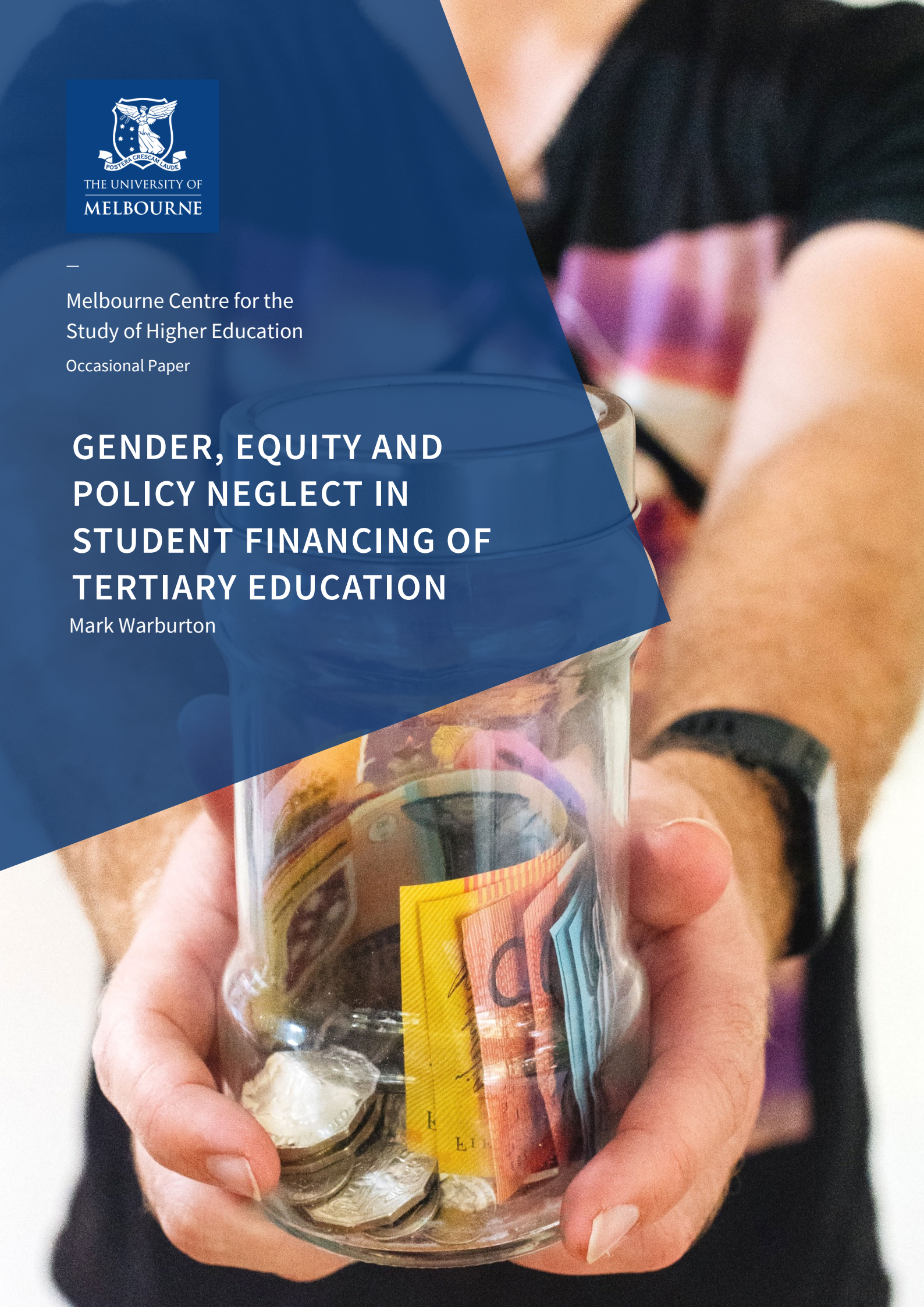

THE UNIVERSITY OF MELBOURNE

Melbourne Centre for the Study of Higher Education

Occasional Paper

GENDER, EQUITY AND POLICY NEGLECT IN STUDENT FINANCING OF TERTIARY EDUCATION

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Disclosure of interests: The author was an adviser to Federal Government Ministers from 1990 to 1996 and is a member of the Australian Labor Party.

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Contents

EXECUTIVE SUMMARY

Student loan schemes are critical to the financing of Australian tertiary education. Under these schemes, the government is lending around $7.5 billion each year, with over $6.5 billion going to higher education institutions. For the 2021-22 financial year, it recouped over $5 billion in student loan repayments. Each decade since the Higher Education Contribution Scheme (HECS) was introduced, the total amount of lending under student loan schemes has more than doubled. Repayments for 2021-22 were more than double the amount for five years earlier.

Most domestic higher education students defer their course costs and pay through the taxation system after they complete their qualification. The amount repaid in a financial year is 'income contingent'. A person may not fully repay their student loan, or may not pay any of it, if they have insufficient income over their lifetime. For some people, the repayment arrangements are not fair and reasonable.

Despite the importance of student loan schemes, an Australian government has never undertaken a thorough review or evaluation of them. The government departments responsible for them do not produce reports explaining their impact on public finances or their impact on the people required to make repayments. Policy concerning repayments has been neglected.

Trends driving the need for change

Patterns of tertiary education attainment have changed since student loans were introduced. In 1989, only 12 per cent of people aged 25-34 years had a bachelor degree or higher. It was considered unfair to expect all taxpayers to fully fund the higher education of this 12 per cent as they would subsequently earn more than an average full-time worker.

By 2021, higher education was no longer the preserve of a small, privileged, and elite group. Around 39 per cent of people aged 25-34 years had a bachelor degree or higher. Only 29 per cent were without a post school education and the remaining 32 per cent had qualifications obtained primarily through the vocational education and training (VET) system. As a consequence, wage levels of higher education recipients are more typical of the general workforce than in 1989.

Women are now more likely to obtain a higher education qualification than a VET qualification. Many occupations traditionally held by women have moved to require professional education and training in the higher education sector. Men's education and training is more evenly distributed between the higher education and VET systems. For men aged 25-40 years with a Certificate III to advanced diploma, 54 per cent have incomes of $65,000 or more. For women aged 25-40 years with a bachelor degree or above, only 51 per cent have incomes above this level.

Governments have increased student contributions for higher education so that students now complete their degrees with average debts that appear to be between $50,000 and $60,000. Former students appear to take around 12 years to repay their debts and repayment times are trending upward. Many people have higher debts and longer repayment times.

Students are spending a significant part of their working lives repaying these debts, a situation that was not the case when HECS was introduced in 1989. They continue to pay the higher effective rates of tax associated with repaying debts well into their 30s. By this time, they are forming families and having children in much greater numbers than when debts were small and repayment times short. Many desire to purchase a house. Their ability to obtain a loan depends on their disposable income which is reduced by their student debt repayment obligations.

Women and carers are most adversely affected

HELP (the loan program replacing HECS) debtors are distributed across the full range of taxable incomes and they are widely distributed across all 51 occupational groups. In 2019-20, 70 per cent of the HELP debt repaid came from people with income between $60,000 and $120,000.

By far the largest amounts were received from women in the health professions who repaid over $400 million, and women in the education professions who repaid nearly $280 million. The greatest amounts were received from women who were registered nurses ($168 million), followed by women who were infant and primary school teachers ($130 million), primarily due to the large number of debtors in these occupations.

The last 34 years has resulted in large amounts of HELP debt being accumulated, particularly against occupations traditionally held by women. These occupations employ large numbers of people, and many have incomes that result in debt not being repaid or repaid slowly. These levels of debt do not exist for the many occupations traditionally held by men which require VET sector training and result in comparable levels of income.

