Additional Questions on Notice to Andrew Norton from Senator Jacinta Collins

Contents

1. Can Grattan confirm that it only modelled $42,000 as a repayment minimum because of its assessment of Labor's previous policy positions?

The $42,000 threshold was proposed in our March 2016 report, *Help for the Future: Fairer repayment of student debt*. The report argued that the HELP repayment system should be seen as one of the government's programs for reducing the risk of financial hardship, rather than as a special program guaranteeing graduates private financial benefits.

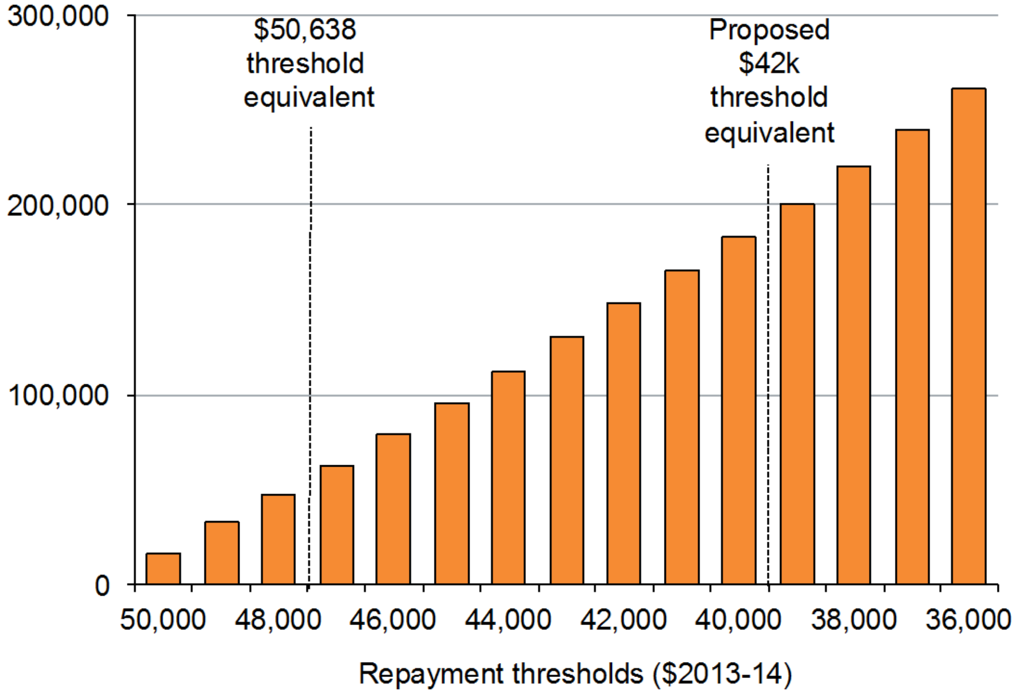
That general goal does not of itself nominate a precise initial threshold. There are many different measures of financial hardship in different government policies, each with their own rationales and histories. Our view was that the threshold should move closer to them but not go below them.

Obviously, the lower the threshold the larger the number of repaying debtors. Figure 1 is taken from *HELP for the Future*. But more debtors repaying also means more political difficulty.

We also took into account the practical political considerations involved in threshold reform. A threshold that Labor could not live with would not be stable. In this, we took account of previous Labor opposition to reducing the threshold to $30,000 or $40,000.[1] A $42,000 threshold was clear of these numbers but would still lead to a substantial increase in repaying debtors.

Figure 1: Additional repaying HELP debtors at different thresholds

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)

[1] In the report into private vocational education: Senate Education and Employment References Committee (2015), p. 26

2. Can Grattan confirm that the potential increased use of HELP by New Zealander and PR students will have on the overall HELP debt held by the Commonwealth? Does it have the ability to wipe out any savings made from this bill?

Currently most permanent residents and New Zealand citizens cannot borrow through HELP but are eligible for the same Commonwealth Grant Scheme subsidies as Australian citizens.[2] For PR holders, ineligibility for HELP is an unusual, and possibly the only, case in which they do not receive the same financial entitlements as citizens, although entitlement waiting periods after arrival are common.[3] If the Budget bill passes, Commonwealth Grant Scheme funding will end, making this an exception to normal PR entitlements, but HELP eligibility will be created. For New Zealanders who arrived in Australia after February 2001, and have not acquired permanent residence or citizenship, rights to government financial benefits are generally more limited than for PR holders and citizens.[4]

If PR and NZ students lose CGS entitlement they will be put into the full-fee market. The main regulatory constraint on fees is the FEE-HELP lending cap of about $100,000, but in already deregulated markets universities charge domestic students less than international students.[5] The change would also allow NZ and PR students to access VET Student Loans. Grattan does not have access to VET student data so our focus is on higher education.

