CHAPTER 4

The future of HECS

4.1 Throughout the inquiry, evidence received from students, vice-chancellors and others highlighted the importance of Australian's unique HECS scheme.

Ensuring financial stability and accessibility of HECS

4.2 The reforms propose changes to the design and parameters of the HECS scheme with the policy objective of strengthening Australia's higher education system while repairing the budget. The proposed reforms seek to streamline the HELP program by:

- aligning FEE-HELP and HECS-HELP;
- removing the HECS-HELP up-front payment discount and voluntary repayment bonus;
- removing the FEE-HELP lifetime limit and loan fee; and
- removing the VET-FEE HELP lifetime limit and loan fee.

4.3 The reforms also propose to increase the indexation and minimum repayment threshold for HELP debts.

Aligning FEE-HELP and HECS-HELP

4.4 The HECS-HELP benefit was first introduced as part of the 2008–09 Budget with the purpose of reducing HECS-HELP repayments by approximately $1800 a year for early childhood education and $1700 a year for other occupations.[1] Subsequently, the HECS-HELP program was expanded to other areas of identified need, including mathematics, science related occupations and nursing.[2]

4.5 The reforms propose to discontinue the HECS-HELP benefit from 2015,[3] as it has had a low take up and has been ineffective in achieving its aims.[4]

> The Graduate Destination Survey of recent graduates shows that transition into these occupations was high before the HECS-HELP benefit was introduced and has not changed significantly since.[5]

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1 Explanatory Memorandum, Higher Education and Research Reform Amendment Bill 2014, p. 82.

2 Explanatory Memorandum, Higher Education and Research Reform Amendment Bill 2014, p. 82.

3 Explanatory Memorandum, Higher Education and Research Reform Amendment Bill 2014, Schedule 7. See also: Explanatory Memorandum, p. 2.

4 Explanatory Memorandum, Higher Education and Research Reform Amendment Bill 2014, Schedule 7. See also: Explanatory Memorandum, p. 82.

4.6 The Committee also notes that the *Review of the Demand Driven Funding System* conducted by Hon. Dr David Kemp and Mr Andrew Norton recommended that '[t]he HECS‑HELP benefit for graduates in designated occupations should be discontinued.'[6]

Removing HECS-HELP upfront payment discount and voluntary repayment bonus

The changes to the loan scheme also include the removal of the up-front payment discount for HECS-HELP loans and the voluntary repayment bonus for HELP loans,[7] both initiatives of the previous Labor government.

4.7 By decisions made by the previous Labor government, since 1 January 2012 Commonwealth supported students who are eligible for HECS-HELP and elect to fully pay, or part pay $500 or more of, their student contribution amount upfront to their higher education provider receive a discount of 10 per cent. This discount amount is paid by the Government to the student’s higher education provider.[8] Further, since 1 January 2012 where a student makes a voluntary repayment of $500 or more towards a HELP debt, they receive a bonus of 5 per cent. This bonus amount is an additional credit against the student’s outstanding HELP debt that is never recovered by the Government.[9]

4.8 The Business Council of Australia supported these measures and acknowledged that their removal would contribute to the sustainability of the loan scheme.[10] The committee did not receive any substantive submissions opposing the amendments.

Removing FEE-HELP lifetime limit and loan fee

4.9 Currently the amount of FEE-HELP loan a student can access across their lifetime is capped. This has the effect of potentially excluding students who would be unable to pay any fees over and above the limit upfront.[11] The proposed reforms would remove these barriers and ensure equitable access for students regardless of the type of course or which provider they choose.[12]

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5 Hon. Dr David Kemp and Andrew Norton, *Review of the Demand Driven Funding System*, 2014, p. 40.

6 Hon. Dr David Kemp and Andrew Norton, *Review of the Demand Driven Funding System*, 2014, p. xii.

7 Higher Education Research Reform Amendment Bill 2014, Schedule 1.

8 Australian Government, StudyAssist, http://studyassist.gov.au/sites/studyassist/news/pages/changes-to-hecs-help-discounts-and-voluntary-repayment-bonus, (accessed 20 October 2014).

9 Australian Government, StudyAssist, http://studyassist.gov.au/sites/studyassist/news/pages/changes-to-hecs-help-discounts-and-voluntary-repayment-bonus, (accessed 20 October 2014).