For the 2019-20 financial year, the first repayment threshold was lowered to around 70 per cent of average weekly earnings. This required HELP debtors with incomes between around $46,000 and $60,000 to make repayments. At the same time a complex system to determine the amount of repayment, based on 18 thresholds and 18 repayment rates ranging from one to ten per cent, was introduced.

This change had most impact on women. Just under two thirds of people newly required to make a repayment were women (239,000 of 371,000 in 2019-20). Women paid over two thirds of the additional revenue from the threshold reduction ($288 of $429 million in 2019-20).

HELP repayment arrangements reduce work incentives and create poverty traps for some families. In 2022-23, a couple without children that consists of a HELP debtor and partner who is either unemployed or cannot work, loses on average $1.09 for every additional dollar earned from $48,000 to $60,000.

The situation for families with children is not as bad, but it is not good. A single parent family and a couple family with one parent who is unable to work will experience an average effective tax rate of over 70 per cent for a $52,000 range of income - from $48,000 to $100,000.

In these cases, the HELP repayment arrangements are punitive and undesirable.

How these problems could be fixed

Current inequities could be removed by reducing the large disparities in contributions required from Commonwealth supported students, by changing how HELP repayments are calculated, and by introducing similar contribution requirements for people training in the VET system.

Lower contribution rates for particular disciplines such as early childhood educators, primary teachers and nurses, especially when it requires substantial increases for other disciplines, is unlikely to result in arrangements that are fair and reasonable for all. People employed in these occupations tend to have modest incomes, but not all do. A significant number earn above average incomes and, for some that do not, the reason is their decision to work part time. Other graduates face similar economic circumstances to early childhood educators, primary teachers and nurses.

Unlike most means tested benefits and taxation arrangements, HELP repayments are calculated as a percentage of a person's total income. This makes it difficult to design HELP repayment arrangements that are fair to people with children and dependent partners.

Most means tested benefits and taxation arrangements are designed so that only the amount of income above a threshold is taken into account. Such a design could be used to develop a fairer set of HELP repayment arrangements. A single rate of repayment applied to income above a threshold would be simpler and more rational than the current HELP repayment arrangements. It would allow the threshold to be varied according to a person's family circumstances, ensuring that former students only make repayments when they have the capacity to do so.

There is growing evidence that student loan schemes may be contributing to structural inequities in Australia's taxation system, intergenerational unfairness and reinforcing women's economic disadvantage. It is time the government improved the data available on the individuals affected by student loans schemes, ceased neglecting the impact that their repayment arrangements have on people and ensured that they operate in a manner that is fair in all reasonably foreseeable circumstances.

INTRODUCTION

The Australian Government has never undertaken a thorough review or evaluation of its student loan schemes, despite it being 34 years since the original Higher Education Contribution Scheme (HECS) was introduced in 1989. It has used these schemes to contain its financial outlays on higher education. The share of course costs funded by students through these schemes has been increased to reduce the cost of the system's expansion. New student loan schemes have been created to assist people while they study because it is cheaper than providing direct assistance. People have been made to repay loans at a faster rate to improve the budget position.

Public discussion of student loan schemes usually focusses on the level of contribution which students make to the cost of one year of study for a bachelor degree at a public university. Most students defer these contributions and any other amounts borrowed under the various loan schemes, and repay them through the taxation system after they complete their qualification.

It is therefore surprising that there is so little discussion of the repayment arrangements for student loan schemes. Few people acknowledge the hybrid nature of the schemes – configured as a loan but with repayments being made through the taxation system. Fewer still understand that the same results could be achieved through a tax surcharge without reference to course fees or loans.

The income contingent nature of repayments gets lost in public debate. It often is implied that student loan schemes operate like any other loan, such as that for a house or car. They do not. There is no real interest rate. Repayments are only required if a person's income reaches the repayment threshold. Debts may never be repaid and, if they are not, there is no recovery from deceased estates.

These are features of Australia's student loan schemes that have been critical to their broad public acceptance and to the success of this public policy as a way of financing higher education for domestic students. The design of these schemes reflects Australian notions of a fair and just society, like Medicare and Australia's social security system. They are a way of financing Australia's higher education system by partly recovering costs from those who benefit from it and can afford to contribute.

The continual expansion of student loan schemes and the tightening of the repayment arrangements over the last three decades mean they now contribute to structural inequities in Australia's taxation system, its intergenerational unfairness and women's economic disadvantage. This paper seeks to show how this is occurring and how it does not have to be the case. It argues that the best way to prevent it is to change the arrangements for collecting student contributions through the taxation system.

In 2023, as was the case 34 years ago, the issue is how best to finance post-school education and training. The environment in which that issue needs to be considered is now radically different to that of over three decades ago. The Australian labour market has changed, as have the skills required to get a job in it. Employment in manufacturing has declined and has increased in service industries. Women's participation has increased markedly. Men's participation has fallen. The structure of Australia's tertiary education system has changed, as has the level of participation in it.

Most Australians now need a tertiary qualification to obtain a secure job and student loan schemes are critical to the financing for Australia's tertiary education system. It is time for the Australian Government to undertake a thorough review of how it is using these schemes and the impact they are having on the increasing number of citizens subject to their operation.

Part A of this paper briefly outlines how patterns of post-school education and training have changed over the past three decades and how student loan schemes and their repayment arrangements have been modified by governments over that period.

Part B is a brief discussion of what is known and not known about student debt from publicly available sources. It examines in more detail what conclusions might be drawn about the average debt of current students at the conclusion of their study and how long on average that debt will take to repay.

Part C looks at the incomes and occupations of former students who have not yet repaid their debts. It examines who was most affected by the recent lowering of the first HELP repayment threshold and how arrangements might be embedding women's economic disadvantage. It includes a discussion of how HELP repayment

arrangements when combined with other elements of the tax-transfer system result in high effective tax rates that reduce gains from employment, particularly for women caring for children.

Part D attempts to show how student loan repayment arrangements can be modified to remove the undesirable impacts of the current arrangements identified in Part C.