In 2015, there were 12,300 NZ students and about 36,000 PR students. A majority of them are in Commonwealth supported places.[6] Under the Budget legislation, current NZ and PR students can remain in Commonwealth supported places and receive tuition subsidies but must, as now, pay their student contributions upfront. We would expect many current students to do so because they have already organised their finances to pay upfront, and undergraduates avoid the 25 per cent FEE-HELP loan fee by not borrowing. Other current students may re-enrol on a full-fee basis to secure a HELP loan. After the transition period, we would expect the majority of students, like Australian citizen students, to borrow through the loan scheme and increase HELP debt held by the Commonwealth.[7]

At the end of the transition period, the proposal would provide about $230 million in CGS savings on current policy settings, but less if CGS rates are reduced by the efficiency dividend and increased student contributions.[8] It is difficult to know what universities would charge NZ and PR students in a deregulated market. Assuming universities would charge the total CSP funding rate to PR and NZ students, and the students have the same tendency to borrow as domestic students, FEE-HELP lending would increase by $400 million.[9]

---

[2] A small group of NZ citizens and permanent residents can borrow through the loan scheme. These are NZ citizens who have been in Australia for a long time and arrived as a dependent child. Humanitarian visa holders also have access to HELP. These two groups would remain eligible for HELP under the proposed reform, Higher Education Support Legislation Amendement Bill 2017, p. 45.

[3] It may be unique: see the list of benefits eligibility at Rubenstein (2017), p 301-307.

[4] Spinks and Klapdor (2016)

[5] Department of Education and Training (2016); Norton and Cherastidtham (2015)

[6] Department of Education and Training (2017a).

[7]. Among students who are eligible for an upfront discount, the borrowing rate is 91 per cent for government supported students 88 per cent for full fee-paying bachelor degree students and about 75 per cent for postgraduate students: Norton and Cherastidtham (2016b), p. 12

[8] Assuming a 2 per cent annual growth in student numbers between 2015 and 2018. Our estimate is similar to the government's estimated saving of just over $200 million in 2020-2: Department of Education and Training (2017c), p 32

[9] This excludes loan fees of $95 million charged to undergraduate FEE-HELP students.

In addition to government supported students, some NZ and PR students currently pay full-fees. The majority are in postgraduate courses. Assuming again that these students have the same tendency to borrow as Australian citizen students, FEE-HELP lending would increase further by $110 million at the end of the transition period.[10] Together the two groups would increase lending by $500 million.

Apart from an increase in lending to PR and NZ students at current numbers, we would expect some PR and NZ citizens who are not studying, due to an incapacity to pay upfront, to enrol and borrow. In 2016, there were about 650,000 NZ citizens in Australia, including people just visiting.[11] In the same year, there were about 590,000 permanent visa holders who had arrived in Australia after 2006 and were aged at least 15 years old at arrival.[12] Unfortunately, the PR population is not routinely reported and PR status is not often separately identified in ABS publications. We know how many people receive PR each year, but there are also significant outflows due to acquiring citizenship or leaving Australia.

Only a small percentage of PR holders and NZ citizens in Australia are currently enrolled in higher education. This may suggest there is substantial scope for increased enrolments. However, the skills focus of Australia's migration program means that PR holders are already more educated than the general population. In the 2016 ABS Education and Work survey 44 per cent of respondents who were not citizens of Australia or New Zealand and were not on a student visa had a higher education qualification, compared to 24 per cent of Australian citizens.[13]

Nineteen per cent of NZ citizens in Australia in 2016 already had higher education qualification, suggesting greater scope for increased enrolments.[14] However, given the proposed cost increases some New Zealanders may return to New Zealand to study. They would generally pay lower fees.[15] One caveat to this is that the NZ student loan scheme is much less generous than Australia's, and would remain that way even if the threshold changes in the Budget bill are implemented (see our response to the next question).

The ability to wipe out savings

HELP has two costs. The larger cost is debt that is not expected to be repaid – doubtful debt. Because debtors are not required to repay until they earn at least the repayment threshold, some do not repay. The annual Budget papers reported that about 20 per cent of lending to domestic students is doubtful debt.[16] Another cost arises from the fact the HELP debt is indexed to CPI which is generally lower than the government's cost of borrowing. Because undergraduate students who borrow through FEE-HELP pay a 25 per cent loan fee, the interest cost is largely covered by loan fees.[17] Of course, if the debt is never repaid, the government would incur interest costs.

Since NZ and PR holders would be paying full-fees, their average amount lent is expected to be at least twice the level of Australian citizen students. Generally, we expect that the more money is borrowed the higher the chance that the debt will not be fully repaid. This is because the debtor

[10] This excludes loan fees of $6 million charged to undergraduate FEE-HELP students.
[11] In 2018 terms, Department of Immigration and Border Protection (2016), p. 23
[12] ABS (2016a).
[13] ABS (2016b). This includes people on temporary work visas, but these are often pathways to PR.
[14] Ibid.
[15] Universities New Zealand (2017)
[16] Department of Education and Training (2017b), p. 55
[17] The calculation in the report is based on student contributions for CSP. NZ and PR holders are likely to pay about twice this level which would increase time to repay and interest subsidies from the government, Norton and Cherastidtham (2016b), chapter 2

needs to spend a larger number of years with an income above the repayment threshold to complete repayments.

Doubtful debt may also be increased by PR and NZ citizen HELP debtors departing Australia. Longitudinal research shows that people born in other countries or whose parents were born in other countries are more likely to leave Australia permanently than people with longer personal and family histories in Australia.[18] Although Australia has legislated to recover HELP debt from debtors living overseas, the experience of NZ and England suggests that non-compliance will be a substantial issue (see our answer to the next question). Realistically, if HELP debtors decide not to return to Australia it is unlikely that their debt will be recovered.

