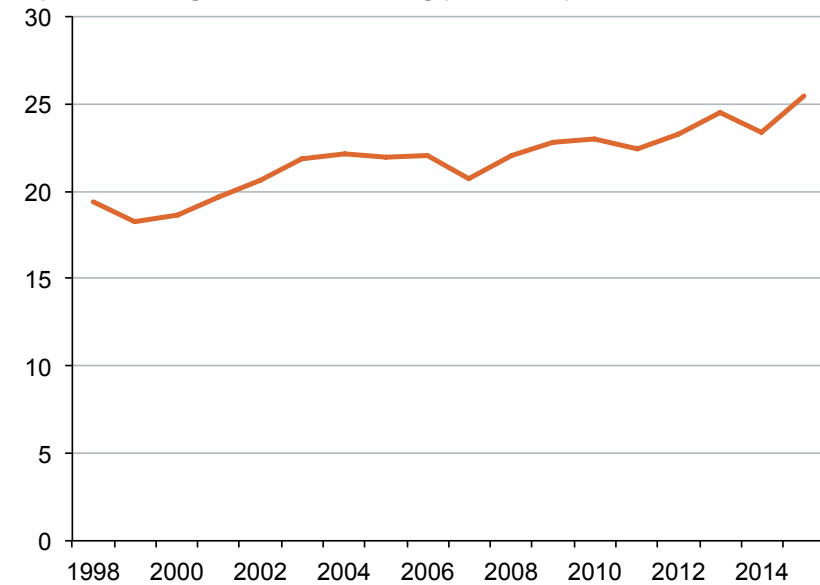


Note: Includes all employee earnings.

Source: ABS (2015e)

**Figure 8: A growing share of graduates works part-time**

Proportion of degree holders working part-time; per cent



Notes: Shows people working part-time as a proportion of those working. The lower proportions in 2007 and 2014 may partly be due to decreases in the number of women in those surveys. These are likely to be issues with the surveys as they do not appear in subsequent years.

Sources: ABS (various years); ABS (2015d); (2016d)

Women's full-time work rates start declining at age 27, and part-time work rates start increasing (Figure 9). Family responsibilities are the major cause, although full-time work rates also decline for women without children.<sup>32</sup> The interaction of taxation, withdrawal of government benefits and childcare costs produce significant disincentives for many Australian women with children, including graduates, to increase their hours of paid work.<sup>33</sup> Aside from other problems this creates, relatively short hours of paid work affect HELP repayments.

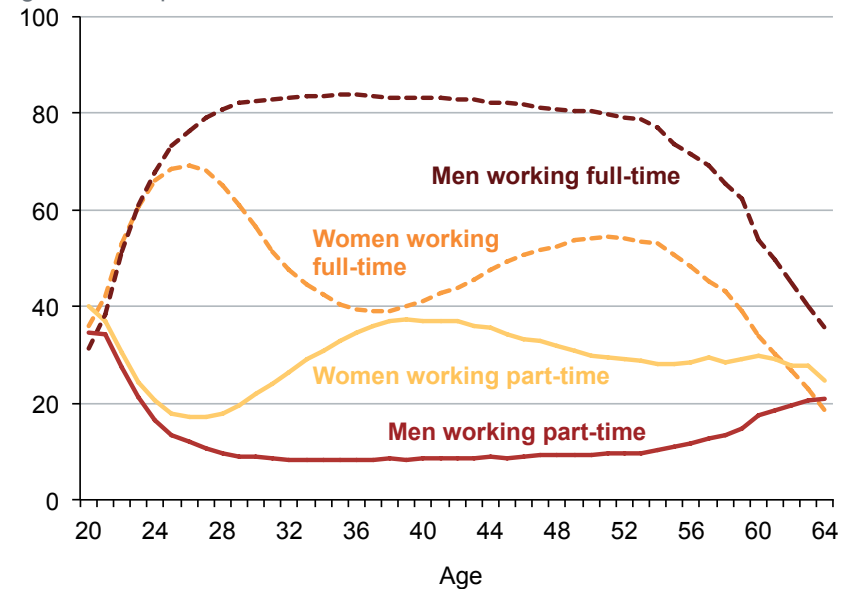
While a significant proportion of women with higher education qualifications return to full-time work in their forties, overall levels remain well below their mid-twenties peak. For women with diplomas the pattern is similar, with a lower proportion in full-time work. The figure is about 10 percentage points less than female graduates in their mid-twenties, and a few percentage points at most other times.

Male full-time work levels, by contrast, increase into their early thirties, stabilise at around 83 per cent by their early thirties, and remain there until slowly declining from their early forties. For male diploma holders, the pattern is similar, although with lower absolute levels of full-time employment.

Since most male graduates work full-time for decades, with few interruptions, their HELP repayment prospects are typically good. But only a minority of female graduates have lengthy continuous or near-continuous earnings above the repayment threshold. Figure 10 shows graduate earning histories over a fourteen-year period for people aged 25 to 40 in 2001. The share of female

graduates earning the threshold amount or more for twelve or more years was 42 per cent, half the share of men. Women were much more likely than men to persistently earn too little to repay HELP debt. Fourteen per cent of female graduates, but only 2 per cent of men, earned enough to repay in two or fewer of fourteen years. If they had a HELP debt, they would have made little or no progress towards repaying it.

**Figure 9: Women are much more likely than men to work part-time**  
Proportion of female and male graduates in full- and part-time work by age in 2011; per cent



Source: ABS (2012)

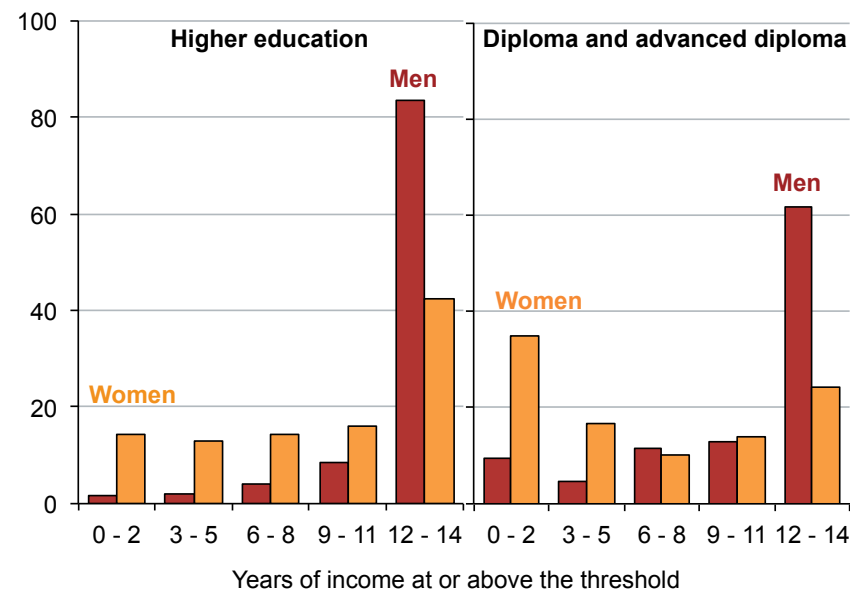
<sup>32</sup> Norton and Cherastiditham (2014), p. 18

<sup>33</sup> Daley (2012), chapter 4; Productivity Commission (2014), appendix E

Figure 10 again highlights the current HELP threshold's mismatch with the diploma market. While the data predates VET FEE-HELP, it shows that more than a third of female diploma holders, and nearly 10 per cent of men, earned less than the threshold for a prolonged period of time.

**Figure 10: Men are much more likely than women to continuously have incomes above the HELP threshold**

Share of women and men aged 25-40 in 2001-2014 by qualification; per cent



Notes: Includes graduates aged 25-40 years with and without HELP debt in 2001, Australian citizens only.

Source: HILDA (2015)

Women's repayment rates are critical to HELP's finances. By 2014, women made up nearly 60 per cent of all domestic students completing degrees, up from 57 per cent in 2001.<sup>34</sup> For VET FEE-HELP, nearly two-thirds of borrowers are women.<sup>35</sup>

Larger questions about women and paid work are outside this report's scope. Policy, social and economic changes may see full-time work rates for women increase in future, lessening the problem discussed in this report. But in the medium term, the six to ten years after graduation are an important HELP repayment period. Debt left unpaid on leaving full-time work in someone's late twenties or early thirties may never be repaid, or not repaid for a long time.

Part-time work will always exempt a significant number of people from repaying HELP. But a lower threshold would ensure that more part-time workers repay. The next two chapters explore how HELP thresholds should be set.

<sup>34</sup> Department of Education and Training (2016d)

<sup>35</sup> Department of Education and Training (2015b)



## 4 HELP thresholds and risk management

Under the current initial HELP threshold, increasing proportions of borrowers are unlikely to ever fully repay their debt. Some non-repayment, however, is an expected feature of income contingent loans, which are intended to take some financial risk away from students. This chapter explores HELP's role in financial risk management.

### 4.1 HELP's goals and principles

Governments in all developed countries financially support higher education. The reasons for doing so vary, but one is to increase higher education enrolments. Otherwise, potential private and public benefits of higher education might be lost.<sup>36</sup> One obstacle to higher education enrolment is the financial risks students face.

The architect of HECS, Professor Bruce Chapman, notes several risks that could influence the decisions of prospective students.<sup>37</sup> Not everyone who starts a course finishes it; a nine-year study has found that 22 per cent of students leave university without a degree. Risks vary with school results, from minor for high-ATAR students to significant for low-ATAR students.<sup>38</sup> While graduates tend to do well in the labour market, there are no guarantees. Employment prospects fluctuate, especially for newer graduates. Particular courses sometimes suffer dramatic declines in new

graduate employment.<sup>39</sup> Even in good labour markets, not all graduates find suitable employment.

Education risks also deter commercial lenders. Because education loans don't have collateral that can be sold, loan repayment depends on a student's future earnings prospects. Only some courses are reliably financially rewarding.<sup>40</sup> As a result, banks are reluctant education lenders, and charge high interest rates when they do.

Governments respond to student and investor risk with their own grants and loans for higher education. HELP finances more higher education than a commercial market alone would deliver. HELP also finances more education than government funding alone would support. In other words, by using loans governments can spread their limited funds over more students.<sup>41</sup> With both grants and loans, the risk that higher education will not pay off is partially transferred from students (and their parents, when they pay) to taxpayers.

Some student loans remove lending obstacles but do not provide debtors with strong risk protection. In the United States and some other countries, governments support mortgage-style loans for

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<sup>36</sup> These benefits are discussed in Norton (2012).

<sup>37</sup> Chapman (2006), p. 21

<sup>38</sup> Only 4 per cent of 95 plus ATAR students had not left without a degree after 9 years. However, 38 per cent of students with ATARs of 50-59 had left without a degree: Department of Education and Training (2015e)

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<sup>39</sup> GCA (2015e)

<sup>40</sup> Norton and Cherastidtham (2014), p. 13-15

<sup>41</sup> HECS was used to expand higher education enrolments in the late 1980s and early 1990s: Dawkins (1988); James, *et al.* (2013). FEE-HELP has been important to expanding postgraduate student numbers, and to enrolments in the non-university higher education sector: Norton and Cherastidtham (2015), chapter 5

higher education.<sup>42</sup> Debtors have repayment schedules that are not linked to their income. When debtors cannot pay they default, creating a negative credit record. About 12 per cent of US student loan debtors whose repayment period began in 2012-13 had defaulted by September 2015.<sup>43</sup> For those who do not default, repayments can take a large percentage of their income.