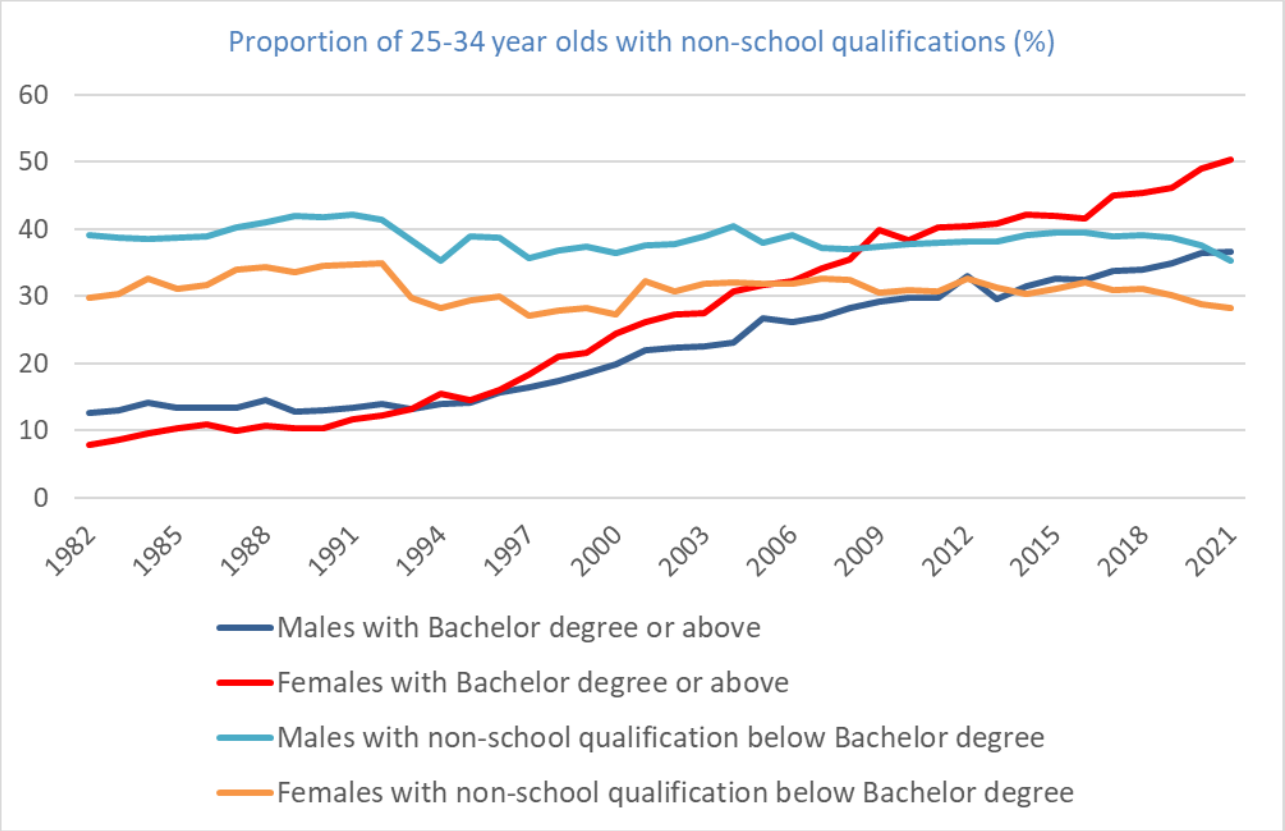
PART A: THREE DECADES OF CHANGE

CHANGES IN POST-SCHOOL QUALIFICATION ATTAINMENT

HECS was introduced when only 12 per cent of Australians aged 25-34 years had a bachelor degree or higher. The rationale for its introduction was the perceived unfairness of using the taxes paid by low-income people to enable a privileged few to become high income earners[1]. The purpose underlying its introduction was to help finance an expansion of student places to meet a growing demand for higher education.

Today, just under 39 per cent of Australians aged 25-34 years have a bachelor degree qualification. Just under 71 per cent have a Certificate 3 or higher qualification[2].

Chart 1



Source: Australian Bureau of Statistics (2021a), Tables 26 and 35.
Note 1: Timeseries data in this chart includes permanent residents and therefore differs from data discussed in the text (see footnote 2).
Note 2: There have been some methodological changes over the period, for example to sample size in 1989 and scope in 2009 and 2013, as well as minor adjustments to definitions and classifications. The impact of these changes on the time series in the chart is unlikely to have significantly affected major trends.

[1] See Australian Government (1988), pp XI, 11, 12 and 15.
[2] The data on highest qualification presented in this section, excluding that in Chart 1, is for only Australian citizens and New Zealanders residing in Australia. This excludes permanent residents and removes the significant impact which international students and skilled migrants have on the data. The data on Australian Citizens and New Zealanders was sourced using TableBuilder for Australian Bureau of Statistics (2021a).

The increase in women's higher education attainment since the introduction of HECS has been dramatic. Chart 1 shows that the share of women aged 25-34 years with a bachelor degree or above has risen from being less than that of men to being well over ten percentage points higher than for men.

Throughout most of this period, the share of men aged 25-34 years whose highest non-school qualification was below bachelor level remained between six and nine percentage points higher than that for women.

The share of 25-34 year old Australians whose highest non-school qualification was below bachelor level has been quite stable but has deteriorated in recent years. It is now lower than in the late 1980s.

Men are more likely to have a qualification at the Certificate 3 level and above but below a bachelor degree, than they are to have a bachelor degree and above (see Table 1). Women are around 60 per cent more likely to have a bachelor degree and above, than a qualification at the Certificate 3 and above but below a bachelor degree. This primarily reflects men's continued dominance in trade occupations which, as shown later in this paper, are remunerated at levels similar to those obtained by women with bachelor level qualifications.

Table 1: Share of people aged 25-34 years by non-school qualification level and gender

	Bachelor and above	**Cert 3 and above but below bachelor**
Males	31.8%	35.6%
Females	45.6%	28.7%

Source: Australian Bureau of Statistics (2021a), TableBuilder data for only Australian citizens and New Zealanders residing in Australia.

Currently a higher share of men over the age of 50 years has a post-school qualification than women. This will not be the case in the future. Women under 50 years of age are now more educated than men. Charts showing the level of educational attainment for each five-year age bracket from age 20 to 65 years for both men and women are at Appendix A.

The gender-based differences in patterns of post-school education and training are historical and reflect differences in how education and training for different occupations and professions has developed over time. The differences are deeply embedded and extend beyond how education and training is undertaken. They are evident in funding and regulatory arrangements, the industrial relations environment for those seeking to enter the occupation/profession and in how occupations and professions are regulated. The arrangements that apply for the traditional male-dominated trades are starkly different from those in place for female-dominated occupations requiring a higher education.

SCHEME PROLIFERATION AND STUDENT CONTRIBUTION INCREASES

The current version of HECS, called HECS-HELP, remains by far the largest of the Government's student loan schemes, with $4.6 billion advanced for the 2022 academic year as at November 2022[3]. Over 98 per cent goes to public universities and it is combined with direct government subsidies under what is known as the Commonwealth Grants Scheme (CGS). Together these two components fund universities' undergraduate courses and some areas of postgraduate study. Student places funded in this manner are known as Commonwealth supported student (CSS) places.

FEE-HELP is the next largest scheme, with $1.9 billion advanced for the 2022 academic year. Around 58 per cent of these funds go to public universities to cover full-fee postgraduate courses that do not have a component of direct government subsidy. The remainder goes to other, mainly private, higher education providers for both undergraduate and postgraduate courses.

[3] Determination of advance payments for HECS-HELP and FEE-HELP by the Department of Education, 22 November 2022.

In total, there are now seven different schemes helping to support the financing of most higher education courses, some vocational education and training (VET) courses and providing help with living costs for both higher education and VET students. The number of schemes and their purposes continue to be expanded.

The amount of lending under all schemes has risen from around $500 million a year in 1989[4] to around $7.5 billion by the early 2020s. Each decade since the first scheme was introduced, the total amount of lending under these schemes has more than doubled.

For undergraduate courses in public universities, increased HECS-HELP lending has largely been driven by greater student numbers and increases in the level of student contributions, rather than by inflation. The average student contribution for a CSS place has risen from around 20 per cent of the funding for a student place in 1989 to 42 per cent in 2020[5]. The former Department of Education, Skills and Employment advised the Parliament that it expected HECS-HELP loans to increase by a further 19 per cent from 2020-21 to 2024-25[6]. This mainly would be due to the student share of course costs increasing from 42 per cent to around 48 per cent under the Job-ready Graduates policy package of the previous Government.

While HECS-HELP contributions are regulated[7], the amounts charged for courses which may be paid through FEE-HELP are not regulated. Increased FEE-HELP lending is a result of public universities expanding the availability of their postgraduate courses, reflecting change in professional registration requirements in areas such as allied health, and other trends in higher education provision by universities[8]. The increase in FEE-HELP lending is also a result of the scheme being progressively extended to private providers since 2005[9].

FASTER REPAYMENT WITH LITTLE REGARD FOR CAPACITY TO PAY

The annual amount of student loans repaid in 2021-22 was over $5 billion. This was more than double the amount paid five years earlier. Most of this increase appears to be due to an increased number of debtors resulting from greater numbers of students being admitted to university.

