

Responding to the additional question from Senator Collins on HESLA 2018

Mr Norton said: “if you do want a genuine tertiary system, you can’t have an initial threshold which was designed for bachelor degree graduates... it is very hard to design a system around a generous provision for bachelor degree graduates and then ... also apply it to diplomas and potentially certificate III and IV students.” Can you elaborate on this point? And does Grattan have any particular policy prescriptions for a single HELP scheme for vocational and higher education?

Ideally, a tertiary education funding system should support students to do the courses that best meet their needs. For students with clear undergraduate higher education objectives, we are close to achieving that goal. Although there are some anomalies – such as restricted numbers of sub-bachelor places in the public universities and much higher costs imposed on students outside the public universities – HELP has largely eliminated upfront fees.

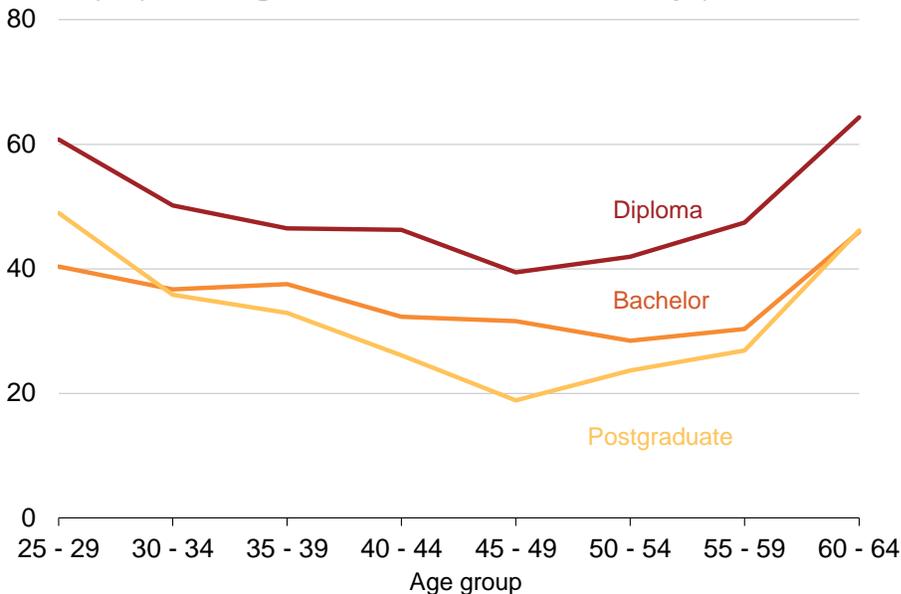
For students with clear vocational education objectives, or choosing between vocational and higher education, the system is less effective. Although fee charging is common for both certificate III/IV and diploma courses, there has never been a loan scheme with the reach HELP has in higher education. Potentially, that prevents some people from studying at all, or steers them towards higher education when a vocational education course would have been better.

There are features of the vocational market that complicate this, including the role of State governments in TAFE and the large private vocational education sector. However, in principle an income contingent loan scheme would be desirable to eliminate upfront fees for most students. But using HELP’s existing loan repayment system – as VET FEE-HELP and now VET Student Loans have – was always going to be problematic for vocational education.

In our 2016 report *HELP for the future*, we argued that then initial HELP repayment threshold meant that substantially larger percentages of people with diploma qualifications (who were then eligible for VET FEE-HELP) had incomes below the then threshold than was the case for higher education graduates (Figure 1 is reproduced from that report). At peak earnings, about 40 per cent of diploma holders are expected to earn below the threshold. Even if VET FEE-HELP had not been rorted, it would have had much higher rates of doubtful debt than HECS-HELP or FEE-HELP.

Figure 1: Diploma holders are more likely than people with higher education qualifications to earn less than the threshold

Share of people earning less than the 2013-14 threshold by qualification level, per cent

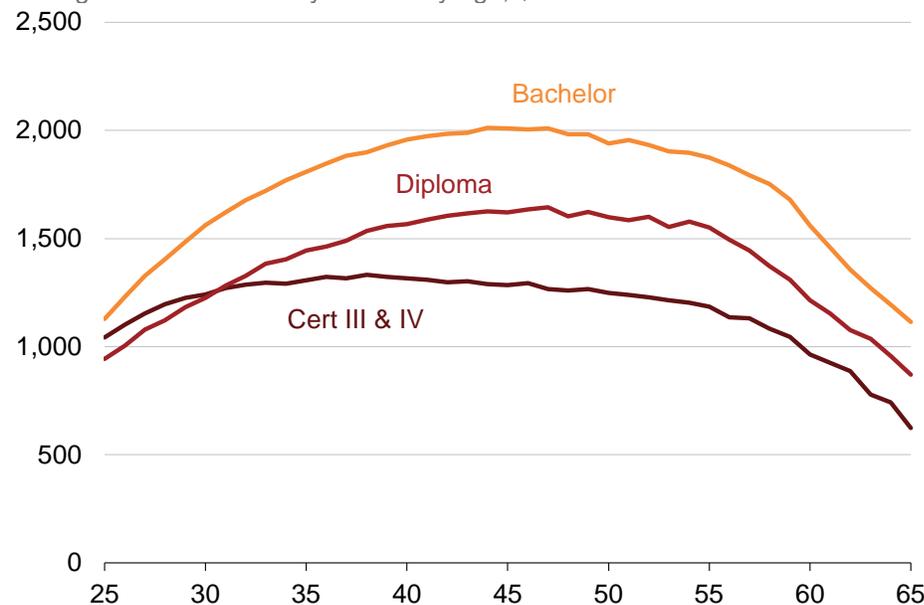


Notes: Proportion of graduates earning below the HELP threshold of \$51,309 (2013-14 initial threshold). Includes all graduates irrespective of employment status or whether they have HELP debt.
Source: Norton and Cherastidham (2016)