Concern about student debt and default led the US to create income-based repayment schemes.<sup>44</sup> About 20 per cent of borrowers use one of these schemes.<sup>45</sup> Yet enrolling students cannot take out an income-based loan, which are only people with mortgage-style loans who cannot afford the repayment schedule. Under income-based loans, monthly repayments are still fixed because they are based on the previous year's income. There are complicated processes for staying in the scheme and adjusting payments.<sup>46</sup> For people with irregular income, US income-based loans do not remove financial hardship risks.

## 4.2 HELP and student risks

Compared to the US loan system, HELP's income contingency greatly reduces student risks. The initial repayment threshold places the risk of low debtor income on the government. People earning less than the initial threshold cannot default, as they are not liable to repay. Because HELP loans are taken out at enrolment, unlike in the US debtors with financial difficulties do not need to apply for a new repayment plan. If the income of

HELP debtors in the PAYG tax system drops, so will their HELP repayments.<sup>47</sup>

While debtors with income below the initial threshold are protected, those earning more than the threshold can fall behind in their HELP repayments. Yet compared to the US system, this is relatively rare. Since employers deduct repayments from salaries, it is harder for debtors to mismanage their finances.<sup>48</sup> Unlike in the US, in Australia student debt repayment delays do not directly affect a debtor's credit record. However, debts to the ATO can cause other serious financial difficulties.

At least in early career, the initial HELP threshold protects people whose income is lower than they might have hoped. It exempts most people who leave university without a qualification from repayment. Up to the age of 25, and two to five years after leaving university without a degree, their median income sits in the \$40,000 to \$45,000 range.<sup>49</sup> As chapter 3 shows, an increasing proportion of first full-time jobs for graduates pay less than the initial threshold, as do most part-time jobs.

While it benefits some HELP debtors, a high initial threshold is not essential to attract people to university. Higher education does not always leave students financially better off, but the risks from *not* pursuing higher education are greater. The idea that higher

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<sup>42</sup> Chapman (2014), p. 15-17

<sup>43</sup> US Department of Education (2015)

<sup>44</sup> US Department of Education (2016b)

<sup>45</sup> US Department of Education (2016a)

<sup>46</sup> Dynarski (2016)

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<sup>47</sup> Although irregular hours and multiple employers could still create complications for some debtors.

<sup>48</sup> Some self-employed debtors and debtors who have multiple sources of income may end up owing the ATO more in repayments than they have if they are not part of the PAYG system or if the withholding amount under the PAYG system is below required repayment calculated based on income from all sources.

<sup>49</sup> NCVER (2014)

education holds more financial dangers than its alternatives is, for most potential students, a relic of an earlier era. Changes in the labour market limit the financially safe alternatives to higher education. Over the last 20 years, professional jobs have been the fastest growing occupations in the labour market.<sup>50</sup> Regulation, professional admission requirements, or common employer practices limit many of these jobs to graduates. Unemployment is always relatively low for graduates, although not all are in high-skill jobs.<sup>51</sup>

Other countries with income contingent loans have lower thresholds and therefore absorb less risk than HELP. In England, the initial threshold for student loan repayment is £17,335 (A\$35,400) for pre-September 2012 borrowers and £21,000 (\$A42,300) for later borrowers.<sup>52</sup> Demand still exceeds supply for university places.<sup>53</sup> In New Zealand, the threshold is NZ\$19,084, or about \$A17,900.<sup>54</sup> Tertiary education participation rates are slightly declining there, but the government puts this down to deliberate enrolment reductions in some courses and a strong local labour market.<sup>55</sup> Australia's experience in 1997 with slashing the threshold to the equivalent of \$33,500 now – below the current minimum wage – probably reduced applications from prospective

mature-age students, although a simultaneous increase in student charges may also have been a factor.<sup>56</sup>

At the current threshold, demand for HELP loans is very high, as Figure 2 (page 10) shows. It is too high for vocational education, because it produces large numbers of unsuitable students who never complete their qualifications. In higher education, with better completion rates and non-vocational goals, it is harder to say that demand is too high. But overall student numbers are greater than necessary to meet likely labour market demand. Only a small number of professional occupations report skills shortages.<sup>57</sup> For only one of these is demand for undergraduate places a factor.<sup>58</sup> Although graduate unemployment is low, nearly 30 per cent of graduates work in jobs that do not typically require degrees.<sup>59</sup>

### 4.3 HELP compared to other forms of risk management

If a high initial repayment threshold is not needed to maintain enrolments at desired levels, it seems incongruous among other forms of government income protection. Compared to the HELP threshold, the minimum wage is \$20,000 less a year (Figure 11). Similarly, the income for a low income health care card is at least \$19,000 less the HELP threshold. People on Newstart

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<sup>50</sup> ABS (2015c)

<sup>51</sup> In 2015, the graduate unemployment rate was 3.4 per cent, compared to 9.5 per cent for those with no post-school education: ABS (2015b), table 9. See also footnote 59.

<sup>52</sup> Student Loans Company (2015a)

<sup>53</sup> UCAS (2015), p. 51

<sup>54</sup> Inland Revenue (2015)

<sup>55</sup> Ministry of Education (NZ) (2015), p. 8-9

<sup>56</sup> See the discussion in Norton and Cherastiditham (2014), p. 25-26. At the time, the total number of university places was capped, and demand for them still exceeded supply: Norton (2016)

<sup>57</sup> Six in 2015, in health and surveying: Department of Employment (2016)

<sup>58</sup> Surveying, see Kemp and Norton (2014), p. 25

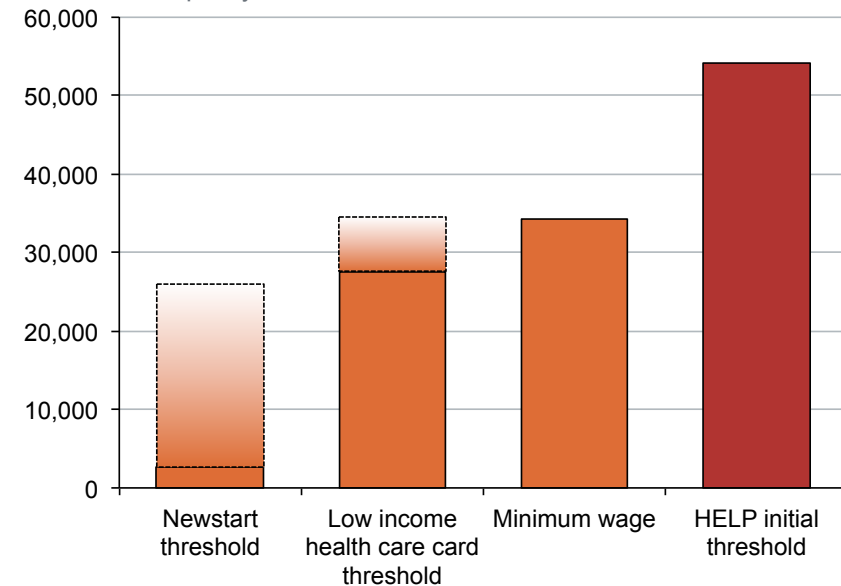
<sup>59</sup> Looking only at people in work, the share aged 15 to 64 years with professional and managerial jobs declined from 73.7 per cent in 2008 to 70.5 per cent in 2015: calculated from ABS (2015d) and ABS (2008) The share of all graduates in these occupations has declined from 62.6 per cent to 59.5 per cent.

unemployment benefit can earn \$28,000 less before losing their eligibility.<sup>60</sup> An independently produced poverty line is \$27,000 less than the HELP threshold.<sup>61</sup> HELP debtors are treated very generously by the standards of other government income protection schemes for working age adults.

In practice, HELP protects against a risk other than financial hardship as generally understood. It insures against the risk of having to repay education debt despite not earning more than most other people. The idea that HELP should guarantee private financial benefit before requiring repayment is commonly held. Its origin is probably in the 1988 Wran report, which recommended creating HECS. The report proposed linking the initial threshold with average weekly earnings. It noted that this would put repaying student debtors in the top 37 per cent of all wage and salary earners, and the top 22 per cent of all income earners.<sup>62</sup> No repayment would be necessary unless the HECS debtor's income exceeded that of most wage and salary earners.

**Figure 11: HELP is a generous form of government income protection**

Threshold to qualify; \$2015-16



*Notes: Welfare rates are for a single person. For Newstart, the darker part represents the maximum income before the benefit begins being clawed back. The dotted part represents the maximum amount a person can earn before losing eligibility. For the low income health care card, the darker part represents the income zone that qualifies for getting the card. The dotted part represents the income zone that qualifies for retaining the card.*

*Sources: ATO (2015); Department of Human Services (2015b); Fair Work Commission (2015); Department of Human Services (2016a)*

<sup>60</sup> Department of Human Services (2015a); Department of Human Services (2015b); Fair Work Commission (2015); Department of Human Services (2016a). Allowances include maximum rent assistance and the energy supplement.

<sup>61</sup> Melbourne Institute (2016), for a single person in the workforce, including housing.

<sup>62</sup> Wran (1988), p. 57

While the current initial threshold amount is not a high personal income by full-time work standards, it does help debtors maintain high family living standards. Half the non-repaying HELP debtors who are not full-time students have partners. Unlike many government income support payments, HELP thresholds take no account of partner income. When working part-time, partners can supplement family income without triggering HELP repayment (section 3.1.4). Nearly half of partnered HELP debtors who have personal income below the current threshold live in households with disposable income exceeding \$80,000 a year, including 30 per cent with disposable incomes over \$100,000 a year.<sup>63</sup>

These debtors are not suffering any unfortunate outcome from their higher education studies for which taxpayers should compensate them. They have a partner and many live in reasonable affluence.

If risk management is HELP's core function, fairness considerations suggest that a lower threshold is needed. Students should expect to repay their debts, except when they experience financial hardship. The threshold should not be set with reference to average weekly earnings, but should instead use benchmarks of low income. While some social security benefits are arguably too low, threshold reform should aim for greater alignment among government income protection programs.

Risk management, however, is not the repayment system's only function. The next chapter explores another possible rationale for the threshold.

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<sup>63</sup> HILDA (2015)

## 5 HELP thresholds and living standards

While the initial HELP threshold protects debtors from the risks of financial hardship, the previous chapter shows that it is more generous than needed for that goal. For most graduates, the high threshold helps them maintain more consistent living standards rather than avoid serious hardship. The loan plus the threshold avoids high costs upfront and exempts borrowers from repayments during periods of relatively low income. Repayments are delayed until times of relatively high income.

### 5.1 HELP and smoothing living standards over time

For most students, the problem HELP solves is not low income over their career. On average, graduates earn more than people with other levels of education. Their HELP debts are a small percentage of career income.<sup>64</sup> Although doubtful debt is a significant issue, a large majority of higher education borrowers will eventually repay. The problem HELP solves is cash flow, through the original loan and the way it is paid back.

Education is best completed when young, so its benefits can be enjoyed through life, but young people often lack the money to pay upfront. Like other student loan schemes, HELP shifts payment to a later time, when income is usually higher, and spreads it over time, to ease its annual effect on living standards.