Substantive changes to the repayment arrangements for income contingent loans have been made on six occasions since 1989, generally with the intention of increasing the annual revenue from repayments. Coalition Governments have displayed a preference for a lower first repayment threshold than Labor Governments. Full details on the repayment arrangements for each financial year since 1989 are in Appendix B. A summary of the major changes which have occurred since 1989 is in Table 2.

The Committee which originally recommended that the government introduce a scheme like HECS highlighted that the beneficiaries of higher education were a small group of privileged individuals[10]. Despite this, it appeared to accept that there would be diversity in student circumstances by proposing that student contributions to course costs only be collected from those who could afford to pay. It recommended that people should pay "through the tax system, only if and when their personal incomes reached the level of average earnings of all Australian workers"[11].

When HECS was introduced, no-one with an income of less than 98 per cent of average weekly earnings was required to make a repayment of any HECS debt. A person with a debt under the scheme was not required to make a repayment if their income stayed under the first threshold for repayment. Any debt remaining upon death was waived at that time and not collected from their estate.

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[4] Parliament of Australia (2018).
[5] Parliament of Australia (2018).
[6] Parliament of Australia (2021).
[7] A university can set HECS-HELP contributions at any amount between $0 and the maximum student contribution specified in legislation. In practice, universities charge the specified maximum student contribution. Universities may waive the contribution for particular students by awarding them an exemption scholarship.
[8] These trends are exemplified by The University of Melbourne's introduction of the 'Melbourne Model'. The University of Western Australia subsequently adopted a similar approach. Other universities have made similar changes on a course-by-course basis. The extent to which students may increasingly require a postgraduate qualification for which they do not attract a government subsidy and need to pay an unregulated full fee is an issue worthy of further attention.
[9] See Australian Government (2003).
[10] Australian Government (1988), pp XI, 11, 12 and 15.
[11] Australian Government (1988), p XII.

Table 2: Summary of changes to HELP repayment arrangements by first year of implementation

Year of major change	First repayment threshold ($)	First repayment threshold as percentage of annualised AWE (%)	Share of income repaid at first threshold (%)	Number of different repayment rates (no.)	Share of income repaid at highest repayment rate (%)
1988-89	22,000	98.4	1	3	3
1993-94	26,403	96.3	3	3	5
1997-98	20,701	67.2	3	7	6
2004-05	35,001	88.4	4	9	8
2018-19	51,957	81.5	2	10	8
2019-20	45,881	70.2	1	18	10
Most recent year					
2021-22	47,014	68.0	1	18	10

Sources: Australia Bureau of Statistics (2021b); Norton, A. and Cherastidtham, I. (2016); Australian Taxation Office (2022).

Over the past three decades, the idea that you make repayments only if you earn more than average weekly earnings (AWE) has been abandoned. Today, the threshold at which people start repaying their student loan is less than 70 per cent of annualised average weekly earnings. Details on the relationship between the first repayment threshold and average weekly earnings for each financial year since 1989 are in Appendix C.

Once the first repayment threshold is reached, the repayment amount is calculated as a percentage of a person's total income[12]. There were originally three thresholds and repayment rates ranging from one to three per cent of total income. Today, there are 18 thresholds and repayment rates ranging from one to ten per cent of total income. This has increased the complexity of the repayment arrangements.

There is a large amount of debt in the ATO's records for former students that will not be repaid. The difference between the total amount of HELP debt held in ATO taxpayer records and the 'net present value of the financial asset' is even larger, due to the financial accounting standards which require the future revenue flows from HELP repayments to be discounted for the cost of government borrowings.

Neither of these facts is evidence that the schemes are not financially viable. Debt that will not be repaid is simply government subsidy. It is not substantially different from any other Government grant or payment. It is not different in nature from direct expenditure on education.

The financial accounting for student loans is complex. Under the arrangements, however, any debt not expected to be repaid (DNER) is expensed as it occurs, as are other direct education subsidies. The government's valuation processes ensure that it is aware of the amount of debt in the ATO's records for former students that will not be repaid. The cost of this is regularly estimated and included in the Budget[13].

The most recent changes to repayment arrangements occurred in 2019-20. These changes further lowered the first repayment threshold after it had already been reduced for 2018-19. In broad terms, the changes over these two years increased repayments for people whose income in 2022-23 is under $60,000, reduced repayments for those with income between $60,000 and $100,000 and increased repayments for those with income over $120,000. Overall, the additional annual revenue raised is estimated to be around $90 million[14].

[12] Under the Higher Education Support Act 2003, the repayment percentage is applied to HELP repayment income which is similar to 'taxable income'. Some downward adjustments to income allowed in calculating taxable income are added back to produce HELP repayment income.

[13] The expense is based on actuarial advice provided from the Australian Government Actuary (AGA). AGA reviews its estimates each year but its reports are rarely made public. Its estimates feed into the Budget papers. DNER informs the HELP expense for current and forward estimates years. Other revisions occur in the item for 'other economic flows'.

[14] This estimate has been derived using the number of people required to make repayments by taxable income range from Table 3 of the ATO's *taxation statistics: individuals* for the 2019-20 financial year. Estimated revenue collected using the 2022-23 repayment arrangement was compared to that using the 2017-18 repayment arrangement with estimates of the 2022-23 value of its thresholds.

The government argued that the changes were required to make student loan schemes 'financially viable'. This was little more than a euphemism to justify collecting repayments from former students who earn significantly less than average weekly earnings. The change was made without regard for the equity implications or how the new arrangements would interact with other elements of the tax transfer system. The education department has rarely considered the latter to be a policy issue of sufficient significance to warrant investigation.

Recognition of the importance of repayments being 'income contingent' was largely absent from the public debate. A range of factors contributed to this. One was the move to explicitly refer to the programs as ***loan schemes*** from 2005, rather than emphasizing their ***contributory*** nature or labelling them as tax surcharges. Another was confusion about the implications of the large amount of DNER.

These factors have changed perceptions about how the schemes are intended to operate. In some cases, people do not acknowledge that repayments are income contingent. On 1 May 2017 on the ABC's Q & A program, the then Deputy Prime Minister, Barnaby Joyce, was engaged in discussion of student loans and declared: "Loans actually have to be paid back". As a statement about Australia's student loan schemes, the statement was factually incorrect.

Whether student loans are repaid, and when they are repaid, depends on the pattern of a person's income over their lifetime and the policy choices that governments make about the repayment arrangements. The income contingent nature of repayment arrangements is the most important feature of these schemes. It directs government subsidy to people with low lifetime income and away from those with high lifetime income. The extent to which this occurs depends on the specifics of the repayment arrangements.

Student loan repayment arrangements have important consequences for people's lives and should be reviewed regularly for their impact on intergenerational equity, social mobility, and the distribution of income.

PART B: STUDENT DEBTS AND REPAYMENT TIMES

THE PAUCITY OF DATA AND ANALYSIS ON HELP DEBT

Currently, four separate government departments, the Australian Taxation Office (ATO) and the Australian Government Actuary (AGA) participate in the administration and accounting for student loan schemes. All tertiary education providers whose students may receive a loan are also involved in their administration.

The government departments responsible for the schemes do not produce reports useful to understanding their financial impact on the Government or their impact on citizens[15]. Each year, the figures in the government's budget papers and the annual reports of departments are produced consistent with current accounting requirements. These require loans to be treated as a financial asset, introducing a level of complexity that leads even those responsible for producing the figures to discount their usefulness for understanding program costs.

