A Submission to the Senate Education and Employment Committees

Into

Education and Other Legislation Amendment (Abolishing Indexation and Raising the Minimum Repayment Income for Education and Training Loans) Bill 2022

Presented by NUS President Bailey Riley and NUS Secretary Sheldon Gait

In collaboration with the Foundation for Young Australians

The Current Situation

Student debt has reached levels never seen before. According to Australian Tax Office (ATO) data, there were more than 3 million people with an outstanding HECS-HELP debt in 2021-22, totalling more than $74.3 billion. This is a 191% increase in the total amount of student debt in Australia in the 10 years since 2011-12. In terms of the size of individual student debts, 72% of people with HELP debts in 2021-22 owe over $10,000, compared to only 47.51% in 2005-06.[1]

We are seeing greater numbers of students and graduates struggle to pay off the debts accrued in their study. With the predicted rise of at least 7% in HELP debts this year, we can expect to see the number of students with high levels of student debt greatly increase, at a time when wages are not keeping up with the fastest growing inflation rates since before the 1990s recession.

The cost of living crisis disproportionately affects lower income individuals and those least able to afford it. Young graduates aged 20-34 who are more likely to have outstanding HELP debts have lower median weekly earnings than older workers aged 35-59. The former Liberal Government introduced indexation of HECS-HELP loans to CPI. This had huge implications to students' future financial position, repayments and their ability to take out other loans such as house mortgages in the future.

In 2023, young university graduates will be the worst affected by the largest increase in student debt indexation in decades. Students and graduates need immediate financial support to combat the cost of living crisis by pausing indexation on HELP debt repayments.

Indexation and HECS

Indexation maintains the real value of the loan by adjusting it by the consumer price index (CPI). The indexation figure is calculated each year after the March CPI is released. It is based on financial figures collected by the Australian Bureau of Statistics over the previous 2 years.[2]

With CPI running at under 2% up until 2020 this resulted in an increase of $460 pa on the average HECS loan. CPI is now much higher than that, reaching 7.8% by December

2022.[3] This will result in the average HECS loan rising by $2,900 (13%) over the next 2 years.

Average HECS debt - $23k

June 2022 Inflation - 6.1%
2022 Average HECS Increase - $1,400

Estimate June 2023 Inflation - 6.25%
2022 Average HECS Increase - $1,500

As a result, a graduate on an $60,000 pa entry level position will pay ~2.5% of their salary, or $1,500 in 2023 as a HECS repayment. These repayments will be completely wiped out by inflation. The government borrows money for these loans at the RBA cash rate which is currently 3.35% (Feb 2023[4]) and forward loans this money to students at CPI. This will result in the Federal Government profiting $670 (2.9%) next year on the average loan, while graduates on low incomes are hit with cost of living increases.

The impacts of indexation are particularly felt by students from lower socioeconomic backgrounds and graduates working in lower paid fields. Graduates working in essential services like aged care, disability care, nursing and teaching are going to feel the reduction in their take-home pay this year - making it harder to retain graduates in these industries. Indexation increases to HELP debts also disproportionately impacts young women, who owe a higher proportion of student loan debt and earn less due to the gender pay gap.

HECS and Home Loans

Having a HECS debt affects your ability to take out a mortgage, as lenders consider it when assessing your borrowing capacity. This is because HECS debt repayments reduce your disposable income, which in turn affects your debt-to-income ratio, a key factor in determining your loan eligibility.

Young Australians are already facing a housing affordability crisis. They are taking on an increasing mountain of debt in order to enter home ownership. By increasing the amount of student debt they take on, the Government is reducing their ability to take out home loans, further locking them out of the market.

Recommendations

In order to assist young people with the cost of living and future prospects for accessing mortgages in their future, the NUS calls on the Federal Government to:

1. Freeze HECS/ HELP/ VET indexation for the next 2 years at least while inflation is elevated
2. Permanently lower indexation to the RBA cash rate
3. Increase the minimum repayment income to the median wage of $62,400 pa, and
4. Investigate permanently removing indexation on HECS-HELP loans.

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1 Australian Taxation Office "Help Statistics 2021-2022", https://data gov au/dataset/ds-dga-ce4c58ec-c930-4a05-8a37-f244d960e5f8/details?q=
2 Australian Taxation Office (2023), "Study and training loan indexation rates"
3 Australian Bureau of Statistics, "Consumer Price Index, Australia"
4 Reserve Bank of Australia, " Cash Rate Target"

About NUS

The NUS was founded in 1987 to represent post school students in Australia. We are the peak representative and advocacy body for almost 1 Million students. The NUS was established on the principles of student unionism and our primary objectives include amongst many others, working on the interests of students in quality of education, academic freedom, access to education, social security, health and welfare.

Bailey Riley
President

About FYA

For more than 40 years, the Foundation for Young Australians (FYA) has been backing young people and youth-led initiatives to create change. Over time, we've made $50m+ in grants to youth projects, released landmark research, supported thousands of young change-makers, and delivered flagship educational programs. FYA's vision is that young people have the power to beat injustice and transform the future.

Lee Carnie
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