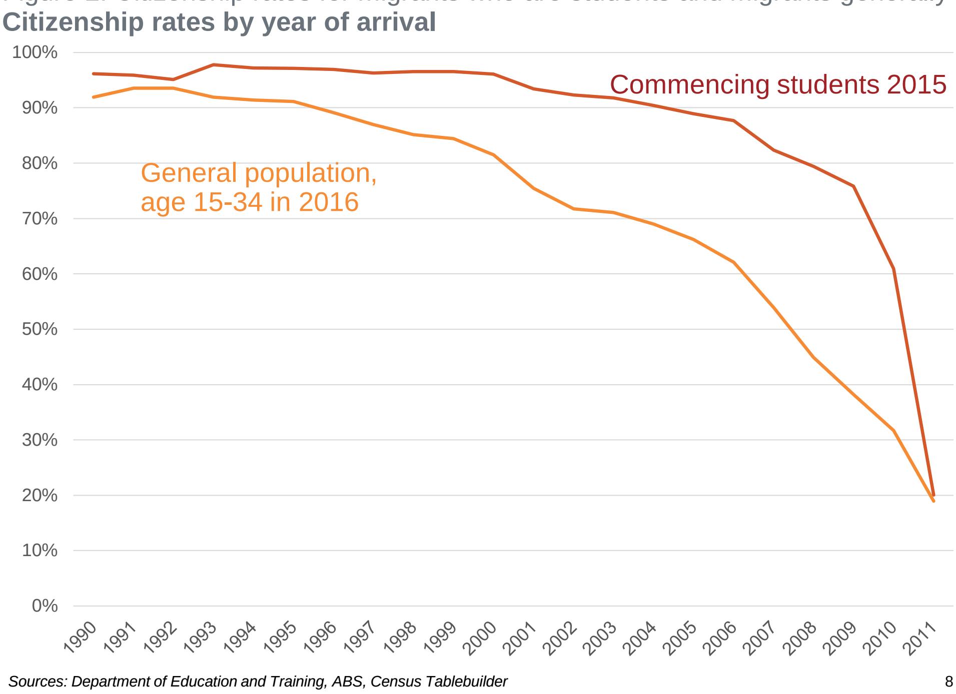
With these differences in mind, we assumed that the proportion of doubtful debt would be higher for NZ and PR holders at about 30 per cent. Assuming no fee increases, apart from to cover the total funding rate, at the end the transition period if student numbers increased by *half*, the cost of DNER would outweigh the CGS saving.

The role of citizenship

Changes to the CGS eligibility of PR and NZ citizen residents may lead to increased take-up of citizenship or delays in study until citizenship is achieved. If this occurs, the CGS savings may be overstated.

We can see in the chart below that students who are migrants are already more likely than migrants generally to have Australian citizenship. A complicating factor in this may be government plans to lengthen the time migrants must spend in Australia before they become citizens, as well as adding other obstacles to citizenship.[19]

Figure 2: Citizenship rates for migrants who are students and migrants generally



[18] Wilkins (2014), p. 97
[19] Australian Government (2017)

3. What analysis has Grattan done on the effectiveness of other jurisdictions student debt recovery arrangements?

We have done some analysis of student debt recovery systems in the USA, England and New Zealand.

The USA does not have a good system from a student perspective. Generally, their loans are mortgage-style with fixed monthly repayments. At the time we wrote *HELP for the Future* 12 per cent of students whose repayment period began in 2012-13 had defaulted by September 2015. Although there are income-based plans for debtors in financial difficulty, these are still based on monthly payments which are calculated based on historical income. They therefore lack the automatic payroll adjustments possible in Australia, England and New Zealand. The US system is also very cumbersome and bureaucratic for both lenders and borrowers.

England and New Zealand have the most similar student debt recovery systems to Australia, as they both use income contingent repayment. In England, debtors repay 9 per cent of all their income above the threshold of £21,000 (this is about A$35,500 on current exchange rates, but the pound has depreciated significantly in recent times; by coincidence it was about $42,000 when we wrote *HELP for the Future*).