The ATO produces two sources of statistics on student loan schemes. These are the ATO's annual *help-statistics* collection and the *taxation statistics: individuals* collection. The data in these statistical collections relate mainly to the original HECS scheme and each of the subsequently created HELP loan schemes. The rest of this paper draws on this 'HELP data'. Data on VET Student Loans, Student Start-Up Loans, Trade Support Loans and the now closed Student Financial Supplement Scheme is either absent or insufficiently comprehensive to warrant inclusion.

Additional information on how the two ATO statistical collections have been used in this paper, their limitations and problems concerning their accuracy over the last few years are discussed in Appendix D.

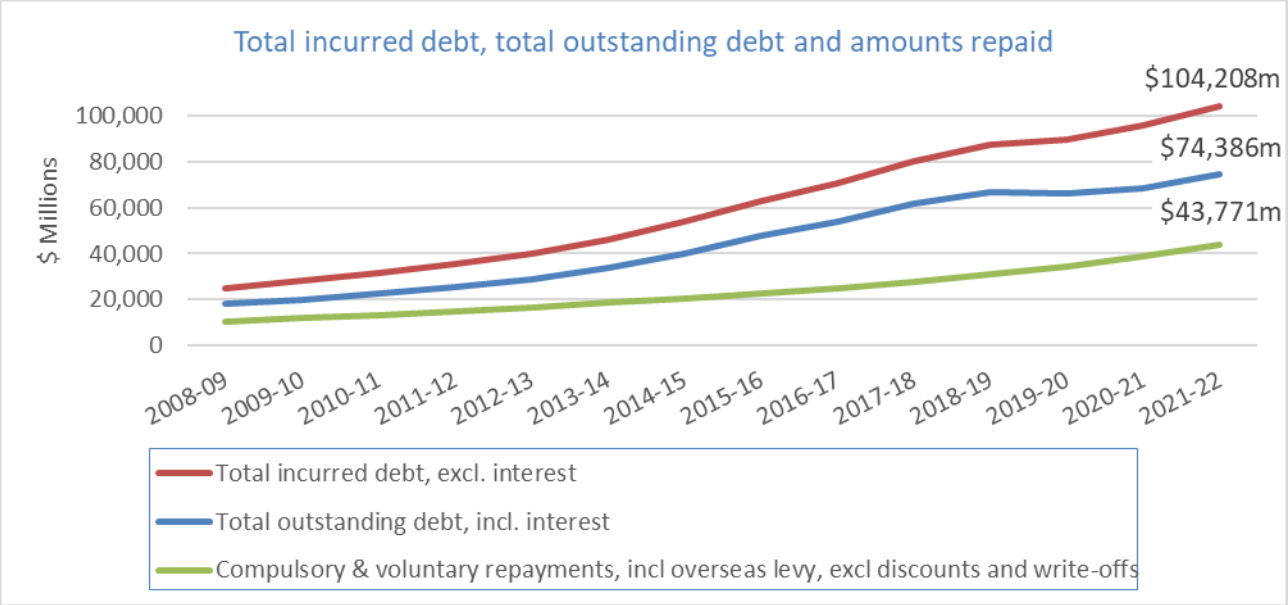
The three major data series from *help statistics* are graphed in Chart 2. Two of the three time series are the total debt incurred by all students since 1989 and the total that remains outstanding. The acceleration in debt that occurred due to the large expansion in higher education provision from around 2010-11 to 2018-19 is evident.

[15] The Department of Education is required to report on the Trade Support Loans Scheme, an obligation that appears to do little more than require it to produce some basic statistics on applications and approvals in an appendix to its annual report. It has released at least one report on the valuation of HELP debt by the Australian Government Actuary.

Since 2017-18, both series appears to have been disrupted as discussed in Appendix D. It is not clear to what extent changes in trend reflect program changes or data disruption.

The third time series in Chart 2 shows the total amount that has been repaid by students since 1989. It shows an increase in the upward trend in total repayments after 2017-18 consistent with the tightening of HELP repayment arrangements.

Chart 2



Source: Australian Taxation Office (2022b), Tables 1 and 5. Note the sum of the amounts for 'total outstanding debt' and 'compulsory and voluntary repayments' exceed the amount of 'total incurred debt'. Total incurred debt does not include amounts payable due to the CPI indexation of debts. The chart also omits the amount of bonus on voluntary repayments and the value of debts written off.

Chart 2 clearly highlights the large financial amounts involved in the operation of the HELP scheme. These financial amounts are not, by themselves, a cause for concern. The $74.4 billion in outstanding debt is distributed across 3 million individuals, of which around 1.1 million are current students. Information on the number of debtors and average amount of debt by age and gender is in Charts 3 and 4.

Chart 3

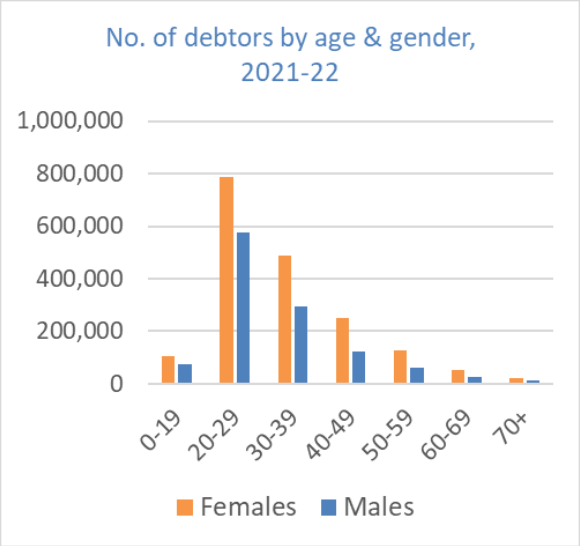
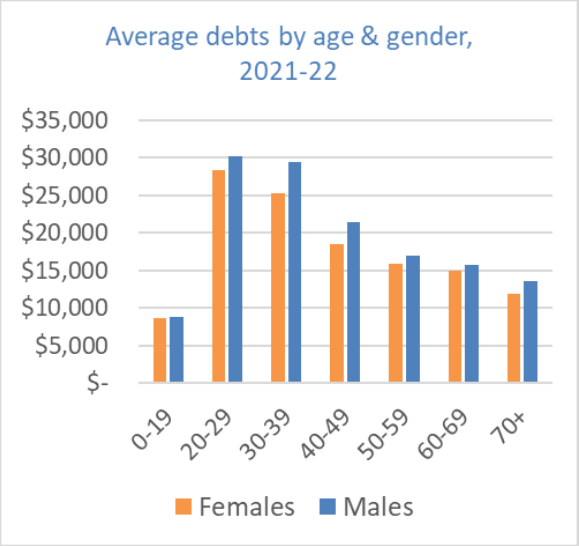


Chart 4



Source for Charts 3 and 4: Australian Taxation Office (2022b), Table 8. Both graphs exclude age 'unknown'.

Most individuals with student debts will have productive working lives. They do not pay real rates of interest but the real value of their debts is maintained through CPI indexation. They effectively have a higher rate of tax until their debt is repaid. The repayment arrangements, depending on their design, need not be onerous.

The HELP schemes currently provide over $6.5 billion to the higher education sector each year and the Government is recouping around $5 billion in repayments each year.

While the large size of the HELP debt portfolio is not an immediate cause for concern, it provides a strong reason for due diligence in its administration. It highlights why the schemes and their impacts, particularly on the many individuals who are affected, should be regularly evaluated.

Unfortunately, the Australian Government's historical performance in monitoring and reporting on the operation of its income contingent loan schemes is poor. It does not produce a report on the state of the schemes as occurs in New Zealand or monitor impacts on individuals.

The ATO's data is the only data produced each year. Most of the data in *help-statistics* are total figures covering the life of the scheme as at the end of the relevant financial year.