10 Business Council, *Submission 99*, p. 17.

11 Explanatory Memorandum, p. 9.

12 Explanatory Memorandum, p. 8.

Removing VET FEE-HELP lifetime limit and loan fee

4.10 Currently the amount of VET FEE-HELP loan a student can access across their life-time is capped. This has the effect of potentially excluding students who would be unable to pay any fees over and above the limit upfront.[13] The proposed reforms remove the current life-time limits on VET-FEE HELP loans.[14]

4.11 Further, the existing VET FEE-HELP loan fee was implemented to assist the Government to manage the costs of extending HELP to higher level vocational education and training courses. However, under the proposed changes, the fee will no longer be necessary as changed indexation arrangements for all HELP debts (discussed later in this chapter) take account of the costs to government in providing the loans. As such, the proposed reforms remove the VET FEE-HELP loan fee[15] to ensure all students are treated fairly and equitably.

4.12 Evocca College also explained that the removal of the financial barriers to VET-FEE HELP, students who would otherwise have commenced their studies in lower qualifications will now instead choose to enter at Diploma level.[16]

4.13 The committee heard evidence from students about the financial benefits of the removal of VET-FEE HELP. For example, a student undertaking a Bachelor of Design Arts from the Academy of Design in Melbourne, would experience approximately $15 000 in saving as a result of the VET FEE-HELP reform.[17]

Indexing HELP debts and a new minimum repayment threshold

4.14 Under current arrangements, HELP debt that has been outstanding for more than 11 months is indexed in line with CPI each year on 1 July. As such, HELP debt increases only with inflation.

> Unlike a personal loan from a bank, it does not matter how long a graduate takes to pay off their HELP debt: the value of the debt does not increase in real terms. This is an important element of the design of the HELP scheme, and a protection for graduates. It particular, it protects graduates who earn less than the HELP repayment threshold (currently $53,345), or who take time out of the workforce (e.g. parents raising children).[18]

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13 Explanatory Memorandum, p. 9.

14 Explanatory Memorandum, Higher Education and Research Reform Amendment Bill 2014, Schedule 6. See: Explanatory Memorandum, p. 2.

15 Explanatory Memorandum, Higher Education and Research Reform Amendment Bill 2014, Schedule 6. Explanatory Memorandum, p. 2.

16 Evocca College, *Submission 141*, p. 2.

17 Miss Emily Elsworth, Student, Academy of Design Australia, *Proof committee Hansard*, 7 October 2014, pp 60–67.

18 Group of Eight, *Submission 46*, p. 46.

4.15 The reform package proposes to charge a real interest rate at the government long-term bond rate, capped at 6 per cent.[19] The September 2014 10 year Commonwealth government bond rate is 3.55 per cent.[20] CPI for the 12 months to the September 2014 quarter is 2.3 per cent.[21]

> The bond rate is the interest rate that the Government pays on the money that it borrows to lend to students as HELP loans. The Government borrows money at the bond rate and lends it at CPI: this is a cost to the Government (estimated at $190 million in 2013-14). While a real interest rate would eliminate this cost to Government, it would have a negative effect on lower earning graduates. HELP debt would increase in real terms while graduates were under the repayment threshold or out of the workforce. The end result would be that graduates who earned less would pay more. This would be a regressive system and contrary to the design of the HELP scheme.[22]

4.16 In 1996 Professor Chapman outlined the benefit of the interest rate on HELP debts being lower than 'real' interest rates:

> The lack of a real rate of interest on the debt is also worth highlighting. It means that those former students who earn relatively low incomes over their lifetimes are given greater subsidies in the form of implicit access to an interest free loan. The orders of magnitude of this subsidy can be quite large. For example, [it was] demonstrated that male lawyers, because they earn high incomes relatively quickly after graduating, in effect pay up to 30 to 50 per cent more (in present value terms) than do public sector teachers who spend five years out of the labour force after graduating.[23]

4.17 The reforms would also establish a new minimum repayment threshold for HELP debts of two per cent where a person's income reaches $50 638 in 2016–7.[24] Currently tax payers are not required to start repaying their HELP loans until their income reaches $53 345.[25] As such, from 1 July 2016, a lower repayment amount of two per cent will apply for persons with incomes above the new threshold up to the current minimum threshold.[26]

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19 Explanatory Memorandum, Higher Education and Research Reform Amendment Bill 2014, Schedule 3.

20 Reserve Bank of Australia, http://www.rba.gov.au/statistics/tables/xls/f02hist.xls (accessed 24 October 2014).

21 Australian Bureau of Statistics, http://www.abs.gov.au/AUSSTATS/abs@.nsf/mf/6401.0?opendocument#from-banner=LN (accessed24 October 2014).