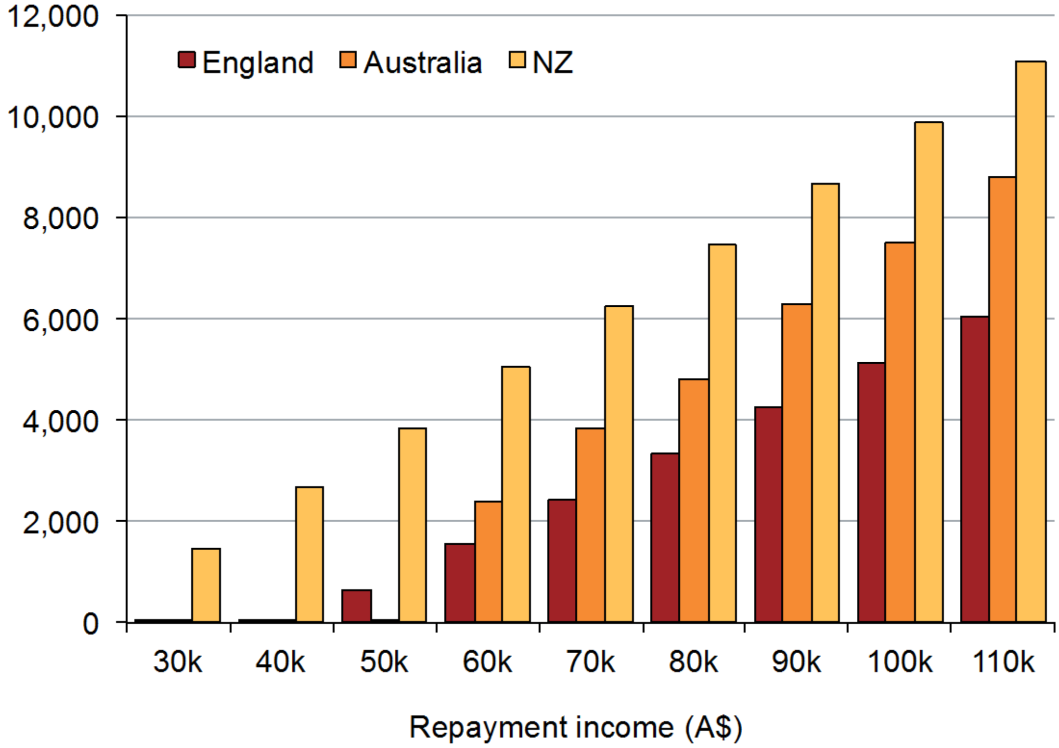
As can be seen in Figure 3, which is from *HELP for the Future*, the English system has the lowest annual repayments for a given level of income of the three countries, except for incomes below the Australian threshold, which is the highest of the three countries. Low graduate salaries in the UK mean that annual repayments are often low.[20] The Institute for Fiscal Studies has estimated that three-quarters of borrowers may eventually have some debt written off (which occurs after 30 years).[21] This estimate may prove too pessimistic if the UK economy does better in the future than it has over the last decade, but the relatively low annual repayments in the English system are a fundamental problem with its system design.

English debtors are supposed to repay while overseas. About 3 per cent of student loan debtors are known to be overseas. Of these, about one-third are repaying, 17 per cent have defaulted, and another 10 per cent have been put in arrears for not providing income details. The rest have provided income information but report incomes below the repayment threshold.[22]

Overall, the English repayment system has significant weaknesses, which are exacerbated by high fees and a weak economy.

[20] Department for Education (2017)
[21] Belfield, *et al.* (2017), p 19
[22] Student Loans Company (2016), table 3A

Figure 3: Annual student loan repayments based on income: Australia, England and NZ
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 (2015); RBA (2016)

In New Zealand, student debtors repay 12 per cent of their income above NZ$19,084, or about A$18,000 at current exchange rates. This leads to the highest repayments by income level of any of the three countries. Unsurprisingly, at least for New Zealand based debtors, repayment times are fairly short, with an estimate of 6.5 years at median income.[23] In Australia, we believe the median repayment time will be around 10 years for recent undergraduates (see Grattan's submission to the inquiry).

The weakness of the New Zealand system is that about 15 per cent of borrowers live outside New Zealand, and of these only 43 per cent made a repayment in 2015-16 (although compliance rates are improving). For overseas borrowers there is a flat repayment based on outstanding debt; it is not income contingent.

With the exception of overseas debt, the New Zealand loan repayment system is quite effective.

[23] Ministry of Education (NZ) (2016), p 36

4. What is Grattan's analysis of the impact demand-driven sub-bachelor and deferred fees for enabling courses will have on the HELP debt held by the Commonwealth?

This is very difficult to predict. According to the Budget announcement to make the student eligible for a sub-bachelor Commonwealth supported place the course must:

- have been developed with a focus on industry needs; and
- fully articulate into related bachelor programs.

In the associate degree market, which currently makes up about 40 per cent of sub-bachelor domestic enrolments, many existing courses are likely to meet the criteria. While neither industry needs nor articulation arrangements are recorded in the enrolment data, industry links are suggested by course titles and documented in some cases by researchers.[24] The biggest field of education for associate degrees, with nearly 30 per cent of enrolments, is engineering, a highly vocational area of study.

We do not have a good understanding of how much underlying unmet demand exists for associate degrees. In 2016, there were 3,130 first-preference applications for places in associate degrees, with 2,353 offers. However, some applicants may not have received offers because they did not satisfy the course's entry criteria, not because there were too few places.

In 2015, the universities appear to have been about 10 per cent overenrolled (or about 900 places) for sub-bachelor courses. However, the funding agreements do not specify qualification levels so this may be caused by diplomas.

With demand driven funding for associate degrees we would expect universities to promote them more than they have in a capped system, and for enrolments to increase. What we don't know is what the students would have done otherwise. Presumably many of the additional associate degree students would otherwise have enrolled in another vocational or higher education qualification. Extra spending on associate degrees would be offset with less spending and lending elsewhere.

The diploma market response to the sub-bachelor policy is much more difficult to predict. While many existing associate degrees are likely to have industry links, this would be the exception rather than the norm for existing diplomas.

Many diploma courses are pathways to bachelor courses that are not intended as free-standing vocational qualifications. Pathway courses are not separately classified in the enrolment data, but website checks showed that five of the top 10 diploma courses offered by public universities in 2015 are being marketed as pathway courses. Possibly some could qualify as being linked to industry needs through a nested bachelor qualification, but many are likely to be too general ('Diploma of Higher Education Studies', 'Diploma of Tertiary Studies').

For diplomas, the most common fields of education are language related; like engineering for associate degrees they make up nearly 30 per cent of all enrolments. This is partly the result of government policy, with specific allocations to foreign language fields to support the previous government's Asian Century initiatives and the current government's New Colombo Plan. While industry has jobs that require multilingual graduates, it is unlikely that the courses will have been developed specifically for industry needs.