Where HELP differs from other loans is the way it is paid back. Income contingent repayment means that the loan scheme does more to even out living standards over time than a mortgage-style loan with a fixed repayment schedule. With income contingent

loans, repayments increase and decrease with income. Low-income debtors usually repay less per year than people in mortgage-style repayment systems, while high-income debtors usually repay more.

This system moves many HELP debtors more quickly towards their long-term standard of living. They can consume more during their early career, since relatively low HELP repayments leave more disposable income than mortgage-style repayments. With income increasing steadily in the years after graduation, a slow start to clearing HELP debt is offset with higher repayments later. People who would rather clear their debt quickly can always make voluntary repayments.

Australian lower-income debtors are more protected by the initial repayment threshold than are their counterparts overseas. An Australian HELP debtor earning \$54,000, just under the initial repayment threshold, repays nothing. English debtors on the equivalent of A\$54,000 would repay \$1000 a year – 9 per cent of their earnings above the threshold – if they borrowed on or after 1 September 2012. In New Zealand, a low threshold equivalent of A\$17,900 combines with a high repayment of 12 per cent of income above the threshold. With New Zealand's repayment system, an Australian earning \$54,000 would repay \$4300. Figure 12 shows how Australian student debtors on lower incomes avoid losing take-home income to student debt repayment, compared to debtors in England and New Zealand.

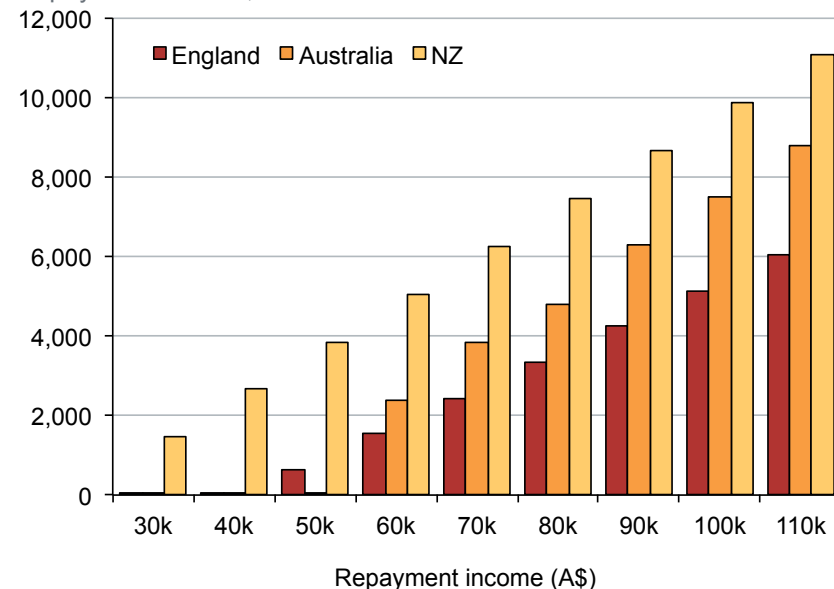
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<sup>64</sup> Norton (2012)



**Figure 12: Australia's HELP scheme is generous to debtors on lower incomes**

Repayment in 2015; A\$ 2015-16



Notes: Based on an English Plan 2 loan for students who enrolled on or after 1 September 2012. Exchange rate conversions as of 4 January 2016.  
Sources: ATO (2015); Inland Revenue (2015); Student Loans Company (2015b); RBA (2016)

While HELP's thresholds are generous to low-income debtors, annual repayments accelerate quickly as debtor income increases. Australian graduates repay a percentage of their entire income, instead of only income above the threshold, as in other countries (see box 1). The share of all income paid progressively increases from 4 to 8 per cent (see chapter 7 for all thresholds). In New Zealand and England it is a flat percentage of income earned above the threshold.

Australian student debtors with annual incomes higher than \$60,000 repay more each year than do their English counterparts, while at any income level New Zealanders pay the most (Figure 12). An Australian student loan debtor on \$100,000 a year repays more than three times as much as one on \$60,000. In New Zealand the repayment amount less than doubles with the same income increase.

### Box 1: HELP's repayment cliffs

HELP is unusual among income contingent loans in requiring repayment based on all income, and not just income above the threshold, as is the case in England and New Zealand.

This system undoubtedly causes problems. Someone with an annual income \$1 below the initial threshold repays nothing, while someone with an income on the threshold repays \$2165 in 2015-16. Smaller repayment cliffs occur with each subsequent threshold. In an income range just above each threshold, earning more reduces disposable income. England and New Zealand avoid this problem: someone on their initial thresholds would repay 9 pence and 12 cents respectively.

Because debtors can lose disposable income when crossing a HELP threshold, some manipulate their income to stay below it. People with control over their hours can work for less time to reduce income. Academic researchers find unusual patterns of deductions around the thresholds.<sup>65</sup> They observe that although deductions may merely delay HELP repayment, the loss of tax income is permanent. They recommend tightening how HELP repayment income is defined (it is already narrower than taxable

<sup>65</sup> Highfield and Warren (2015)

income – for example, negative gearing deductions are not counted for HELP repayment purposes).

Yet HELP's system has benefits, too. Our analysis of HELP borrowers in chapter 3 suggests that, due to part-time work, a significant minority will have long-term personal income near the first threshold. Only repaying on income above the threshold would lead to low repayments for these debtors. For example, an English debtor consistently earning £1,000 above the threshold would repay just £90 a year. They are unlikely to ever clear their debt. Under the Australian system, debtors consistently earning slightly above the threshold eventually repay in full.

## 5.2 Limiting the living standard smoothing aspects of HELP

Designed differently, HELP's high thresholds would not be a major issue. If restricted to higher education students, HELP could be a loan with no subsidies except to a small group of debtors with long-term low household income. A threshold that was well above other income protection programs would reflect likely household earnings, and not significantly jeopardise eventual repayment.

For example, if HELP charged annual real interest, repayment delays would not cause public interest subsidies. If the debtor valued the income smoothing provided by the thresholds they would pay the interest. If they did not, they would speed up clearing their debt by repaying more than the compulsory minimum amount. But real interest on HELP has been proposed several times, and has always proven to be too politically difficult.

If HELP were repaid based on family rather than personal income, many more HELP debtors would make an annual repayment or have one made on their behalf. HELP debt would be repaid much more quickly, and doubtful debt would be significantly reduced. Yet for reasons discussed in section 6.2, this is likely to be administratively complex and politically unacceptable.

Recovery of outstanding debt from deceased estates would also ease HELP's doubtful debt problems. As with family income repayment, this policy recognises that many HELP debtors with incomes below the threshold live in affluent households. Through inheritance, many of their estates will have the capacity to repay. Grattan's 2014 report, *Doubtful debt: the rising cost of student loans*, recommends ending the deceased estate write-off for estates exceeding \$100,000.<sup>66</sup> This policy may be under consideration.<sup>67</sup> This would reduce bad debt over the long term, although it would not significantly increase repayments in the near future.<sup>68</sup>

Narrowing HELP back to higher education students would remove from the program the vocational education debtors at highest risk of not repaying their debts, even with family repayment. A separate loan scheme with lower thresholds for vocational education debtors is possible. Yet two sets of repayment rules, including for debtors who hold both vocational and higher education debt, would create policy and political challenges. Significant numbers of students could end up with both types of

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<sup>66</sup> Norton and Cherastidtham (2014)

<sup>67</sup> Knott (2016)

<sup>68</sup> As most HELP debtors are young, there will be few estates to collect from in the short to medium term.

debt, creating issues of payment priority.<sup>69</sup> Vocational education borrowers could reasonably complain of double standards. Financial hardship is much the same regardless of education level.

But if all these measures were implemented, remaining HELP costs would largely, although not entirely, consist of spending on debtors that HELP should assist: individuals experiencing prolonged periods of low household income. But it is difficult to see such a reform package receiving political support.

In the absence of these measures, the current high thresholds need re-examining. The evidence in chapter 3 suggests they are not fit for purpose. Many VET FEE-HELP debtors will never reach the current initial threshold. For other HELP debtors, income from full-time work does increase rapidly in the years after graduation.<sup>70</sup> But the earnings of many female debtors decline in their late twenties when they leave the workforce or enter part-time work. Their repayments reduce or stop, causing interest subsidies to increase. Some will never repay in full. This is not living standard smoothing; it is a wealth transfer to HELP debtors' families.

High HELP costs take us back to the fairness issues discussed in chapter 4. It is not clear why HELP debtors should be treated so

generously compared to other beneficiaries of government income protection programs. HELP's costs need to be brought down by collecting more debt and shortening repayment times. Chapters 6 and 7 examine proposals to lower all the HELP thresholds.

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<sup>69</sup> Over the 2012 to 2014 period, 12 per cent of government-funded diploma and advanced diploma students already had a higher education qualification: NCVER (2016). Similarly, in 2014 12 per cent of bachelor pass degree commencing students were admitted based on a prior VET qualification: Department of Education and Training (2015g)

<sup>70</sup> The Beyond Graduation survey of graduates three years after completion suggests that salaries for full-time workers increase by about a third in this time: GCA (2015b), p. 13.

## 6 Setting a new initial HELP repayment threshold

The current initial HELP threshold is both delaying and forgoing more repayment than is necessary to achieve the loan scheme's policy objectives. This chapter proposes a new threshold and tests its capacity to increase repayment levels.

### 6.1 A new initial threshold

A new initial threshold must do three things: ensure that more debtors repay, preserve HELP's protections against financial hardship, and present an arguable case for change, given current political constraints. In considering these constraints, we note the Labor Party's previous opposition to reducing the threshold to \$30,000 or \$40,000.<sup>71</sup>

An initial threshold of \$42,000 for 2016-17 would meet these conditions. As the sections below explain, more new graduates, part-time workers, and diploma holders would repay. A \$42,000 threshold exceeds the minimum wage and welfare benefits for working age individuals. It is above the \$40,000 that Labor believes would be too low.

To preserve HELP's role in smoothing living standards for lower-income debtors, this report proposes that all debtors repay 3 per cent of their income at the new initial threshold, instead of 4 per cent at the current one. A person with an annual income at the level of the new threshold would repay \$24 a week. As with the current system, further thresholds should increase the share of

income paid in half-percentage-point increments. This is discussed in the next chapter.

#### 6.1.1 A new initial threshold and first post-university jobs

Section 3.1.2 shows that HELP's initial threshold is growing more quickly than the starting salaries of new graduates in their first job. This is a problem because most female graduates leave full-time work by their early thirties (section 3.1.4). Although some return to full-time work in their mid-forties, many remain in part-time work until retirement. Unless they repay in the first six to ten years of their careers they may never do so, as most part-time jobs pay less than the threshold. Losing a year or two of potential repayments after completing university leaves less time to clear HELP debt.