22 Group of Eight, *Submission 46*, p. 46.

23 Chapman, B. (1996) The rationale for the Higher Education Contribution Scheme, Australian Universities Review, 1/1996, pp. 43ff quoted by ACCI, *Submission 140*, p. 8.

24 Higher Education and Research Reform Amendment Bill 2014, Schedule 4. See: Explanatory Memorandum, p. 2.

25 Higher Education and Research Reform Amendment Bill 2014, Schedule 4. See: Explanatory Memorandum, p. 9.

26 Explanatory Memorandum, p. 9.

Higher education will remain cost free at the point of delivery

4.18 In the current HELP environment where HELP debt is indexed at CPI, the level of debt never increases in real terms. While this means that debtors only ever repay the same debt they incurred regardless of the timeframe in which they take to repay the loan, this means the government is subsidising the debt.

4.19 In 2014 the cost to the government to subsidise degrees is more than $6 billion, and the value of HELP loans is more than $5 million. Further, the government submits that in 2017 their funding through HELP loans will be approximately $10 billion.[27]

> In a deficit environment the government needs to borrow the money that it lends to students. Because the government currently lends to students at less than it costs the government to borrow the money, there is an additional subsidy from taxpayer to student. Given the scale of costs now present in the higher education system, it is time that students picked up a fairer share of the tab for these interest charges. This is why we are changing the indexation rate for HELP debts from the consumer price index to the Treasury bond rate (safety capped at six per cent).[28]

4.20 The current fiscal environment dictates that the current HELP debt indexation arrangement is not sustainable, however, under the proposed reforms HELP debts are and will remain income-contingent loan schemes.

> Under the HELP scheme, graduates are obliged to repay only when they have the income to do so. Otherwise, graduate[s] are not obliged to 'clear the debt' over any period. HELP debts are not the same as mortgages or personal loans. HELP loans are fundamentally different in the way they operate.[29]

4.21 In evidence before the committee, Professor Bruce Chapman argued that:

> What always mattered hugely to maintain the rationale and the power of this [HECS] instrument was income contingency—not having any charges up front, offering insurance against default and offering consumption smoothing. That is the essence of an income contingent loan and the motivation for it—and that is still there. But the parameters have changed hugely. In 1989 the charge was the same for all courses—so there were very considerable cross-subsidies.[30]

4.22 Universities unanimously supported that sentiment:

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27 The Hon. Mr Christopher Pyne, MP, Leader of the House and Minister for Education, Higher Education and Research Reform Amendment Bill 2014, second reading speech, *House of Representatives Hansard*, 28 August 2014, p. 3.

28 The Hon. Mr Christopher Pyne, MP, Leader of the House and Minister for Education, Higher Education and Research Reform Amendment Bill 2014, second reading speech, *House of Representatives Hansard*, 28 August 2014, p. 3.

29 Group of Eight, *Submission 46*, p. 34.

30 Professor Bruce Chapman, *Proof Committee Hansard*, 9 October 2014, p. 60.

> HELP loans remove up-front financial barriers to access for all students, irrespective of their personal or parental means. Payment is related to income after graduation, rather than financial resources at enrolment. Fees and HELP debts have no impact on most students' financial circumstances while they are studying.[31]

Interest rate options: mitigating the impact

4.23 Despite the fact that the reform package ensures that higher education will remain cost free at the point of delivery, university groups and students voiced strong concerns about the applications of the long-term bond rate to HELP debts.

> A real interest rate will mean that – for the first time – the real value of a HELP debt will increase over time. Graduates who take longer to pay will pay more in real terms. This presents equity issues for lower earning graduates and especially for those who take time out of the workforce.[32]

4.24 A number of submitters expressed grave and specific concerns about the impact the proposed changes to the indexation of HELP debts would have on women.

> This change is regressive and will disadvantage graduates who take time out of the workforce, particularly women with families. With indexation at CPI, the student is not paying more than it cost them.[33]

4.25 Universities Australia argued that:

> The compounding effect would be felt disproportionately by women (who face persistent pay differentials and are more likely to have their careers interrupted by parental responsibilities), and graduates who work in sectors with low or moderate average earnings.[34]

Impact on women

4.26 In light of the potential for the proposed changes to indexation of HELP debts to impact on those taking time out of the workforce and those with lower average earnings, a number of submitters expressed grave and specific concern about the effect of the Bill on women.