[24] Moodie, *et al.* (2013)

The consequence of not meeting the criteria for Commonwealth supported funding is that these courses will become full-fee and eligible for FEE-HELP. FEE-HELP loans are on average higher than HECS-HELP loans, because FEE-HELP students receive no tuition subsidy and there is no maximum fee. There is a market for full-fee diploma courses; in fact more than half of existing domestic diploma student FTE enrolments are full-fee in the private higher education sector. So in theory FEE-HELP lending could increase significantly, if students enrolled in the same courses that they do today.

However, universities may be reluctant to offer full-fee domestic undergraduate places, a practice that was controversial when previously permitted between 1997 and 2008. Students may also be unwilling to take current diploma courses at higher fees than now. If this was the case, the policy may reduce enrolments and HELP lending, at least in the short term.

An industry-linked higher education diploma looks like a largely new category that would exist in competition with vocational education diplomas, which are already industry linked. There is a potential market for such courses. Some tertiary education experts believe that upper-level vocational qualifications should, in some respects, be more like higher education.[25] The goal is to make diplomas more useful to students who end up in jobs other than the one linked to their diploma, or use their diploma as a pathway into higher education. If universities developed such diplomas, they could be attractive to students currently in the vocational system. The inherent qualities of the qualification aside, the higher education diplomas would have no up-front fees, which have been re-introduced in vocational education by the VET Student Loans policy.

While it would take some time to develop new industry-linked diploma courses, over time these could grow strongly, increasing CGS spending and HECS-HELP lending. As this would often be at the expense of the vocational education sector, there would be offsetting savings from reduced VET Student Loans.

Of course, the larger question here is overall design of the diploma market for both vocational and higher education, of which the implications for HELP are just one aspect.

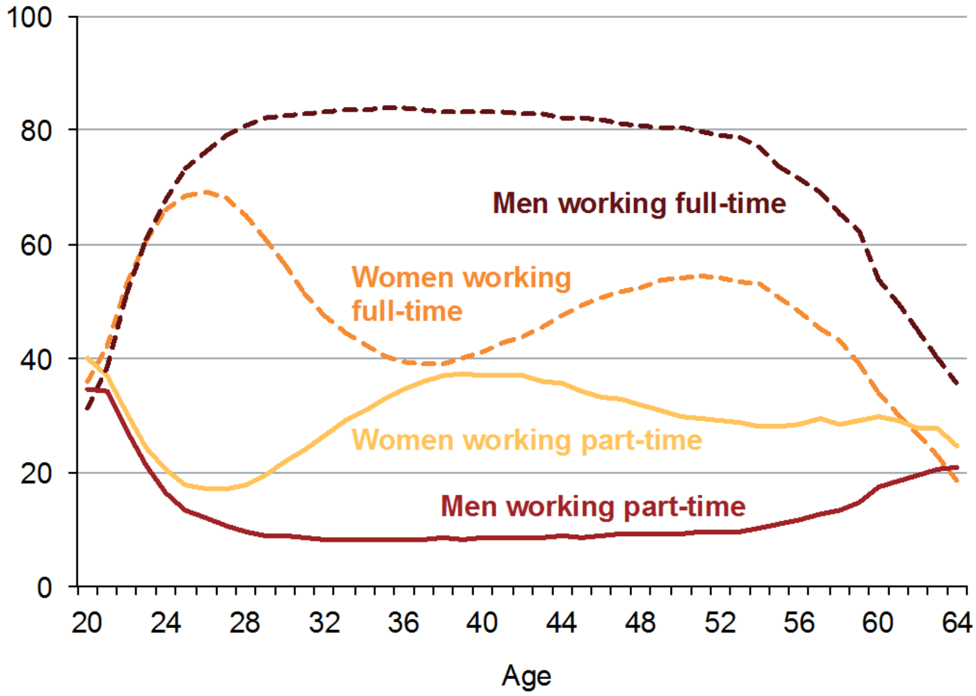
[25] See Fowler (2017) and the sources cited in it.

5. Has Grattan done any analysis on the behaviour in labour market participation to avoid HELP repayment thresholds?

Work by Richard Highfield and Neil Warren, using 2010-11 tax data, has identified suspicious clustering of HELP repayment income just below the threshold. However, their work focused on unusual patterns of deductions to push repayment income below the threshold, rather than labour market decisions.[26]

Our general view is that deliberate strategies to avoid repaying HELP debt are not a major explanation of observed graduate labour force participation. The main reason graduates are not repaying is that they do not have a job or have a part-time job. Over 80 per cent of bachelor degree graduates working full-time in 2014 earned more than the then threshold, compared to less than 30 per cent of those working part-time.[27] About a quarter of graduates work part-time, with life and career cycle factors playing a major role. There are high rates of part-time work as new graduates look for full-time work or complete other qualifications, as women combine work with family responsibilities, and then for men as they enter middle age and move towards retirement. The effects can be seen in Figure 4. These patterns are likely to occur regardless of whether there is a HELP debt or not.