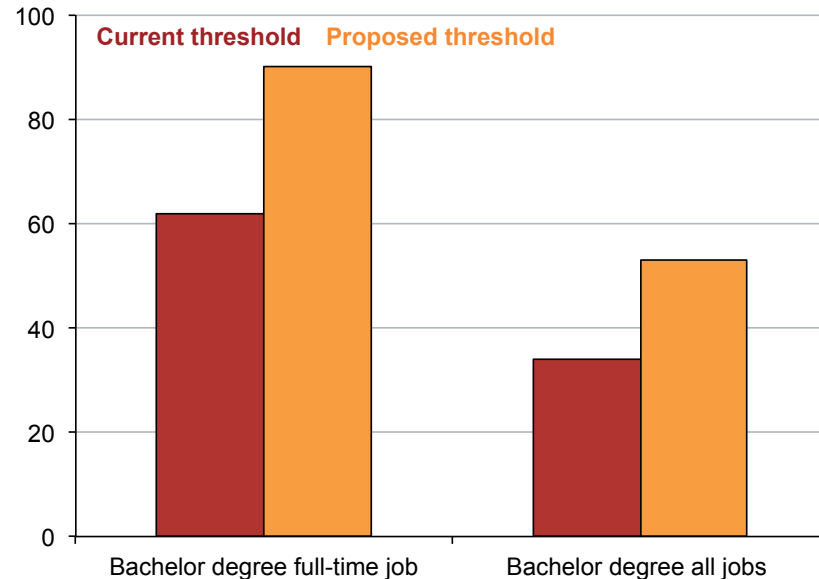
For new graduates working full-time, the proposed threshold would increase the proportion repaying by 28 percentage points, to 90 per cent (Figure 13). At this point in graduates' working lives, however, part-time employment is still common. As a result, the lower threshold still exempts nearly half of working graduates from repayment. HELP would still smooth living standards while graduates seek full-time employment or continue working part-time while studying.

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<sup>71</sup> In the report into private vocational education: Senate Education and Employment References Committee (2015), p. 26

**Figure 13: More new graduates would begin repaying HELP with a lower initial threshold**

Estimated share of working graduates repaying, 2014; per cent



*Notes: Includes all bachelor-degree graduates with a HELP debt and resident in Australia. For full-time workers the income range was set at between \$30,000 and \$150,000 a year to remove cases of implausibly low or high income. The new threshold was set at \$39,326 for 2013-14 to make it comparable to a \$42,000 threshold in 2016-17, assuming average weekly earnings indexation.*

*Source: GCA (2015a)*

The incomes of new postgraduates, unsurprisingly, are much higher than those earned by bachelor degree graduates. Under the current threshold, 83 per cent of new postgraduates working full-time are liable to make a HELP repayment. A \$42,000 threshold would increase the figure to 93 per cent. Repayment

rates for all postgraduates in work would increase from 65 to 77 per cent.<sup>72</sup>

The ATO's data on HELP debtors also suggests that the \$42,000 threshold would bring newer graduates into repayment. If it had been applied in 2013-14, it would have doubled the number of graduates aged under 25 who made a repayment. Three-quarters of the newly repaying debtors would have been aged 34 or less (Figure 14).

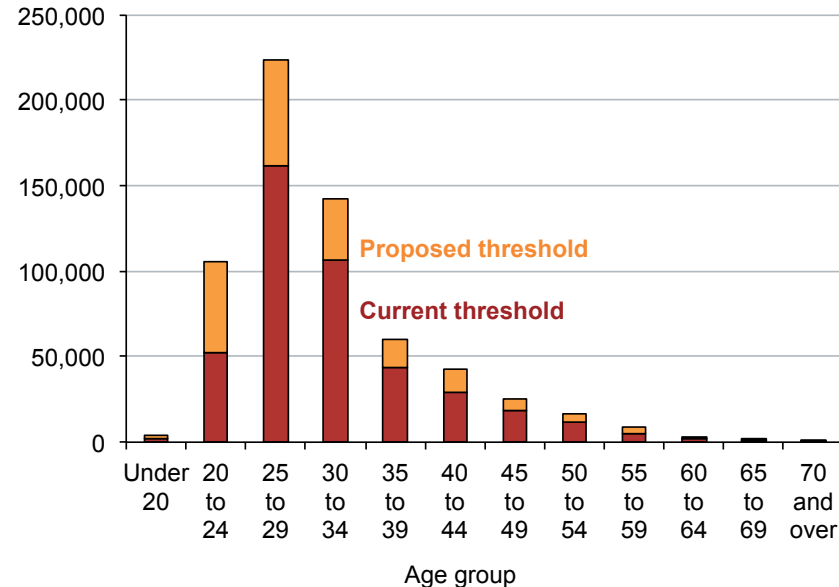
### 6.1.2 A new threshold and diploma holders

A key goal of HELP reform is ensuring that more VET FEE-HELP debtors repay. That will not happen if the threshold is well above the typical incomes of people with diplomas. If VET FEE-HELP borrowers who complete their qualifications have similar earnings to current diploma holders, a \$42,000 threshold would, based on 2014 data, increase the repayment rate for all age groups, as Figure 15 shows. Overall, 13 per cent of existing diploma holders earn incomes between the current and proposed thresholds. Reform would bring the proportion earning enough to repay up to 62 per cent.

<sup>72</sup> See the notes and sources for Figure 13. For postgraduates, the upper income limit of \$150,000 for bachelor-degree graduates was removed, as was the requirement that the student have a HECS debt (as the survey has no question on whether the student borrowed under FEE-HELP).

**Figure 14: The new threshold would bring more young debtors into repayment**

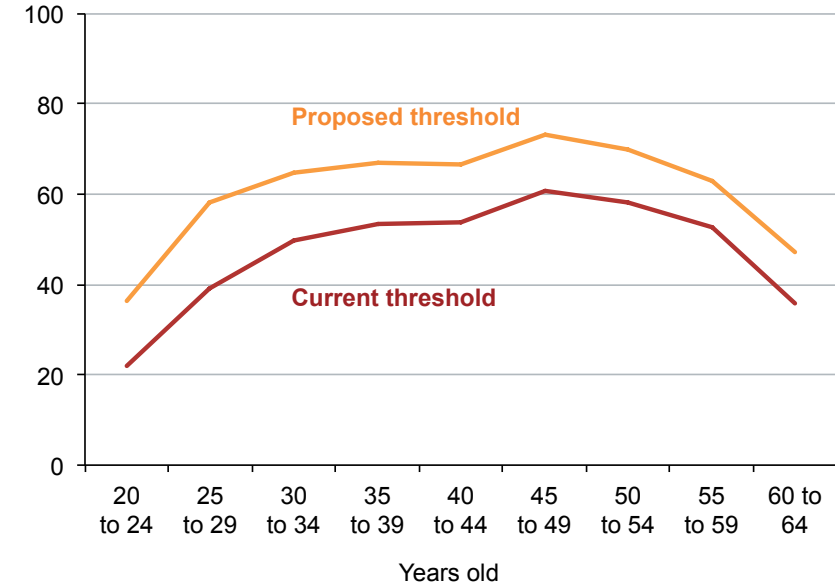
Current and additional repaying HELP debtors in 2013-14



*Note: The data source only reports on HELP debtors who filed a tax return, so it is not a guide to the age of all HELP debtors.*  
*Source: ATO (2016)*

**Figure 15: A lower threshold would improve repayment prospects for diploma holders**

Share of diploma or advanced diploma holders with income at or above the threshold in 2014; per cent



*Note: Includes income from all sources.*  
*Source: ABS (2015e)*

Unfortunately, this does not mean that 62 per cent of VET FEE-HELP borrowers will earn enough to repay (section 3.1.3). The data in Figure 15 only includes people who completed their vocational diplomas, which most VET FEE-HELP borrowers do not. Threshold reform may make students more careful borrowers, but cannot on its own end inappropriate lending. It remains to be seen whether new VET FEE-HELP regulations will refocus lending on students with better repayment prospects.



### 6.1.3 Part-time work and the new threshold

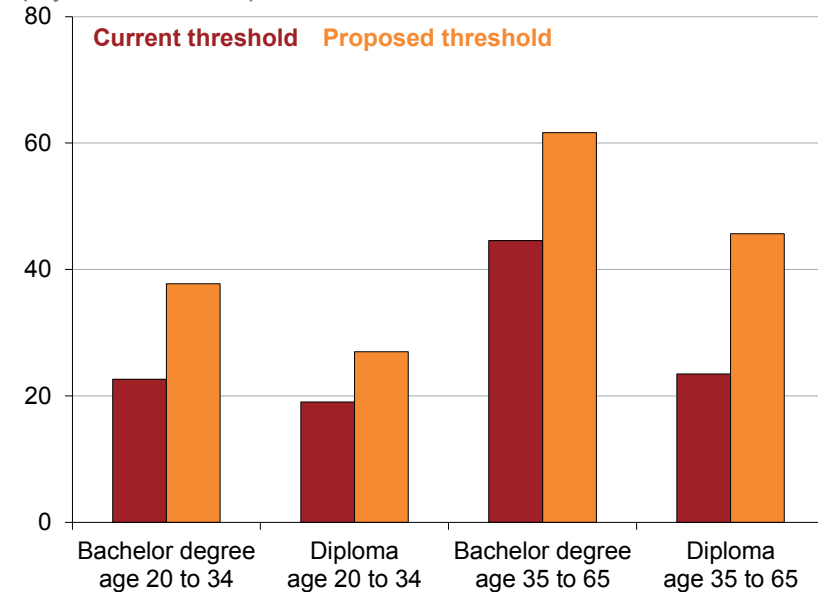
Since part-time employment is common for female graduates, a threshold set at a level that exempts most part-time workers from repayment undermines HELP's finances.

Figure 16 shows that only about one in five female bachelor degree graduates aged between 20 and 34 (the main ages for early career repayment) and working part time earns enough to reach the initial threshold. The proportion is even lower for women with diplomas. A \$42,000 threshold would increase these proportions to 38 and 27 per cent respectively.

Older female graduates and diploma holders working part-time earn more than younger women, putting more of them above the current threshold (Figure 16).<sup>73</sup> With the proposed threshold, the majority holding bachelor degrees would earn enough to make a repayment. For diploma holders, the proportion of women working part-time earning at least the proposed threshold would remain below half. Despite doubling the current threshold's repayment level, the new threshold would still leave VET FEE-HELP with high rates of doubtful debt.

**Figure 16: More part-time workers would make a repayment with a lower threshold**

Share of female graduates working part-time earning enough to make repayments in 2014; per cent



*Notes: As there are too few HELP debtors in the HILDA survey for this analysis, all women with the relevant qualifications have been included. Diploma includes diploma and advanced diploma holders.*

*Source: HILDA (2015)*

<sup>73</sup> This is likely be due to significantly higher rates of professional or managerial employment in the older compared to the younger group (74 per cent compared to 58 per cent) and longer median hours of work (24 hours to 21 hours): HILDA (2015)

In the younger group, the Household, Income and Labour Dynamics in Australia (HILDA) survey has too few women with postgraduate degrees for reliable analysis. In the older group, the estimated proportion with earnings above the proposed threshold is slightly above the bachelor-degree levels shown in Figure 16. The number of men working part-time is low compared to women in both age groups. In the 35 years and above age group, about 70 per cent of male graduates working part-time earn more than the proposed threshold.

One issue with these statistics as a guide to the future is that HELP debtors may respond to a new threshold by working less, because of the repayment cliff issue discussed in box 1, section 5.1. Debtors earning slightly more than \$42,000 pay 3 per cent of all their income, leaving less disposable income than someone earning slightly less than \$42,000, who repays nothing.<sup>74</sup> While a repayment cliff exists with the current threshold too, the proposed threshold primarily affects part-time workers.<sup>75</sup> Often they have more control over their hours and income than full-time workers, and therefore more scope to keep their earnings just below the threshold.

While income manipulation is a problem, for the reasons outlined in box 1, the government should continue to require debtors to pay a percentage of their total income once they cross the

repayment threshold. In New Zealand, debtors repay only a percentage of the income they earn above the threshold, not their total income. The problem with this approach is that, to recover much debt from part-time workers, it requires a low initial threshold and a high repayment rate. Adopting the New Zealand threshold would undermine the broader protections against financial hardship provided by the proposed \$42,000 threshold.