> This change is regressive and will disadvantage graduates who take time out of the workforce, particularly women with families. With indexation at CPI, the student is not paying more than it cost them.[35]

4.27 Navitas Ltd[36] and Universities Australia argued that the reform would disproportionately impact women emphasising the fact that women 'face persistent

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31 Group of Eight, *Submission 46*, p. 34.

32 Group of Eight, *Submission 46*, p. 46.

33 COPHE, *Submission 48*, p. 3.

34 Universities Australia, *Submission 60*, p. 17.

35 COPHE, *Submission 48*, p. 3.

36 Ms Helen Zimmerman, Group General Manager, Government and Stakeholder Relations, Navitas Limited, *Proof Committee Hansard*, 7 October 2014, p. 50.

pay differentials and are more likely to have their careers interrupted by parental responsibilities, and graduates who work in sectors with low or moderate average earnings.'[37]

4.28 The Australian Nursing and Midwifery Federation discussed the potential impact of the proposed changes on professions in which women are overrepresented, such as nursing.[38] The National Tertiary Education Union also raised this issue with respect to teaching.

> The increased interest that would be charged on HECS will be such that it will represent an additional debt burden for our members. In a gender profession like teaching, the impact will be disproportionate on women.[39]

4.29 The National Centre for Social and Economic Modelling, University of Canberra, provided evidence before the committee about the significant fact that women at a certain age have children and the reality that women have a lower trajectory of their income.[40]

> It is across the board that females earn lower incomes. Across all of the areas that we looked at, and I would imagine most of the areas you would look at you would certainly find that the repayments would take longer for females to repay. We did look at business. The results there are that, say for a male, you would repay it in 10.2 years. For a female, it would be 12.2. We looked at science. The repayments for a male would take 11.8 years. For a female scientist, it would be 15.6 years. So it is certainly a longer repayment period—and, naturally, larger repayments in dollar terms.[41]

4.30 Professor Henry Ergas emphasised the role of HELP in understanding Australia's unique position with respect to well-educated women and their rates of workforce participation.

> Australia is unusual in having substantial numbers of graduates, especially women, who do not participate in the labour force on a full-time basis, whereas the pattern in the other advanced economies is for well-educated women to have high rates of full-time labour force participation. It is reasonable to believe the zero interest rate on HELP encourages this, as the penalty for deferring repayments is nil, compounding the other factors that result in high effective marginal tax rates for second income earners.[42]

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37 Universities Australia, *Submission 60*, p. 17. See also: Ms Belinda Robinson, Chief Executive, Universities Australia, *Proof Committee Hansard*, 9 October 2014, p. 18.

38 Ms. Lee Thomas, Federal Secretary, Australian and Midwifery Federation, *Proof Committee Hansard*, 8 October 2014, p. 19.

39 Ms Jeannie Rea, National Tertiary Education Union, *Proof Committee Hansard*, 8 October 2014, p. 47.

40 Mr Ben Phillips, Principal Research Fellow, National Centre for Social and Economic Modelling, University of Canberra, *Proof Committee Hansard*, 8 October 2014, p. 35.

41 Mr Ben Phillips, Principal Research Fellow, National Centre for Social and Economic Modelling, University of Canberra, *Proof Committee Hansard*, 8 October 2014, p. 37.

42 Professor Henry Ergas, *Proof Committee Hansard*, 9 October 2014, p. 79.

Alternative interest rate regimes

4.31 As the arrangements that index HELP debt at CPI are no longer sustainable, a number of submitters offered alternative interest rate regimes that would maintain taxpayer affordability and ensure the sustainability of HECS-HELP into the future.

> The really critical part of HECS is that it should be seen as a risk-management instrument. It is to protect people who—through accidents, bad luck or adversity in the state of the [l]abo[u]r market—are in trouble, in the future, who have attended university so that they will not incur major costs for that. That is why there is an income-contingent first threshold of repayment. That is why the consumer price index was always used to adjust the debt.[43]

4.32 One of the options put forward by Professors John Chapman and Dr Timothy Higgins was a hybrid model that would substantially reduce the chance of real increases in the debt principal.