Figure 4: 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)

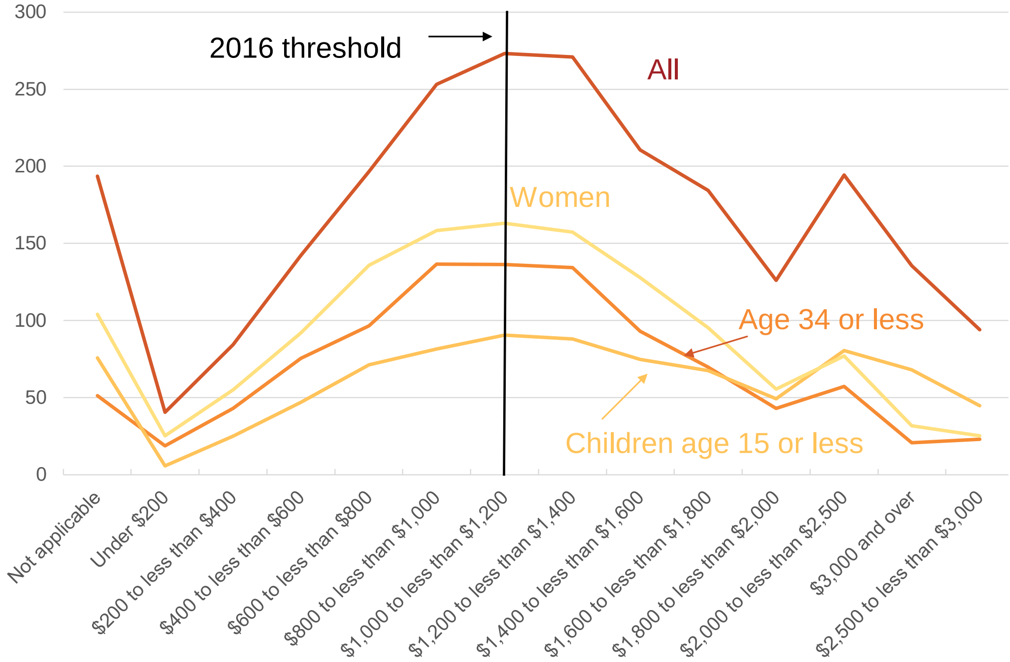
Within these broad patterns, any threshold effects are likely to be small changes in behaviour for people on incomes near thresholds, particularly the initial threshold, which has the largest financial consequences. This is most likely for casual and part-time workers, who have greatest scope for varying their hours and income. Some debtors will be doing this, but because incomes around the

[26] Highfield and Warren (2015)
[27] Norton and Cherastidtham (2016a), p 16

threshold are very common for graduates they are hard to see in general labour force data (Figure 5).

Figure 5: Threshild effects are hard to identify in labor market

Weekly incomes of bachelor degree graduates



Source: ABS, Characteristics of Employment 2016

To some extent, manipulation of income is an inherent feature of any system that uses thresholds. As noted in testimony to the inquiry, the proposal to start HELP repayment at 1 per cent of income, instead of the current 4 per cent, will reduce but not eliminate the incentive to vary hours due to the HELP threshold.

6. What is your assessment on the regulatory impact of this bill?

We have not done a comprehensive analysis of the regulatory impact of the bill.

Our main observation in this area, as others have noted, is that it increases bureaucratic intervention in the higher education sector.

Other submissions have noted this in the case of performance funding and how postgraduate CSP scholarships will be allocated.

While we have not read all submissions, we have not seen the issues for sub-bachelor courses discussed in as much detail as performance funding and postgraduate CSPs.

For sub-bachelor courses the Commonwealth allocation is currently by funding cluster, giving universities substantial discretion as to which actual qualifications are funded. Under the proposed policy, it looks like specific courses will need to be approved by the minister. However, once approved current controls on student numbers will be lifted.

Because this course approval will be in a legislative instrument, this will cause substantial delays because it must also be put before the Parliament for disallowance. In election years particularly, there will be a long delay as the government is first in caretaker mode, then may have a new minister who will take time to understand the decisions he or she must make, and then need further time to allow the legislative instrument disallowance process to conclude.

There are two broad issues with this bureaucratic intervention.

The first is a substantive loss of control by higher education providers and students, where decisions are withdrawn from the market.

There is little reason to think that the Department or the Minister will on average make better decisions than providers and students on how to allocate resources at the micro-level of which students to fund, which courses to fund, or what constitutes performance as universities and students pursue their many different objectives. The government has less detailed knowledge and less capacity to respond in a quick and flexible way when circumstances change.

The second issue is that bureaucratic discretion creates uncertainty. It is hard for higher education providers to make long-term decisions based on rules that they believe are likely to be changed. For example, in the current legislation discretionary elements contested by the Labor Party could be quickly changed should Labor win the next election. Even without changes of government, high turnover of ministers and senior department officials has been a significant issue, with no higher education minister spending three years in office since Brendan Nelson more than a decade ago. Nothing in the current political environment and current APS practices gives us confidence that the next ten years will be more stable than the last ten years.

The government should focus on broad macro-level decisions about higher education policy and put them into legislation. That at least ensures that there will be more checks and balances on policy change than is the case when there is a high degree of discretionary decision making.