### 6.1.4 Summary of additional HELP repaying debtors

The HELP debtor population is changing. The number of diploma holders and part-time workers is rising. As lower-income earner numbers increase, there will be a higher proportion of debtors earning less than the current threshold than has historically been the case. The latest available ATO data, used in this report, is from 2013-14 and does not capture much of the VET FEE-HELP borrowing boom, which only started its rapid growth phase in 2014.<sup>76</sup>

Nevertheless, the historical data show that a lower threshold would make a significant difference. If a threshold equivalent to \$42,000 in 2016-17 had been in place for the 2013-14 financial year, an additional 201,200 people would have made a repayment, a 47 per cent increase.<sup>77</sup>

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<sup>74</sup> As discussed in section 3.1.4, for some graduates there are also issues with high effective marginal tax rates associated with the withdrawal of means-tested government benefits and added childcare costs. The women included in Figure 16 were working in 2014 despite these factors, but additional HELP repayments exacerbate the issue.

<sup>75</sup> The \$42,000 threshold would reduce the cliff problem around the current threshold. Under the more detailed threshold proposals in chapter 7 earning the current threshold amount would not trigger a major increase in repayment.

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<sup>76</sup> Department of Education and Training (2015b). Due to delays in HELP borrowing being reported to the ATO, 2014 borrowers would not be in the 2013-14 taxation statistics.

<sup>77</sup> Grattan calculations from ATO (2016)

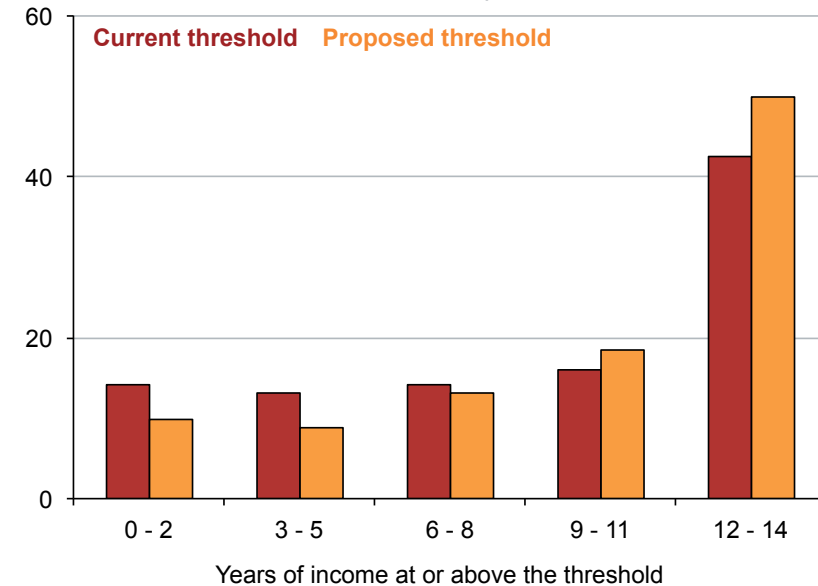
### 6.1.5 Longer-term repayment prospects

The key to HELP repayment is earning an income above the threshold for a sufficient number of years. Figure 10 in section 3.1.4, which tracked a cohort of graduates aged 25-40 for 14 years, shows that a significant minority of female graduates would make little or no progress in repaying their HELP debt. Figure 17 re-analyses their income data with the proposed thresholds (adjusted back in time) since 2001. The proportion with incomes above the threshold for twelve years or more goes from 42 to 50 per cent. Many graduates in that group who had a debt would have repaid it, and the rest would have good prospects of doing so. The proportion of female graduates earning more than the threshold for just a short period drops, and the proportion earning above the threshold for a longer period rises. Yet even with this improvement, nearly one in five female debtors still looks vulnerable to earning below the threshold for a long time.

Figure 18 similarly shows that for VET FEE-HELP the proposed threshold would alleviate, but far from eliminate, doubtful debt. In the period since 2001, more than a third of female diploma holders spent less than six years out of fourteen with incomes above the proposed threshold. As noted before, these are optimistic numbers, based on the minority of people who complete their qualifications. Threshold reform can only be one element of VET FEE-HELP reform.

**Figure 17: More female higher education graduates would earn enough to repay in full with a new initial threshold**

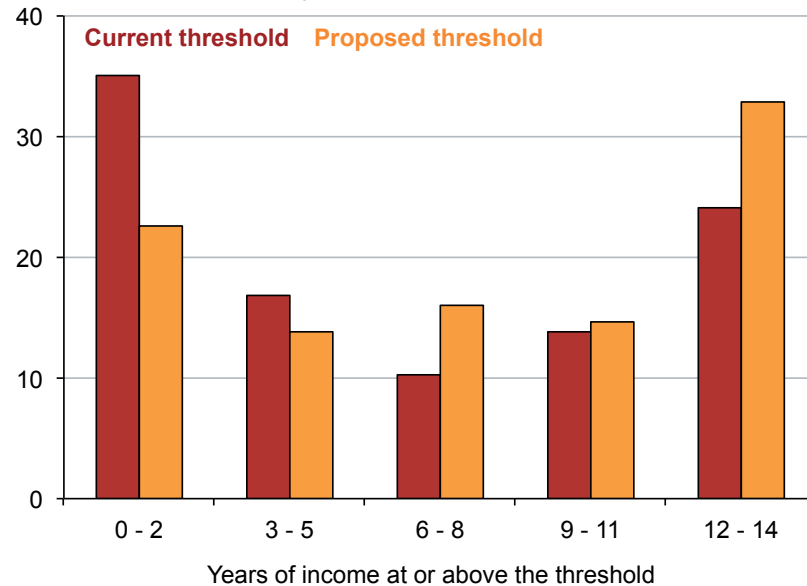
Share of female higher education graduates aged 25-40 by years of income above the threshold, 2001-2014, per cent



Notes: Includes graduates aged 25-40 years in 2001. Australian citizens only.  
Source: HILDA (2015)

**Figure 18: VET FEE-HELP doubtful debt would still be high, despite threshold reform**

Share of female diploma holders aged 25-40 by years of income above the threshold, 2001-2014; per cent



Notes: Includes diploma and advanced diploma holders aged 25-40 years in 2001.  
Australian citizens only.  
Source: HILDA (2015)

## 6.2 The household circumstances of affected HELP debtors

HELP debt is incurred and repaid by individuals. But debtors often live with other people, so repayments affect households as well as individuals. We cannot talk about the impact of additional repayments in isolation from debtors' household circumstances.

Figure 19 looks at the household type of HELP debtors who may be affected by a \$42,000 threshold. Every household in the analysis has at least one HELP debtor with a HELP repayment income below the current threshold but above the proposed threshold.<sup>78</sup> It excludes households where the HELP debtor earns less than \$42,000. They will not make a repayment under either the current or the proposed threshold.

In the population analysed in Figure 19, half of HELP debtors live with a partner. For many of them, their partner's income explains why theirs is below the threshold: they do not need to earn more to maintain high living standards. When debtors live with someone other than a partner it is harder to assume household sharing of resources. But many single debtors, especially those living with their parents, are likely to minimise their expenses by doing so. Fourteen per cent of the people who would start repayment with the proposed threshold live with their parents, including 3 per cent who are full-time students.

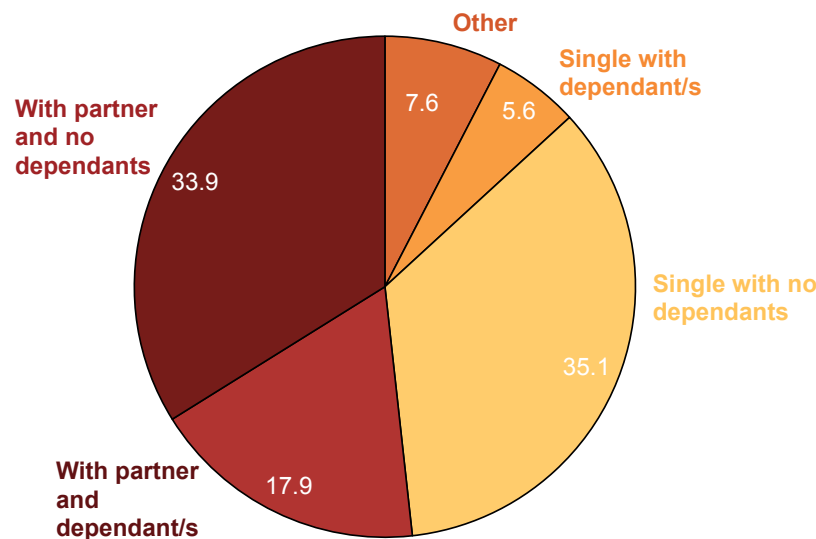
Because the HELP debtors who would be affected by the proposed threshold are often not their household's main source of income, they live in more affluent circumstances than their

<sup>78</sup> HELP repayment income is, with exceptions not important to this discussion, taxable income.

personal income suggests. Figure 20 reports on their disposable household income, which deducts tax from gross income, and adds in non-taxable income. For the families with children in Figure 19, the most common sources of non-taxable income are the family tax benefit and parenting payments. Disposable income measures living standards more accurately than taxable income.

**Figure 19: Half of the HELP debtors affected by the new threshold live with a partner**

Household situation of additional repaying debtors in 2014; per cent



Notes: The data includes 251 observations with 243 distinct households (with 8 partners where both are in the sample). HELP debtors of all ages. Adults living with parent/s and dependent children living with parents are included in 'single with no dependants'. 'Other' also includes debtors living with other family members or unrelated household members. Source: HILDA (2015)

On this disposable income measure, most households with a HELP debtor below the current initial threshold but above the proposed threshold are in a good financial position. More than half have disposable incomes above \$60,000 a year, and nearly 40 per cent have disposable incomes above \$80,000 a year.

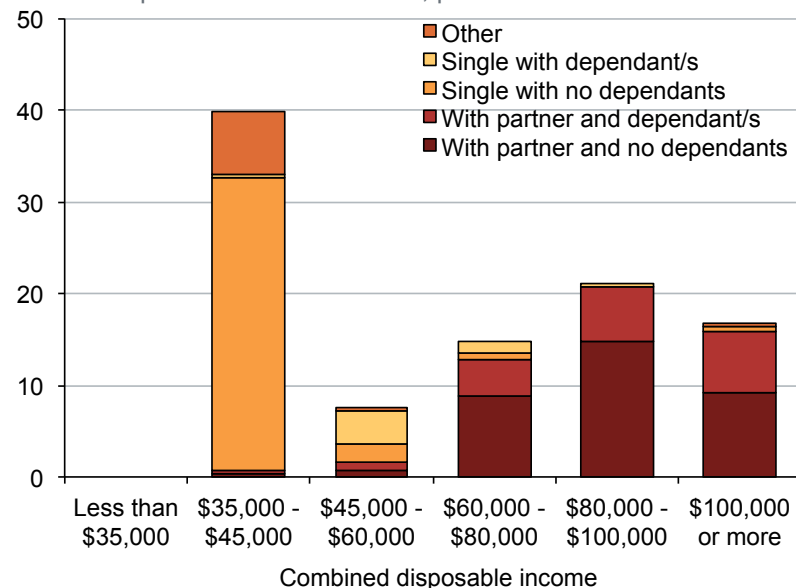
Partnered debtors usually have access to a second income, with 71 per cent living in households with an annual disposable income of \$80,000 or more. A debtor in this category who pays 3 per cent of his or her HELP repayment income will not reduce household income by 3 per cent.