> [B]ased on the current English ICL interest rate arrangement which indexes loans in line with the CPI when debtors' incomes are below the first threshold of repayment of the debt, and with the bond rate when debtors' incomes are above the first threshold of repayment of the debt.[44]

4.33 In evidence before the committee Professor Chapman further explained this option.

> [T]he hybrid… use[s] the consumer price index as an adjustment of the debt when people's incomes are below the first threshold and when their incomes are above the first threshold—in 2016, that will be roughly $56,000—then you use the bond rate. The basic principle for that would mean that, roughly speaking, the real debt will not go up unless the debt levels are particularly high.[45]

4.34 The following graph, supplied by Professor Chapman and Dr Higgins illustrates the difference in repayment amounts (in 2016 dollars) for part-time or full-time employed graduates who completed a bachelor degree based on proposed indexation at bond rate and based on the hybrid model.

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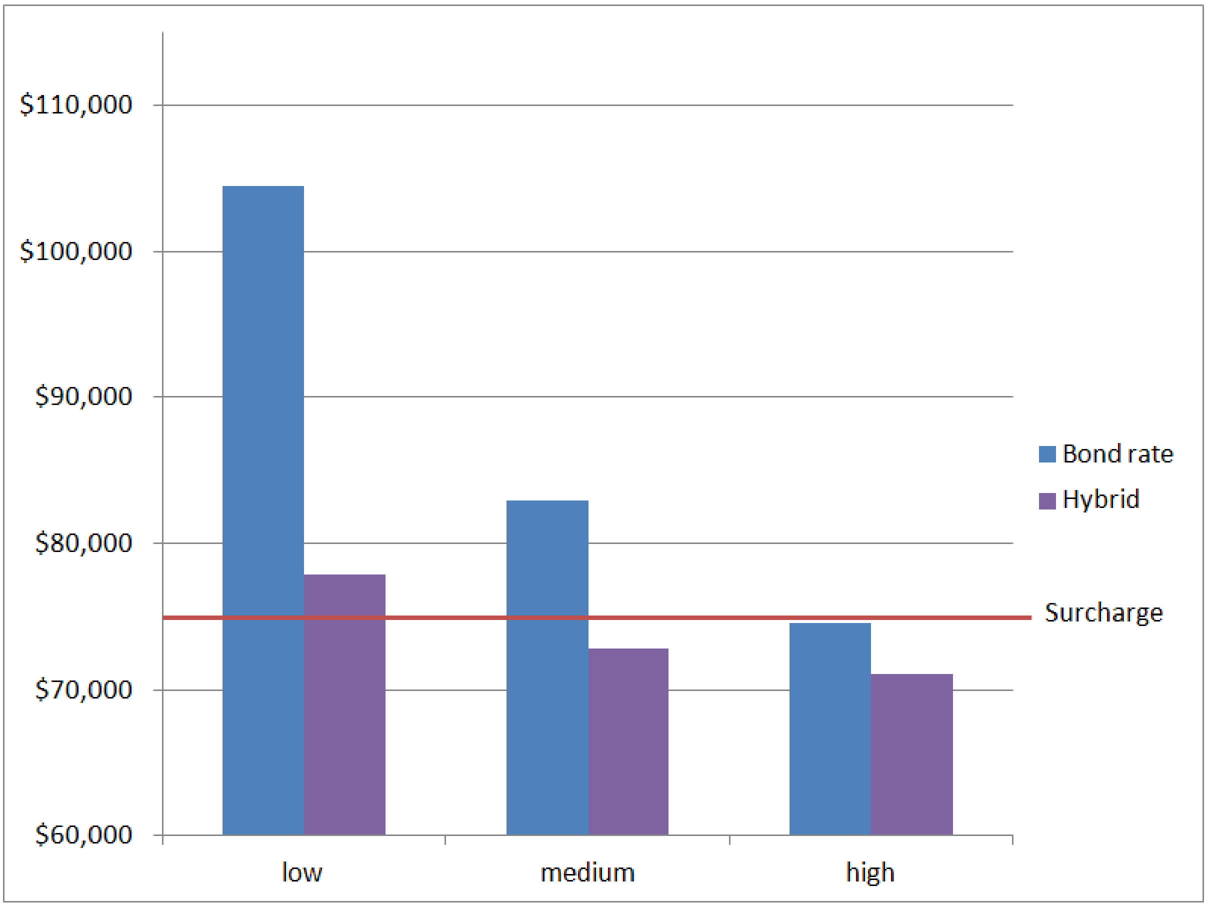
43 Professor John Chapman, *Proof Committee Hansard*, 9 October 2014, p. 53.