References

ABS (2012) *Census of population and housing, 2011, TableBuilder Pro, Cat. 2073.0*, Australian Bureau of Statistics

ABS (2016a) *Labour force, Australia, Dec 2015, Cat. 6202.0*, Australian Bureau of Statistics

ABS (2016b) *Microdata: Education and work, May 2016, Cat. 6227.0.30.001*, Australian Bureau of Statistics

ATO (2015) *HELP and TSL repayment rates and thresholds*, Australian Taxation Office, accessed 16 November 2015, from https://www.ato.gov.au/Rates/HELP,-TSL-and-SFSS-repayment-thresholds-and-rates/?anchor=HELPandTSLrepaymentthresholdsandrates201

ATO (2016) *2013-14 Individual sample file*, Australian Taxation Office

Australian Government (2017) *Strengthening the test for Australian citizenship*, Australian Government

Belfield, C., Britton, J., Dearden, L. and van der Erve, L. (2017) *Higher education funding in England: past, present and options for the future*, Institute for Fiscal Studies

Department for Education (2017) *Graduate labour market statistics 2016 (April 2017)*, Department for Education (UK)

Department of Education and Training (2016) *Study Assist website*, Department of Education and Training, accessed 16 February 2016, from http://studyassist.gov.au/sites/studyassist/helppayingmyfees/fee-help/pages/fee-help-#HowMuchCanIBorrow

Department of Education and Training (2017a) *Higher Education Statistics Collection*, from Department of Education and Training

Department of Education and Training (2017b) *Portfolio Budget Statements 2017-18*, Department of Education and Training

Department of Education and Training (2017c) *Submission to the Senate Education and Employment Legilsation Committee inquiry into the Higher Education Support Amendment (A More Sustainable, Responsive and Transparent Higher Education System) Bill 2017*, Department of Education and Training

Department of Immigration and Border Protection (2016) *Temporary entrants in Australia*, Australian Government from https://www.border.gov.au/ReportsandPublications/Documents/statistics/temp-entrants-aus-31-dec-2016.pdf

Fowler, C. (2017) *The boundaries and connections between the VET and higher education sectors: 'confused, contested and collaborative'*, National Centre for Vocational Education Research

Highfield, R. and Warren, N. (2015) 'Does the Australian Higher Education Loan Program (HELP) undermine personal income tax integrity?', *eJournal of Tax Research*, 13(1), p 202-261

Inland Revenue (2015) *Thresholds for student loan repayments*, New Zealand Inland Revenue, accessed 21 December 2015, from http://www.ird.govt.nz/studentloans/owing/thresholds/sl-thresholds.html

Ministry of Education (NZ) (2016) *Student loan scheme annual report 2015/16*, New Zealand Ministry of Education

Moodie, G., Fredman, N., Bexley, E. and Wheelahan, L. (2013) *Vocational education's variable links to vocations*, National Centre for Vocational Education Research

Norton, A. and Cherastidtham, I. (2015) *University fees: what students pay in deregulated markets*, Grattan Institute

Norton, A. and Cherastidtham, I. (2016a) *HELP for the future: fairer repayment of student debt*, Grattan Institute

Norton, A. and Cherastidtham, I. (2016b) *Shared interest: a universal loan fee for HELP*, Grattan Institute

RBA (2016) *Exchange rates - daily 2014 to current*, Reserve Bank of Australia, accessed 6 January 2016, from http://www.rba.gov.au/statistics/tables/#exchange-rates

Rubenstein, K. (2017) *Australian citizenship law: second edition*, Lawbook Co
Senate Education and Employment References Committee (2015) *Getting our money's worth: the operation, regulation and funding of private vocational education and training (VET) providers in Australia*, Senate Education and Employment References Committee
Spinks, H. and Klapdor, M. (2016) *New Zealanders in Australia: a quick guide*, Parliament of Australia, Parliamentary Library
Student Loans Company (2015) *Student loan repayment*, Student Loans Company (UK), accessed 7 January 2016, from http://www.studentloanrepayment.co.uk/portal/page?_pageid=93,6678455&_dad=portal&_schema=PORTAL
Student Loans Company (2016) *Student loans in England, financial year 2015-16*, Student Loans Company and Department for Business, Innovation and Skills
Universities New Zealand (2017) *Fees for Domestic Students 2017*, from http://www.universitiesnz.ac.nz/files/Fees%20for%20Domestic%20Students%202017.pdf
Wilkins, R. (2014) *Families, incomes and jobs, volume 9: a statistical report on waves 1 to 11 of the Household, Income and Labour Dynamics in Australia survey*, Melbourne Institute of Applied Economic and Social Research, The University of Melbourne

Household income and HELP thresholds

In the Education and Employment Legislation Committee hearings on 24 July I was asked on notice to look at a letter from Belinda Clark, who encountered financial difficulties she blames in part on HELP repayments.

The broad issue raised by the discussion in the hearing is that, unlike other Commonwealth income protection programs, HELP does not take into account household circumstances. Exacerbating the situation, income protection programs that do take household circumstances into account, such as the Family Tax Benefit, are based on gross household earnings, not factoring in HELP repayments.

Conceptually, if we see HELP as one of the government's programs protecting people against financial hardship there is a case for adjusting the HELP threshold according to household circumstances. A person in Ms Clark's situation (at least two dependent children from what she says in her letter) would repay less each year.

However, on the same logic two-income households do not each need a threshold designed to protect a single person from hardship. HELP repayments based on their joint income could substantially reduce a problem identified in Grattan reports and our submission to this inquiry, which is that HELP subsidies are going to affluent households.