Forty per cent of debtors affected by a \$42,000 threshold end up with disposable incomes between \$35,000 and \$45,000. A debtor earning repayment income of \$42,000 would pay nearly \$5200 in tax and \$1260 in HELP repayment, leaving a disposable income of around \$35,500. As Figure 20 shows, most debtors with lower disposable incomes are singles assumed to derive their living standards from their own income, without non-taxable supplements such as the family tax benefit. Since around a third live with their parents, Figure 20 gives a conservative account of their living standards. The majority of these debtors are under the age of 30. Many would be recent graduates in a transitional phase of their career. Average income growth in the first three years after graduation is more than 30 per cent.<sup>79</sup>

<sup>79</sup> GCA (2015c)

**Figure 20: Household disposable income of below-threshold HELP debtors is often high**

Share of additional repaying debtors by household situation and household disposable income in 2014; per cent



Notes: See notes to Figure 19. Only debtor and partner income is included in combined disposable income. While some households have other adults with incomes, in these cases it is more difficult to know whether there is meaningful sharing of economic resources. \$39,326 in 2014 is equivalent to \$42,000 in 2016-17 assuming average weekly earnings indexation.

Source: HILDA (2015)

Household disposable income shows that the current threshold is not well targeted. If it were reduced to \$42,000, many of the people who would be affected are well-off. A lower threshold would be more fair, not less, and better for the Budget. Family income frees many partnered debtors from a need to work full-time, and contributes to the high rates of women working part-time

discussed in section 3.1.4. Compared to single debtors, who need access to more of their own income to improve their living standards, partnered debtors have weaker financial incentives to work full-time. This increases the risk that their outstanding debt will eventually be written off.

Basing repayment on family rather than personal income is one possible remedy. Many other government income protection schemes use family income tests. HELP thresholds could be adjusted for family size, as eligibility requirements and payments are in other programs. Repayment based on family income could also recover debts from partners on no or very low incomes, if household income was above the threshold.

Yet while partner income already affects entitlements in the Australian social security system, HELP repayment based on family income would be a radical change. Because it is unusual for one person to become liable for another's debts when entering a relationship, the ethics and politics of family HELP liability are complicated. By contrast, the argument that someone who incurs a debt should repay it is straightforward.

Ethics and politics aside, family income HELP repayment would involve great administrative complexity. While the ATO includes a spouse question in the current annual income tax return, repayment based on family income would create an incentive to conceal marital status. At what stage in their relationship would partners be deemed liable for each other's debts? Nearly half of graduates aged in their twenties reporting a live-in relationship in the 2011 census were not legally married.<sup>80</sup> For young people, especially, de facto marriages are not necessarily lasting – more

<sup>80</sup> ABS (2012)

than a third of 18 to 24 year olds and 17 per cent of 25 to 29 year olds who were in de facto relationships between 2005 and 2007 ended it within five years.<sup>81</sup> When finances are disputed in a relationship break-up, should HELP repayments be taken into account?

Family income repayment would also cause issues for employers. Employers deducting HELP repayments from wages and salaries would need family income information to calculate the correct amount, rather than simply using their own payroll data. Inevitably more errors will be made, resulting in unanticipated HELP liabilities after tax returns are submitted.

Instead of using family income, other measures are needed to improve HELP's finances. The lower threshold proposed in this report would bring more HELP debtors into repayment without using family income. Grattan's 2014 report, *Doubtful debt*, recommended recovering HELP from deceased estates, a measure that targets the assets partners usually acquire, even if their personal annual income is below the HELP threshold.<sup>82</sup> This reform should also be implemented.

### 6.3 Other possible thresholds

The proposed \$42,000 threshold is, of course, not the only possibility for changing HELP's initial repayment point. In the 2014 Budget, the government proposed a \$50,638 threshold from 2016-17, with a 2 per cent of income payment.<sup>83</sup> This reform

would improve repayment rates. ATO data from 2013-14 show that substantial numbers of new additional repaying debtors are available with every \$1000 drop in the initial threshold, as Figure 21 shows.

It follows that the government's \$50,638 threshold would bring more debtors into repayment, but the numbers are small compared to a \$42,000 threshold. Based on 2013-14 data, 14 per cent more debtors would repay, less than a third of the increase from a \$42,000 threshold.

In 2015, Tim Higgins and Bruce Chapman modelled various thresholds in a paper investigating the feasibility of a universal tertiary education loan scheme that included vocational education certificates III and IV as well as diplomas. The thresholds included were \$50,000, \$40,000 and \$35,000. The paper showed that creating a \$40,000 threshold would reduce HELP subsidies significantly, but a reduction to \$35,000 would produce only small additional gains.<sup>84</sup> Higgins and Chapman got this result, however, partly because of their repayment rates of 3, 2 and 1.5 per cent at the different threshold levels. The choice of repayment rate is significant, as the next section explains.

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<sup>81</sup> Wilkins (2015), p. 8

<sup>82</sup> Norton and Cherastidtham (2014)

<sup>83</sup> Department of Education (2014b). The Commission of Audit and two academic papers have also proposed lower thresholds: Commission of Audit (2014); Higgins and Chapman (2015); Highfield and Warren (2015)

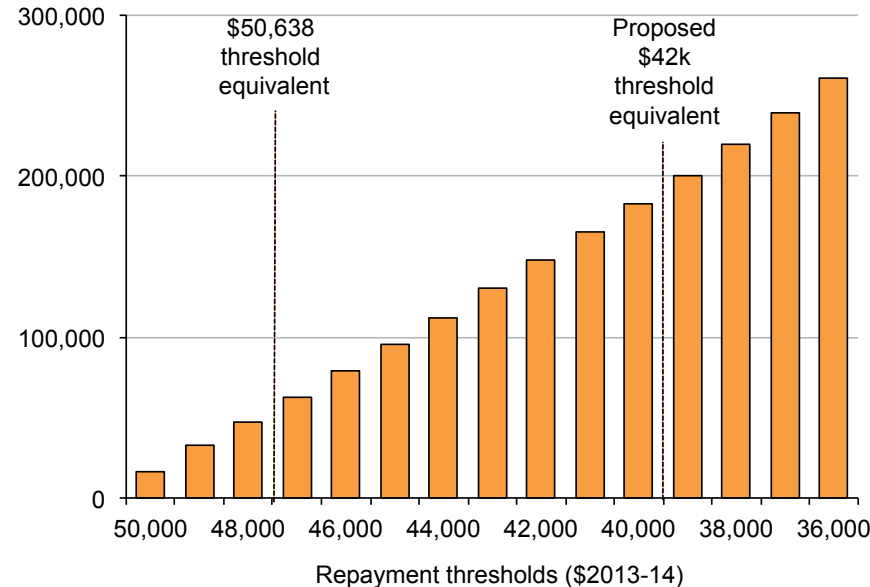
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<sup>84</sup> Higgins and Chapman (2015), p. 45. Their way of presenting the results was significantly different to this report's, in estimating for different qualification levels the proportion of the original loan that will be interest subsidy and doubtful debt.



**Figure 21: The lower the threshold, the larger the number of repaying HELP debtors**

Additional repaying HELP debtors in 2013-14



Notes: Actual repayment threshold categories are \$50,309, \$49,309, etc. With AWE indexation, \$42,000 and \$50,638 in 2016-17 are equivalent to \$39,274 and \$47,352 in 2013-14 respectively. The repayment income calculation excludes exempt foreign income. Outstanding HELP debt is based on the balance as at 30 June 2014.  
Source: ATO (2016)

## 6.4 Repayment rates

There are policy and political reasons for smaller repayment rates at lower thresholds. Under the 2014 Budget proposal for a \$50,638 first threshold, debtors who just meet it would repay about \$1000 – less than half of the initial repayment under the current system. The lower initial repayment would reduce incentives for debtors with income near the threshold to alter their finances to keep their income below it (see box 1 in section 5.1). A lower initial rate is consistent with the living standard smoothing aspects of HELP. And 2 per cent is easier to sell than 4 per cent, given the political obstacles to change.

A low repayment rate has some appeal, but obviously reduces and slows repayment. A person earning the government-proposed threshold of \$50,638 with an initial HELP debt of \$20,000 would take 22 years to repay with a 2 per cent repayment rate, compared to 14 years with a 3 per cent repayment rate, and 11 years with 4 per cent repayment rate. This report's proposal of a 3 per cent rate at a \$42,000 initial threshold balances policy benefits and political risks against the need to increase repayments. Every year added to the repayment period increases HELP interest subsidies and the chance that the debt will never be fully repaid.

The next chapter explains in more detail rates of repayment in our proposal. It preserves the half-percentage point increments of the current system, but changes the thresholds.

## 7 The upper HELP repayment thresholds

In HELP repayment reform the initial threshold is the most controversial, as it affects whether debtors pay at all. But the other thresholds matter for HELP's finances, because they affect the speed of repayment. This chapter outlines proposed changes to these thresholds.

### 7.1 The upper HELP thresholds

Under HELP, repayments increase with income. After starting at 4 per cent of income, thresholds peak at 8 per cent for people earning \$101,900 or more, as Table 1 shows. The increasing rates are part of HELP's role in smoothing living standards: zero or small repayments during periods of low income are offset by greater repayments during periods of relatively high income (chapter 5).

### 7.2 Why the upper HELP thresholds need changing

For men, the thresholds affect repayment timing, but not usually whether full repayment will occur. As section 3.1.4 explains, men have high rates of full-time work and in most years earn more than the current threshold. Anyone earning the initial threshold amount over a career will eventually repay debt on an undergraduate degree.

For women, high rates of part-time work and consequently lower income affect more than whether they meet the initial threshold. They also reduce the chances that they will eventually repay in full. The early years when most female graduates work full-time become particularly important (Figure 9, page 17). Debt that is not repaid by the time women depart full-time work may never be

repaid, or not until full-time work rates temporarily increase in their mid-forties.

**Table 1: HELP threshold increments and rates in 2016-17**

Threshold	Increment	Percentage
\$54,869		4.0%
\$61,120	\$6,251	4.5%
\$67,369	\$6,249	5.0%
\$70,910	\$3,541	5.5%
\$76,223	\$5,313	6.0%
\$82,551	\$6,328	6.5%
\$86,895	\$4,344	7.0%
\$95,627	\$8,732	7.5%
\$101,900	\$6,273	8.0%

*Source: Department of Education and Training (2016b)*

Students using HECS-HELP to finance their student contributions typically incur undergraduate debt of between \$19,000 and \$40,000, depending on their course. It would take ten years on an income just above the threshold to repay \$19,000, and 20 years to repay \$40,000. This is longer than many female graduates have in the first, full-time, phase of their careers. To repay debt in the early years after course completion, they need to make larger annual repayments.