People with certificate III/IV qualifications generally earn less than people with diplomas or bachelor degrees. Figure 2 shows median weekly earnings for men by qualification. Women have a similar earnings pattern. These figures suggest that if HELP was extended to certificate III/IV qualifications the doubtful debt costs would be higher than for diplomas.

Figure 2: Certificate III/IV holders earn less than people with a diploma or a bachelor degree

Male gross median weekly income by age, \$2016



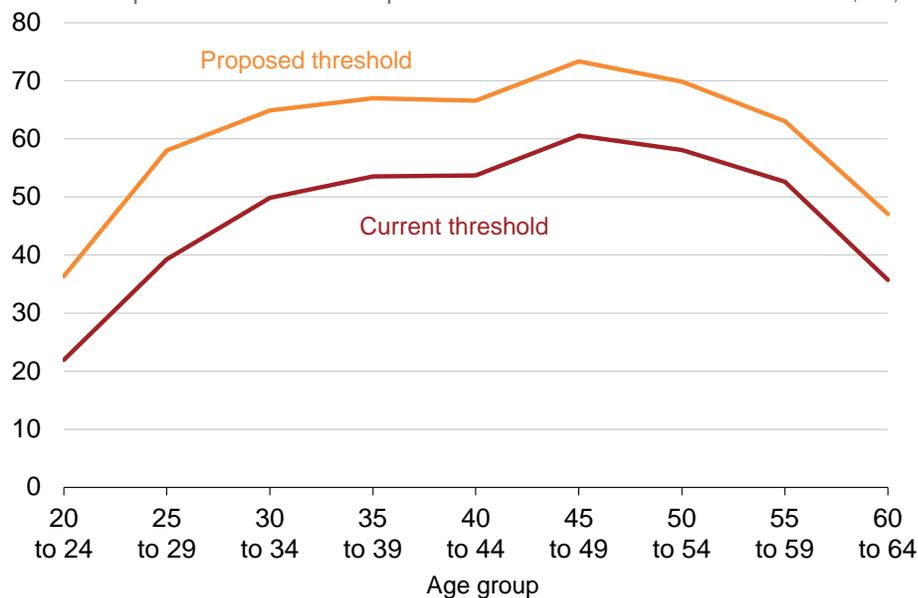
Notes: Australian citizens. Includes all graduates irrespective of employment status or whether they have HELP debt.
Source: ABS (2017)

These likely high doubtful debt costs are one reason why the Commonwealth is resisting extending HELP to certificate III/IV courses and has substantial limits on diploma lending under VET Student Loans, restricting eligibility by course, provider and amount. To some extent there is a trade-off between managing financial risk and cost by limiting lending in the first place, and managing financial risk by having a more effective repayment system. The two strategies are not mutually exclusive, but the HELP repayment system is a policy obstacle to ending widespread upfront fees in the vocational education system.

If the government wants to substantially extend HELP into vocational education while retaining a similar HELP cost per dollar lent, it needs to reduce the initial threshold to be more in line with vocational education qualification holders' earnings.

Our 2016 report proposed an initial threshold of \$42,000. This would bring more diploma holders into repayment across all age groups, as Figure 3 shows (reproduced from *HELP for the future*). During the crucial earning years between the mid-20s and mid-30s, about 60 per cent of diploma holders would earn enough to meet the repayment threshold. The \$45,000 threshold proposed in the *Higher Education Support Legislation Amendment (Student Loan Sustainability) Bill 2018* would not be as effective as the \$42,000, but it would improve on the status quo.

Figure 3: A \$42,000 initial threshold would improve repayment prospects for diploma holders
Share of diploma or advanced diploma holders with income at or above \$42,000



Notes: The proposed \$42,000 threshold was converted into its 2013-14 equivalence, which was \$39,326. See Figure 1
Source: See Figure 1

It would be possible to have different loan schemes for vocational and higher education. However, we do not support this idea. It would introduce the complexity of different repayment thresholds and rules on repayment sequencing for students who use both schemes. In 2016, 11 per cent of bachelor degree enrolments reported vocational education as their previous highest educational participation, and the same proportion of students starting a certificate III or above vocational education course reported higher education as their previous highest educational

participation. Both numbers have been trending up.¹ While there is no reporting on the number of people with both vocational and higher education HELP debt, it will grow as the two sectors increasingly serve overlapping markets. Two schemes would also be complex for employers, who need to deduct HELP repayments for their staff.

Vocational education debtors may also feel that a lower initial HELP repayment threshold would treat them unfairly. While there is an actuarial argument for a different threshold, and also a lower point at which they could be said to be receiving a private financial benefit, the financial hardship arguments around the threshold are the same.

References

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NCVER (2018) *VOCSTATS: TVA program enrolments 2014-2016*, National Centre for Vocational Education Research

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

¹ NCVER (2018); Department of Education and Training (various years)