- The data does not include how much debt is reported to the ATO each year. It includes only the total amount reported since 1989.
- It does not include how long on average people who finished repaying loans in the current financial year took to repay them. It includes only how long everybody who has ever finished repaying a loan took to do so.
- Current trends are swamped by the inclusion of data on the millions of individuals who have studied over the past 34 years.

There is no data source which can be used to determine the size of debts currently being incurred by students for particular qualifications. There is little available data on how debts are distributed based on the characteristics of completing students or how factors, such as family formation, may affect their ability to make repayments.

Other data and analysis, when it is released, is primarily for political purposes to justify changes to policy or to justify current policy settings. It can be quite misleading. An obvious example are the figures released on the average time taken to repay debts, as discussed later in this paper.

This lack of monitoring and evaluation may have been excusable when student contributions to higher education were modest and repayment times short, but this is increasingly no longer the case.

GROWTH IN THE DEBT LEVELS OF INDIVIDUALS

While information on the total debts incurred by students completing the major types of qualification for different occupations is not available, there is data on the level of debt of all current debt holders. In analysing this data, it is critical that the diversity of current debt holders is recognised.

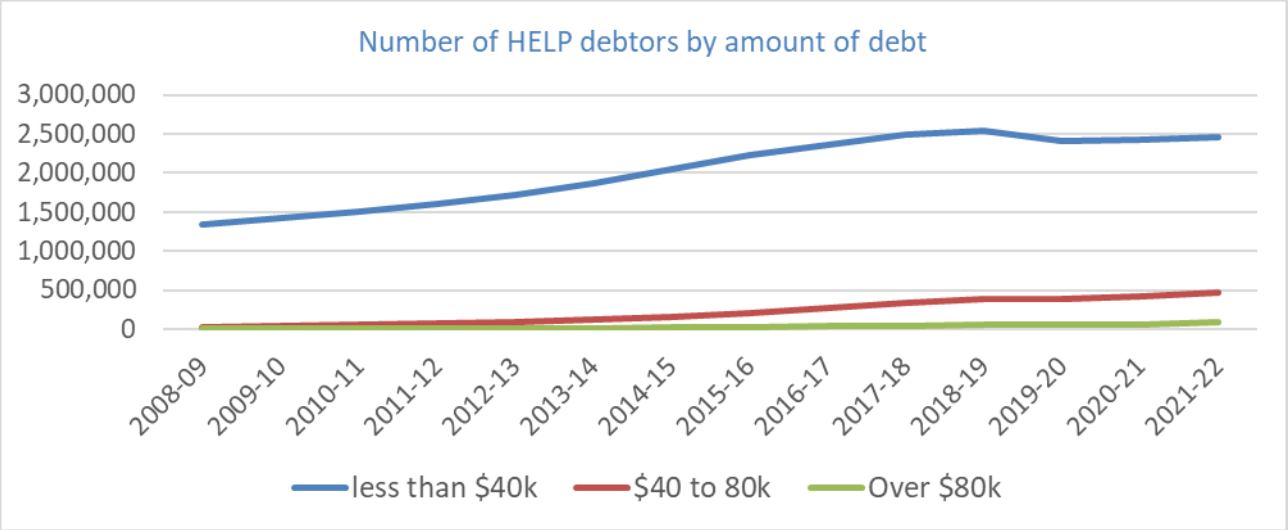
Around one third of them are from the 1.1 million current domestic students yet to complete their studies. An unknown share of the total are former students who may have incurred substantial debts, but after several years have substantially reduced them. Another unknown share of the total are former students who incurred debts years ago when student contributions were low, but due to personal circumstances and incomes have not repaid them. Some are people who left without completing their qualification. Some may have recently completed short inexpensive courses.

Chart 5 shows that the number of people with debts under $40,000 appears to have plateaued at around 2.5 million. While the time series may be affected by the disruptions to data since 2018-19, the impact of these disruptions is unlikely to have altered this result. This group is likely to be the most diverse group of debtors in respect of the factors described in the preceding paragraph.

In contrast, the groups of people with debts in the ranges from $40,000 to $80,000 and over $80,000 are continuing to grow. These two groups are increasing both numerically and as a share of HELP debtors. They are likely to be less diverse than the group of people with debts under $40,000. They are likely to include higher concentrations of people who have recently completed their study, and consequently better reflect the situation of the roughly 230,000 domestic students currently completing their courses each year.

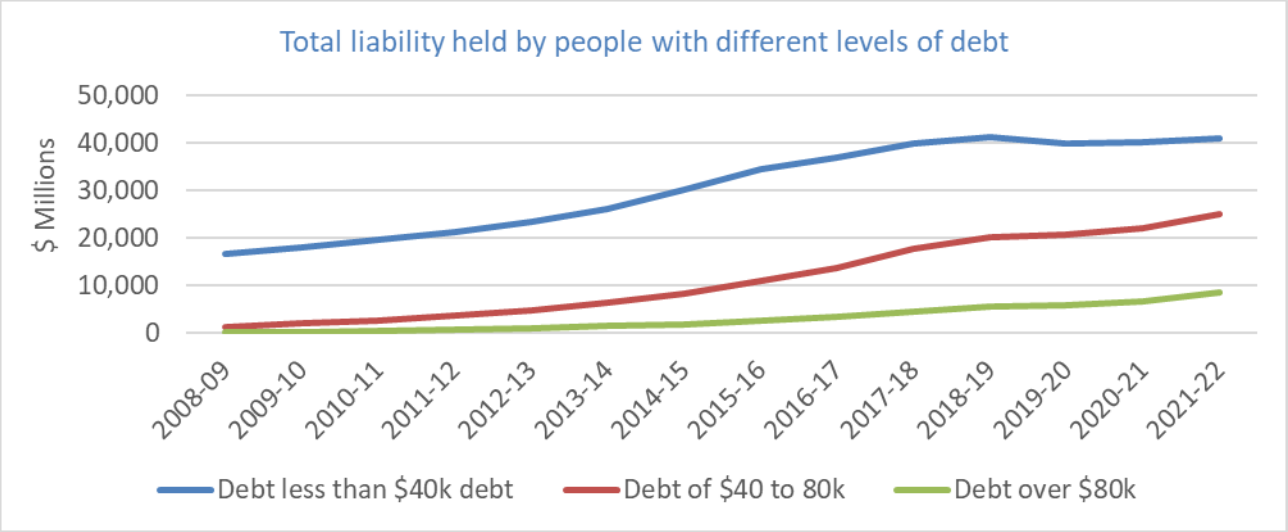
The importance of the group of people with debts over $40,000 is highlighted dramatically in Chart 6. Collectively, this group now holds 45 per cent of the entire debt pool - $33.5 billion of the current total of $74.4 billion.

Chart 5



Source: Australian Taxation Office (2022b), Table 5. Note 'k' indicates thousands. For example, $40,000 is presented as $40k.