Speeding up repayment depends primarily on recovering more from people with incomes currently in the lower thresholds. In 2013-14, three-quarters of debtors with incomes above the proposed threshold earned \$74,000 a year or less, and half earned \$59,000 or less (Figure 22). These figures reflect the

salaries typically paid to graduates early in their careers. In 2014, the median starting salary for a new bachelor graduate working full-time was \$55,000, and the median salary for a graduate working full time three years after graduation was \$69,000.<sup>85</sup>

The relatively small number of high-income debtors is a by-product of the progressive repayment system. By the time graduates reach higher salaries, such as \$100,000 a year or more, much debt will usually already have been repaid, and payments of at least \$8000 a year will quickly clear whatever remains. Having repaid in full, they leave the debtor statistics. Increased repayment rates on lower incomes will do most to reduce the risk of bad debt.

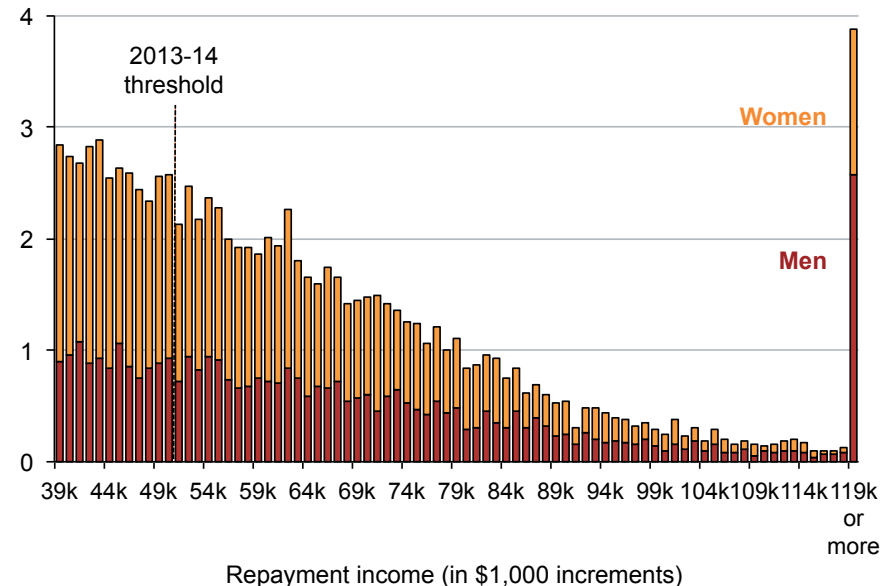
### 7.3 Setting new upper thresholds

Currently, the income increments between the thresholds bounce around with no apparent logic, from less than \$4000 to nearly \$9000 (Table 1). The larger increments tend to occur at the lower income ranges where we find most HELP debtors (Figure 22). Smaller increments, so that debtors move more quickly between the repayment rates as their incomes increase, would speed the clearing of debt.

<sup>85</sup> GCA (2015a); GCA (2015b). This is a higher bachelor-degree starting salary than reported earlier, as it includes all graduates, not just those aged under 25.

**Figure 22: A large proportion of HELP debtors have income between the proposed threshold and the current initial threshold**

Per cent of HELP debtors with income at or above the proposed threshold in income bands, 2013-14



Notes: Bottom of every fifth income band is shown. Actual income categories are \$39,274, \$44,274 etc. \$39,274 in 2013-14 is equivalent to \$42,000 in 2016-17 with AWE indexation. Source: ATO (2016)

Increments could be set as flat dollar amounts between each increment (such as \$4000), or as a consistent percentage of the previous threshold (such as 8 per cent). The percentage method produces smaller increments at lower incomes, where we find most debtors. By ensuring debtors move more quickly into higher repayment rates, the percentage method would minimise debt left outstanding by those who leave full-time work for an extended period or permanently.

Table 2 compares the projected 2016-17 thresholds, and the recommended new base of \$42,000 with 10 further increments and each threshold 8 per cent more than the one before it.

**Table 2: New thresholds to increase HELP repayment speed 2016-17**

Per cent of income	Current threshold	Proposed threshold
3.0%		\$42,000
3.5%		\$45,360
4.0%	\$54,869	\$48,988
4.5%	\$61,120	\$52,907
5.0%	\$67,369	\$57,139
5.5%	\$70,910	\$61,710
6.0%	\$76,223	\$66,646
6.5%	\$82,551	\$71,977
7.0%	\$86,895	\$77,735
7.5%	\$95,627	\$83,953
8.0%	\$101,900	\$90,669

*Notes: Grattan analysis in this report using HILDA, GCA or ABS data was completed before the 2016-17 HELP thresholds were released. Our analysis is therefore based on the estimated 2016-17 threshold, which is 0.14 per cent less than the actual 2016-17 threshold. The average difference is around \$100.*

*Source: Department of Education and Training (2016b)*

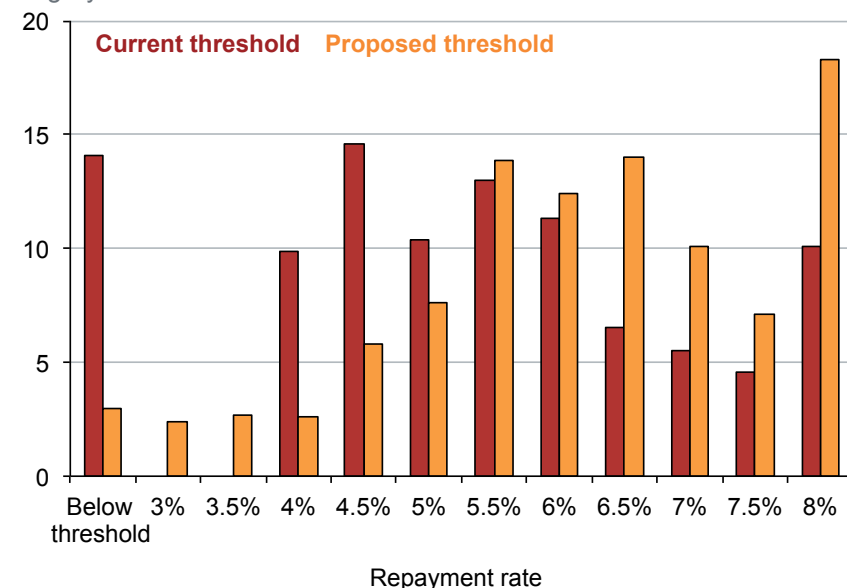
## 7.4 Effects of the new upper thresholds

One of HELP's major doubtful debt risks is women leaving full-time work before repaying. To minimise this cost, the upper thresholds need to increase repayments by early career women. Figure 23 looks at female borrowers who are working full-time three years out from completing a bachelor degree. Under the current initial threshold, 14 per cent are not repaying. Consistent with the analysis in section 6.1.1, the proposed threshold would

reduce this proportion to only 3 per cent. The current cluster of debtors repaying 4 to 6 per cent of their income shifts upwards, so that most debtors pay between 5.5 and 8 per cent of their income in repayment.

**Figure 23: The new thresholds bring early career female debtors into higher rates of repayment**

Per cent of female HELP debtors working full-time in each repayment category in 2014



*Notes: Uses actual repayment thresholds for 2013-14 and proposed thresholds for 2016-17 backdated to 2013-14 using AWE indexation. Only includes people who reported taking out a HELP loan, resident in Australia at the time of the survey, who self-report full-time work status and work 30 or more hours a week.*

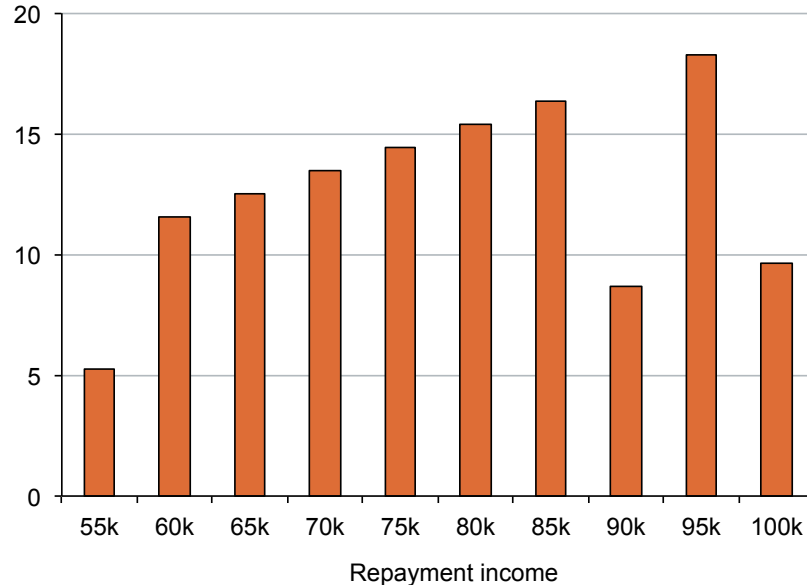
*Source: GCA (2015c)*

For most debtors earning above the initial current threshold, the new threshold's financial effects would not be dramatic (Figure

24). At common debtor income levels, weekly repayment increases would be less than \$15, and sometimes less than \$10. While extra repayments are modest on a weekly basis, if applied consistently over an eight to ten year period fewer graduates would still have debt when they leave the full-time workforce. As a result, there would be fewer issues with a later return to work triggering HELP repayments that leave families worse off (section 6.1.3)

**Figure 24: The weekly repayment increases from changing the upper thresholds are moderate**

Additional weekly repayment by repayment income; \$2016-17



Source: Calculations based on the thresholds in Table 2

Although the extra repayment is not large per person, the change would apply to a large group of debtors. An analysis of the 2013-14 debtor population shows that adjusting thresholds above the current initial threshold would have increased total HELP repayments by 10 per cent.<sup>86</sup>

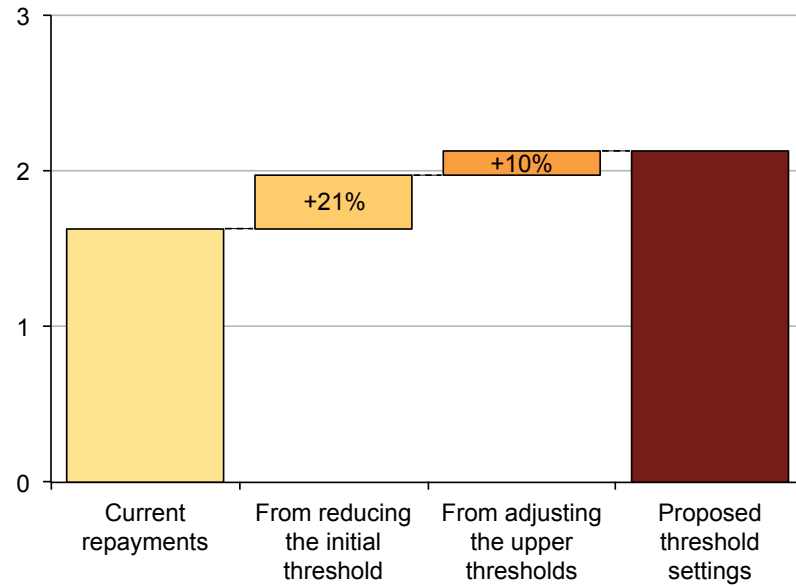
Although reducing the initial threshold affects fewer people than would adjusting the upper thresholds, all of these people would otherwise repay nothing. Two-thirds of the total gains from threshold reform come from adding thresholds and new rates below the current threshold (see Table 2). If the reform had been implemented in 2013-14, the lower initial threshold would have increased total repayment revenue by 21 per cent (Figure 25). As noted in section 6.1.4, this is a conservative estimate, as growth in VET FEE-HELP and part-time work among graduates is likely to increase the number of debtors with incomes below the current threshold.