44 Dr Timothy Higgins and Professor Bruce Chapman, *Submission 83*, p. 6.

45 Professor John Chapman, *Proof Committee Hansard*, 9 October 2014, p. 54.

Figure 3: comparison of repayment amounts based on proposed indexation at bond rate and based on the hybrid model.[46]

Borrower repayments (2016 dollars). All graduates (loan = $60, 000)



Overseas-held HELP debt

4.35 Currently students departing Australia are under no obligation to report their student loan status. In addition, while overseas, they are under no obligation, regardless of their income, to make repayments on their student loans, unless they are an Australian taxpayer.[47] Mr Andrew Norton of the Grattan Institute stated that:

> One of the design flaws in the whole HELP scheme is there is no provision for payment for people who are working overseas, potentially earning very high incomes. Overall, higher education continues to provide high private benefits.[48]

46 Dr Timothy Higgins and Professor Bruce Chapman, *Submission 83*, p. 8.

47 Department of Education, response to questions on notice, 20 October 2014, p. 13.

48 Mr Andrew Norton, *Proof Committee Hansard*, 9 October 2014, p. 31.

4.36 Professor Chapman argued that:

> We lose about $40-$45 million per year because HECS debtors go overseas and we do not collect it. Tim and I worked on some data a couple of years ago. He did a fantastic job with pretty poor data to calculate what it was actually costing the Australian taxpayer, and it is currently about $40 million. Over 25 years, it started out smaller, but we are talking about $800 million. We are talking maybe up to a billion dollars. If the fees go up by important amounts then the lost money overseas must go up as well.[49]

4.37 Professor Chapman and Dr Higgins urged the committee to examine this matter of lost revenue. Specifically, Professor Chapman put forward a proposal that the government 'make it a legal obligation that in the event of going overseas for six months or more' you must pay a minimum HECS payment of approximately $2,000.[50]

4.38 The department undertook to examine this proposal[51] and acknowledged that:

> For each new graduate cohort each year, Chapman and Higgins estimated that there is additional lost revenue of $20-30 million. This is less than one per cent of the total value of loans made each year but it is significant.[52]

Committee view

4.39 The committee is convinced that affordable access to higher education will continue to be supported, as the proposed measures ensure that students will still be able to defer payment of their tuition fees. The committee notes that Australia's higher education system is unique in comparison to its international counterparts, as the reform package will ensure that no up-front financial barriers to access higher education for all students, irrespective of their means.

4.40 The committee is persuaded that most of the proposed changes are crucial to ensuring quality in higher education and are proportionate to the policy objective of strengthening the system while repairing the budget, without adverse impact to the sector or students.

4.41 The committee is satisfied that the lower two per cent repayment rate for those above the new minimum repayment threshold will ensure that low-income graduates will not experience a large reduction in their disposable income, while supporting the sustainability of HELP.

4.42 However, the committee believes that the indexation of HELP debt is an area worthy of further consideration to ensure graduates who may not reach their earning potential are not overly burdened by debt. The committee notes that the interest rate on HELP and the conditions of repayment have a significant effect on the size of the

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49 Professor Bruce Chapman, *Proof Committee Hansard*, 9 October 2014, p. 54.

50 Professor Bruce Chapman, *Proof Committee Hansard*, 9 October 2014, p. 54.

51 Department of Education, response to questions on notice, 20 October 2014, p. 14.

52 Department of Education, response to questions on notice, 20 October 2014, p. 13.

debt burden. Therefore, in light of the evidence, the committee urges the government to re-examine this aspect of its reforms.

4.43 At the same time, the committee notes that an increase to the indexation of HELP debts will not impede students' access to higher education because students will only be required to pay back their HELP debts once they start earning above the minimum repayment threshold. As such, the committee recommends that the government set a rate of indexation that will adequately reflect the borrowing cost to the government, but also partially remove the indirect subsidy that all taxpayers contribute to higher education. The committee was persuaded by evidence presented on alternative indexation models, notably the hybrid model put forward by Professor Chapman and Dr Higgins, and urges the government to explore the viability of such a model.

4.44 Finally, the committee acknowledges that a significant amount of HELP debt revenue is lost when residents move overseas, and urges the government to re-examine this.

Recommendation 3

4.45 The committee recommends that the government examine HELP indexation measures in light of evidence presented to the committee, recognising unforseen impacts of the proposed reforms on students.

Recommendation 4

4.46 The committee recommends that the government explore avenues to recover HELP debts of Australians residing overseas.