Chart 6



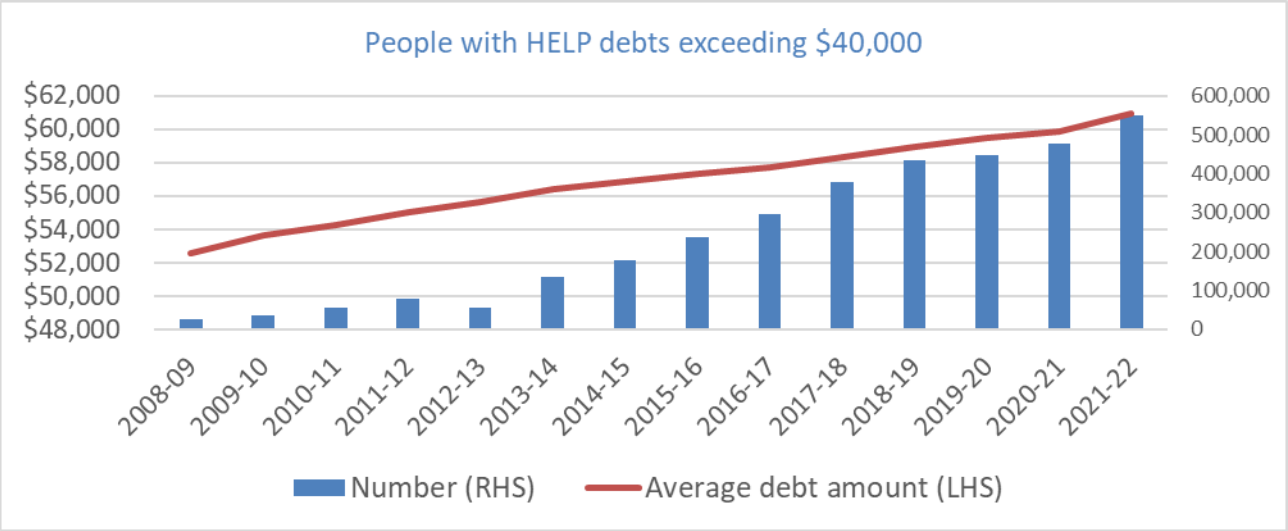
Source: Australian Taxation Office (2022b), Table 5. Note 'k' indicates thousands. For example, $40,000 is presented as $40k.

Chart 7 shows that there are now around 550,000 people with debts over $40,000 and that the average debt within this group is around $61,000. There has been a rapid rise in the number of people in this group over the past decade.

This analysis highlights how misleading data on HELP debts released the Commonwealth Department of Education can be to someone unfamiliar with HELP. The Department's standard response on the size of HELP debts is to indicate that the average debt of all people who have a debt is $25,000. This is a true statement, but the figure is close to meaningless if one wishes to understand the circumstances of young people studying today.

The average debt of all debtors covers a large group of people from different cohorts over the past 34 years who are now in very different circumstances. It does not reflect the size of debts that the current cohort of completing students will have to repay. The average debt of people currently completing their qualifications is likely to be closer to the $61,000 average for all people with debts over $40,000 than it is to be $25,000. This is unsurprising. The level of student contribution rates, either before or after the Job-ready Graduates changes, implies this result.

Chart 7



Source: Australian Taxation Office (2022b), Table 5.

Following Job-ready Graduates, over a third of all student places will attract an annual student contribution which in 2023 is over $15,000. A student on this contribution level and doing no more than a three-year degree with no unit of study failures and no changes of study intention will accrue a debt of around $45,000. If they do an honours year, it will be at least $60,000. A five-year double degree will result in a debt of around $75,000.

A person who undertakes a professional postgraduate degree after studying a general degree will likely pay a full fee and utilise FEE-HELP. This will add between $20,000 and $40,000 to their debt. A person seeking to be admitted to practice law after they complete their degree will need to undertake a practical legal training program, potentially adding a further $10,000 to their debt.

Some students utilise loans for overseas study experiences. Loans are available to pay services and amenities fees. Students may add further to their debts by utilising Student Start-up Loans which currently make around $1,200 available twice a year to people receiving income support payments to help with their living costs.

The above examples are hypothetical. The reality of young people's lives is that they are often turbulent. They explore options and change their minds. They undertake a few units of study that are surplus to their degree's requirements, or they fail a few units.

The Department of Education does not produce any regular data on how much debt students are accruing to obtain their initial qualifications. The reality is that Australia's current system of student loans is built to encourage students to take on debt without worrying about it. This might be more defensible if a person was not required to make repayments until they earned more than average weekly earnings. It is less responsible since the Government reduced the repayment threshold. Lowering the threshold has amplified the impact that repayment arrangements have on many people's lives, as demonstrated below.

To conclude, current policy deliberations need to recognise that today's students are completing their degrees with average debts that appear to be between $50,000 and $60,000. If this is not yet the case, it is certainly going to be the case soon under Job-ready Graduates settings.

GROWTH IN TIME TAKEN TO FULLY REPAY DEBTS

When the Department of Education is asked how long it takes students to repay their debts, it provides a largely misleading and meaningless figure. At the Senate Estimates hearing in November 2022, it advised Senators that students take around 9.5 years to repay their debts[16].

[16] Parliament of Australia (2023), p 38.

Obviously, the Department can only provide a figure for people who have already finished repaying their debts. But the Department's figure is an average for all people who have repaid their debts over the life of the scheme, including for example someone who finished repaying their debt in 1995.

Chart 8 is derived from the ATO's *help-statistics* on the total number of people who have fully repaid their debt and the average number of days it took these people to repay their debts[17]. It shows that by 2018, the average time taken to repay debts had risen to around 12 years, well over the 9.5 years that the Department claims. The apparent drop in the time taken to repay debts by those completing in 2019-20 is difficult to accept without further explanation[18].

Despite the uncertainty concerning factors affecting the data for 2019-20, the time take to repay debts rapidly returned to nearly 12 years. There is also a long-term upward trend in the time taken to repay. A young person who went straight to university from high school and finished studying at age 22 years would be repaying their student debt until around 34 years of age.

Chart 8

Source: Australian Taxation Office (2022b), Tables 2 and 3.

The overall conclusion of this part of the paper is that students who are currently completing their study and those that will be completing for the remainder of this decade have average debts that appear to be between $50,000 and $60,000 and they will spend a significant part of their working lives repaying these debts, a situation that was not the case when HECS was introduced in 1989.

Today's students will continue to pay the higher effective rates of tax associated with repaying their debts well into their 30s. By this time, they will be forming families and having children in much greater numbers than when debts were small and repayment times short. Many may have commenced the purchase of a house, but their ability to obtain a loan will depend on their disposable income and this will be affected by their student debt repayment obligations.

This conclusion is sufficient to justify calls for a greater level of evaluation and review of current student loan arrangements, in particular the repayment arrangements associated with the debts that are imposed on students

[17] The chart is derived from aggregate figures for the life of the scheme by calculating how many extra people finished repaying their debt each year, how many extra days it took that group to do so, calculating the average number of days the group took and converting it into years.

[18] As with other time series, the data may be affected by administrative processes and disruptions since 2017-18. It may be affected by the removal of VET FEE-HELP debts as that fraud is cleaned up. The lack of documentation for data means it is unclear if these VET FEE-HELP debt waivers are classified as debt finalisations. There may also be a discontinuity in the time series associated with the change to repayment arrangements. This could have occurred if the lowering of the threshold resulted in a sudden surge of relatively recent small debts being fully repaid.

undertaking tertiary study. A serious examination of the appropriateness of those arrangements for the diverse circumstances in which people find themselves after completion of their studies is warranted.

PART C: REPAYMENTS AND THE DIVERSITY OF POST-STUDY LIFE

It is no longer the case that people who go to university are a small, privileged group. Around 39 per cent of all young people now obtain a bachelor degree. The people who go to university are a much larger and more diverse group than when HECS was first introduced.

One of the strong arguments used to support student contributions from those undertaking higher education is the financial premium derived from obtaining such a qualification. The argument featured prominently in the report of the Wran Committee which recommended HECS' introduction[19] and it was used recently by the Government to support its Job-ready Graduates increases to student contributions [20].

While in broad terms this justification for student contributions continues to be reasonable, its force has diminished as the share of the population without tertiary qualifications has declined. In 1989, around 50 per cent of the population aged 25-34 years did not have a post-school qualification. By 2021, this was down to around 25 per cent.