In our March 2016 report *Help for the future: fairer repayment of student debt* we considered family-based repayment as a way of increasing repayment. The option we considered was HELP repayment based on household income. One reason we rejected this was that it potentially made a non-debtor partner liable for HELP repayments (for example, if his or her partner had income below the amount of HELP repayment). However, there are ways of adjusting HELP repayments for household circumstances that do not have this effect. One of these is discussed below, underneath the chart.

Another reason we gave for rejecting household repayment was that it would introduce substantial complexity, when one of HELP's current strengths is its administrative simplicity.

Employee HELP debtors usually need only declare their HELP debt as part of providing their tax file number, with repayments then handled for them by their employer (although sometimes this can result in unpleasant surprises, as in Ms Clark's case). The ATO does any final adjustments. Debtors do not have to determine how much they owe or organise payment, as they do in mortgage-style student debt systems.

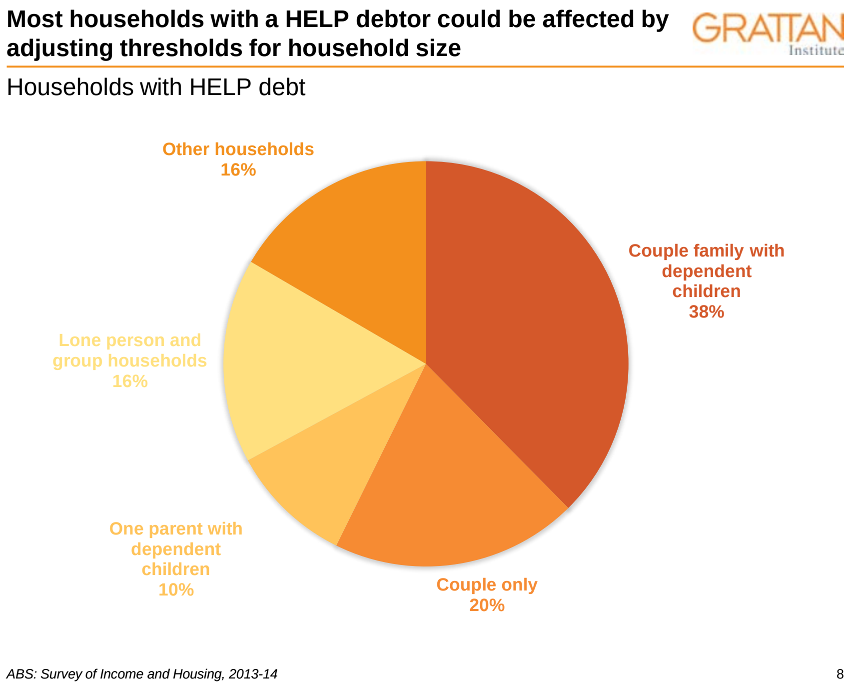
The system is also simple for employers, as generally they can calculate their employee HELP repayments from their own payroll information.

Similarly, the ATO need only determine the total HELP repayment income of each HELP debtor from its existing income and deductions information, without cross-referencing it with anyone else.

Under a household income repayment system, this administrative simplicity would be lost.

The ATO would need to determine who is in a couple relationship and communicate that to the employers of HELP debtors. While an existing tax return question asks whether the person has a spouse or de facto spouse, comparison of ATO and Census data suggests that it is often ignored (the ATO data reports many fewer people in couple relationships). If there is no legal marriage determining whether there is a relevant relationship for HELP repayment purposes is not straightforward. Although Centrelink has developed tests for determining whether unmarried people are in a relationship, it requires a very intrusive 13 page and 76 item questionnaire.

We would expect a household income test to affect most HELP debtors during at least part of their repayment period, given the normal patterns of young adults adding partners and/or dependent children to their household. The chart below using data from the 2013-14 ABS Survey of Income and Housing on households with HELP debtors supports this assumption.



Although not endorsing it, we have since the hearing briefly examined the idea of basing repayment on equivalised income, as mentioned by Senator Collins. Rather than making partners liable for each other's debts, equivalised household income could be used to determine the repayment rate, which would then be applied to the gross income of each partner with a HELP debt. The numbers mentioned in the examples are to illustrate the concept only; the equivalisation scales, thresholds and repayment rates could all be set at levels other than those used here.

On the ABS equivalence scales, if Ms Clark had two children aged less than 15 and a gross income of $90,000 (by inference from her stated HELP repayments) her equivalised income would be $56,000 and her repayment rate under the current settings would be 4 per cent rather than 7 per cent.[1]

However, other households would pay more.

A household with a non-debtor partner earning $100,000 and HELP debtor partner earning $25,000 would have an adjusted household income of about $83,000 a year. With a HELP repayment rate under current settings of 6 per cent for incomes of $83,000, the debtor partner would repay $1,500 instead of being under the threshold and making no repayment.

From a government perspective, it is not clear how such a policy would affect its HELP repayment cash flow in the short-term. In the long run, however, it would reduce doubtful HELP debt by bringing low-income HELP debtors in high-income households into repayment, when they could

[1] The ABS equivalence scale weights the first adult at 1, each additional person aged 15 or over at 0.5, and each child under 15 gets at 0.3. The scale recognises that costs increase with household size, but also that there are economies from sharing a home.

otherwise spend the rest of their careers below the current, unadjusted threshold. While some high income earners with a partner and/or dependent(s) would pay less each year, they would still be likely to be repay in full over a longer time period.

Andrew Norton

29 July 2017