To ensure that the new thresholds have lasting effects, the way they are indexed also needs to change. The next chapter considers this reform.

<sup>86</sup> ATO (2016)

**Figure 25: The proposed threshold reforms would increase repayment revenue by nearly a third**

HELP repayments; \$2013-14 billion



*Notes: Reducing the initial threshold and creating increments that are 8 per cent higher than those before them introduces 4 new thresholds below the current threshold: \$39,274 charging 3%, \$42,415 at 3.5%, \$45,808 at 4% and \$49,472 at 4.5% repayment rate in 2013-14 dollars.*

*Source: ATO (2016)*

## 8 Indexing the thresholds

Over time, the thresholds at which HELP debtors repay have gone up in real terms. They are indexed to average weekly earnings (AWE), which usually increases by more than consumer price inflation. This chapter proposes replacing AWE with CPI for indexation.

### 8.1 The effects of average weekly earnings indexation

AWE and HELP have a long history. The Wran report that led to HECS recommended using average weekly earnings to set the initial threshold. While this did not happen, annual increases in average weekly earnings are used to index all thresholds. Average wages typically go up each year by more than inflation.<sup>87</sup>

Figure 26 shows the 2015-16 thresholds, compared to what they would have been if indexed to movements in consumer prices since 2004.<sup>88</sup> Using average weekly earnings, the thresholds are 17 per cent higher than they would have been if indexed to CPI. As a result, HELP debtors can now enjoy significantly higher living standards before repaying, or before moving up to the next threshold, than they could in 2004-05. For the government, the indexation system exacerbates the repayment issues described in chapter 3. With CPI indexation, more HELP debtors would have reached the initial threshold, and moved more quickly into the higher thresholds. The current indexation system extends

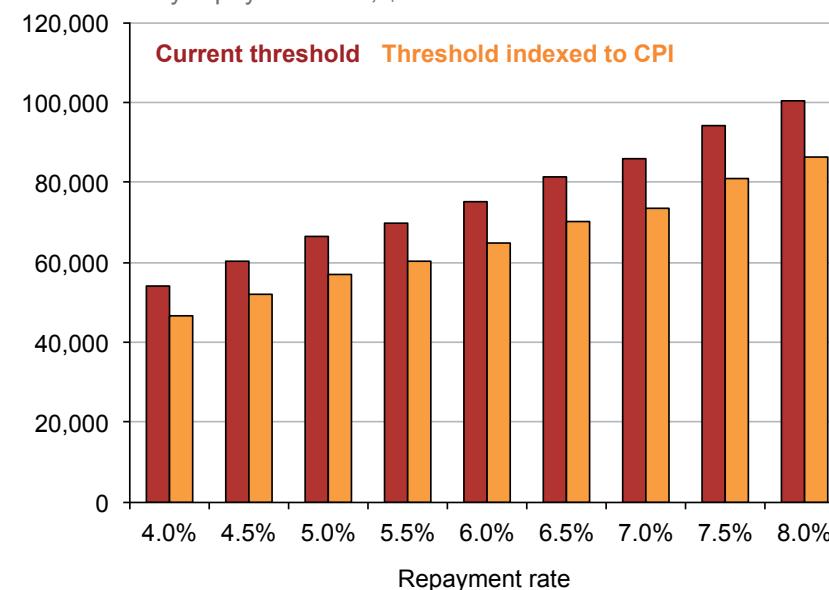
<sup>87</sup> In the last two years, average weekly earnings growth has been slower than CPI. But this does not represent the historical trend.

<sup>88</sup> 2004 chosen because 2004-05 was the first year of the current threshold system.

repayment times, adding to interest costs and increasing the risk of bad debt.

**Figure 26: The HELP thresholds have increased in real terms due to wage indexation**

Actual 2015-16 threshold and the threshold if it been indexed to CPI since 2004 by repayment rate; \$



Sources: Appendix A: Historical HECS and HELP thresholds; ABS (2016a)

### 8.2 Problems with earnings indexation

Indexing thresholds to earnings implies that HELP debtors ought to maintain not just their living standards compared to previous



years, but also their relative position in the community. If workers improve their living standards through higher wages, the HELP thresholds adjust, stopping some debtors from moving into a higher repayment category. While this is not AWE indexation's explicit goal, it is its effect. But is it justified?

Chapters 4 and 5 argue that it is not. HELP should protect against financial hardship and smooth living standards for people who study or have studied, but it should not be significantly more generous than other government programs. Thresholds for other government benefits generally move with consumer prices; in 2014 the government tried unsuccessfully to freeze them for three years.<sup>89</sup> HELP debtors should not be exempt from indexation policies that generally affect more vulnerable Australians.

Thresholds should, in future, be indexed to movements in the consumer price index. That would maintain their real value for HELP debtors, while treating debtors more fairly and consistently compared to other beneficiaries of government income protection. This reform would also avoid future HELP repayments being eroded by threshold inflation.

### Box 2: Choice of wage indexation

Average weekly earnings is one of two Australian Bureau of Statistics measures of wage movements used in higher education policy. Another measure, the wage price index, helps adjust the grants received by universities and the student contributions paid by students.<sup>90</sup>

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<sup>89</sup> Klapdor (2014)

<sup>90</sup> Grant and student contribution indexation is based on a formula that is weighted 25 per cent for movements in the consumer price index and 75 per

The wage price index measures wage inflation – how much more is paid for the same job, with no changes in quality or hours worked. Average weekly earnings measures wage inflation plus changes in jobs, experience levels, and hours.

Average weekly earnings is influenced by change in occupations. Since 1996 the share of all workers with professional occupations has gone up by 6 percentage points, while lower-skill clerical, manufacturing, labouring and sales occupations have decreased their share of total employment. As professionals usually earn more than these less-skilled occupations, their higher wages are pushing up the average.<sup>91</sup>

Average weekly earnings is also affected by workforce ageing, and so incorporates a wage premium for experience. Since 1996 the share of all workers aged less than 34 has decreased by 4 percentage points.<sup>92</sup> Over the same time period, however an increasing share of all employees works part-time – up from 25 per cent in 1996 to 31 per cent in 2015.<sup>93</sup> On average, part-time jobs pay less than full-time jobs.

The net effect of these trends is that since the last reform of the initial threshold, in 2004, the wage price index has increased by 46 per cent and average weekly earnings by 52 per cent.<sup>94</sup>

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cent for movements in wage price index for professional, scientific and technical service industry employees. The wage price index is discounted by 10 per cent.

<sup>91</sup> ABS (2015c)

<sup>92</sup> ABS (2016c)

<sup>93</sup> ABS (2016b)

<sup>94</sup> ABS (2015f); ABS (2015a)

## Glossary

ABS	Australian Bureau of Statistics	HELP	Higher Education Loan Program
AGA	Australian Government Actuary	HILDA	Household, Income and Labour Dynamics in Australia Survey
ATAR	Australian Tertiary Admission Rank	LSAY	Longitudinal Survey of Australian Youth
ATO	Australian Taxation Office	NCVER	National Centre for Vocational Education Research
AWE	Average weekly earnings	OS-HELP	HELP to finance overseas study
Bad debt	Debt that will not be repaid	PAYG	Pay As You Go taxation
CPI	Consumer Price Index	SA-HELP	HELP for the student amenities fee
Doubtful debt	HELP debt not expected to be repaid	Student contribution	The amount paid by a student in a Commonwealth-supported place
FEE-HELP	HELP for full-fee students	Threshold	Income level that triggers HELP repayment or a new rate of repayment
GCA	Graduate Careers Australia	VET FEE-HELP	HELP for vocational education diplomas and advanced diplomas
HECS	Higher Education Contribution Scheme		
HECS-HELP	HELP for Commonwealth-supported students		

## Appendix A: Historical HECS and HELP thresholds

**Table 3: Historical HECS and HELP thresholds from 1988-89 to 2016-17**

Year	1.0%	2.0%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%
1988-89	\$22,000	\$25,000	\$35,000										
1989-90	\$23,583	\$26,799	\$37,519										
1990-91		\$25,469	\$28,942		\$40,520								
1991-92		\$27,098	\$30,794		\$43,113								
1992-93		\$27,748	\$31,533		\$44,147								
1993-94			\$26,403		\$30,005		\$42,006						
1994-95			\$26,853		\$30,517		\$42,723						
1995-96			\$27,675		\$31,450		\$44,030						
1996-97			\$28,495	\$30,050	\$32,382	\$37,564	\$45,336	\$47,719	\$51,293				
1997-98			\$20,701	\$21,831	\$23,525	\$27,289	\$32,935	\$34,666	\$37,263				
1998-99			\$21,334	\$22,499	\$24,245	\$28,124	\$33,943	\$35,727	\$38,403				
1999-00			\$21,984	\$23,184	\$24,983	\$28,981	\$34,977	\$36,815	\$39,573				
2000-01			\$22,346	\$23,566	\$25,394	\$29,457	\$35,552	\$37,421	\$40,224				
2001-02			\$23,242	\$24,511	\$26,413	\$30,639	\$36,978	\$38,922	\$41,838				
2002-03			\$24,365	\$25,695	\$27,689	\$32,119	\$38,764	\$40,802	\$43,859				
2003-04			\$25,348	\$26,732	\$28,806	\$33,415	\$40,329	\$42,448	\$45,629				
2004-05					\$35,001	\$38,988	\$42,973	\$45,233	\$48,622	\$52,658	\$55,430	\$60,972	\$65,000
2005-06					\$36,185	\$40,307	\$44,428	\$46,763	\$50,267	\$54,440	\$57,305	\$63,063	\$67,200
2006-07					\$38,149	\$42,495	\$46,839	\$49,301	\$52,995	\$57,395	\$60,415	\$66,486	\$70,847
2007-08					\$39,825	\$44,361	\$48,897	\$51,467	\$55,323	\$59,916	\$63,069	\$69,406	\$73,960
2008-09					\$41,595	\$46,334	\$51,071	\$53,755	\$57,783	\$62,580	\$65,874	\$72,493	\$77,248
2009-10					\$43,151	\$48,067	\$52,981	\$55,765	\$59,944	\$64,920	\$68,337	\$75,204	\$80,137
2010-11					\$44,912	\$50,029	\$55,144	\$58,042	\$62,391	\$67,571	\$71,127	\$78,274	\$83,408

## HELP for the future: fairer repayment of student debt

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2011-12	\$47,196	\$52,573	\$57,948	\$60,994	\$65,564	\$71,007	\$74,744	\$82,254	\$87,650
2012-13	\$49,096	\$54,689	\$60,280	\$63,449	\$68,203	\$73,865	\$77,752	\$85,565	\$91,178
2013-14	\$51,309	\$57,154	\$62,998	\$66,309	\$71,278	\$77,195	\$81,257	\$89,422	\$95,288
2014-15	\$53,345	\$59,422	\$65,498	\$68,940	\$74,106	\$80,258	\$84,482	\$92,971	\$99,070
2015-16	\$54,126	\$60,293	\$66,457	\$69,950	\$75,191	\$81,433	\$85,719	\$94,332	\$100,520
2016-17	\$54,869	\$61,120	\$67,369	\$70,910	\$76,223	\$82,551	\$86,895	\$95,627	\$101,900

*Note: Figures show minimum values (inclusive).*

*Sources: Australian Taxation Office website (various years); Department of Education and Training (2016b)*

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