More significantly, the existence of a financial premium from higher education provides no basis for assuming that all debtors will have above average incomes throughout their lives. From the perspective of designing an appropriate set of repayment arrangements, it is an irrelevant generalization that belies the diversity of circumstances faced by graduates living real lives.

The circumstances faced by graduates are increasingly diverse. The larger the debts of graduates and the longer they take to be repaid, the more will life events affect their capacity to make repayments, sometimes temporarily and sometimes permanently. HELP repayment arrangements should recognise the existence of these diverse circumstances and they should be designed to be fair to all people living in circumstances that are reasonably foreseeable.

TAXABLE INCOMES OF HELP DEBTORS

In 2019-20, records for around 2.3 million of the 2.9 million debtors in that year, or just under 80 per cent, were in *taxation statistics: individuals*. The main reason around 20 per cent (or 579,000) of HELP debtors are omitted would be that they have not lodged tax returns. The likely reason for this is that they have insufficient income.

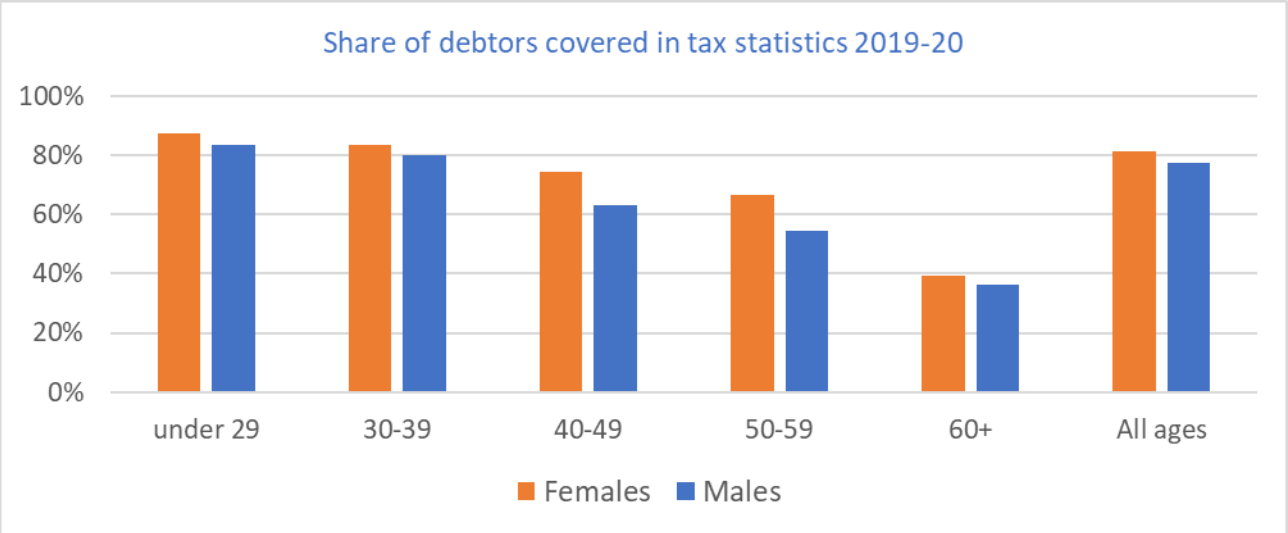
The share of HELP debtors lodging tax returns declines with age, particularly from 40 years of age, as can be seen in Chart 9. This finding is not surprising as older age cohorts would be more likely to be experiencing illness or incapacity and more likely to be caring for children or aged relatives. As most debtors are aged under 40 years, this is not a major concern. In 2019-20, only 23 per cent of debtors were aged over 40 years, however this may increase over time as the size of initial debts increases.

The share of women lodging tax returns is around four percentage points higher than for men, but between the ages of 40 and 60 it is around ten percentage points higher. This is likely, at least in part, to be due to different patterns of labour force participation, in particular differences in the distribution of lifetime earnings of men and women.

[19] Australian Government (1988), p 12. This report noted a study from the time showing that university graduates with five years of work experience can earn around 20 per cent more than the average full-time worker and that the difference between graduate and non-graduate incomes increases with further labour market experience.

[20] Australian Government (2020), p 3. This paper on the Job-ready Graduates package noted that graduates enjoy an income premium of around 60 per cent over those without tertiary qualifications.

Chart 9



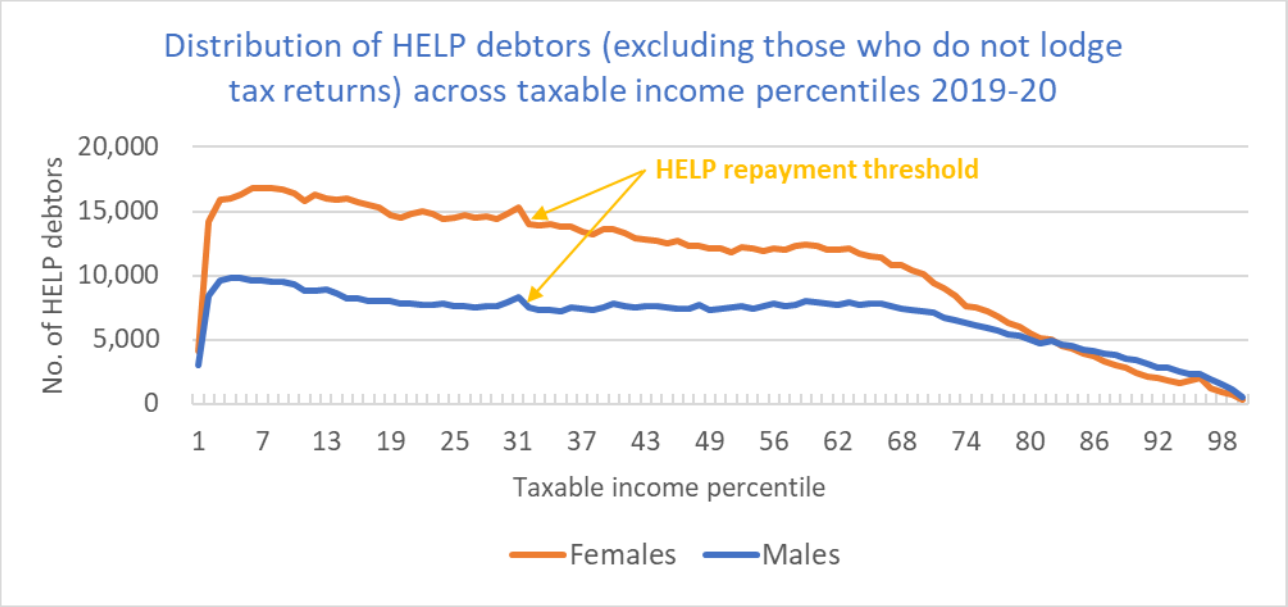
Source: Australian Taxation Office (2022b), Table 8; Australian Taxation Office (2022c), Table 3.

Chart 9 does not indicate that a lower share of debtors under age 29 are submitting tax returns. Given that at least one third of all debtors in 2019-20 (i.e., around 1.1 of 2.9 million) were current students and many were young, such a finding would not have been surprising. The actual finding reflects the current high levels of workforce participation of students, including those who go straight from school to university.

Despite students having high levels of workforce participation, it is likely that current students comprise a greater share of the young debtors not in *taxation statistics: individuals*, than of the older debtors who are not in that collection. At least half of all current students (that is, more than 500,000) are lodging tax returns and are in the collection.

Chart 10 shows how HELP debtors in the collection are distributed across taxable income percentiles. It shows they are heavily clustered in the bottom third of the distribution, below the HELP repayment threshold which in 2019-20 was $45,881.

Chart 10



Source: Australian Taxation Office (2022c), Table 16.

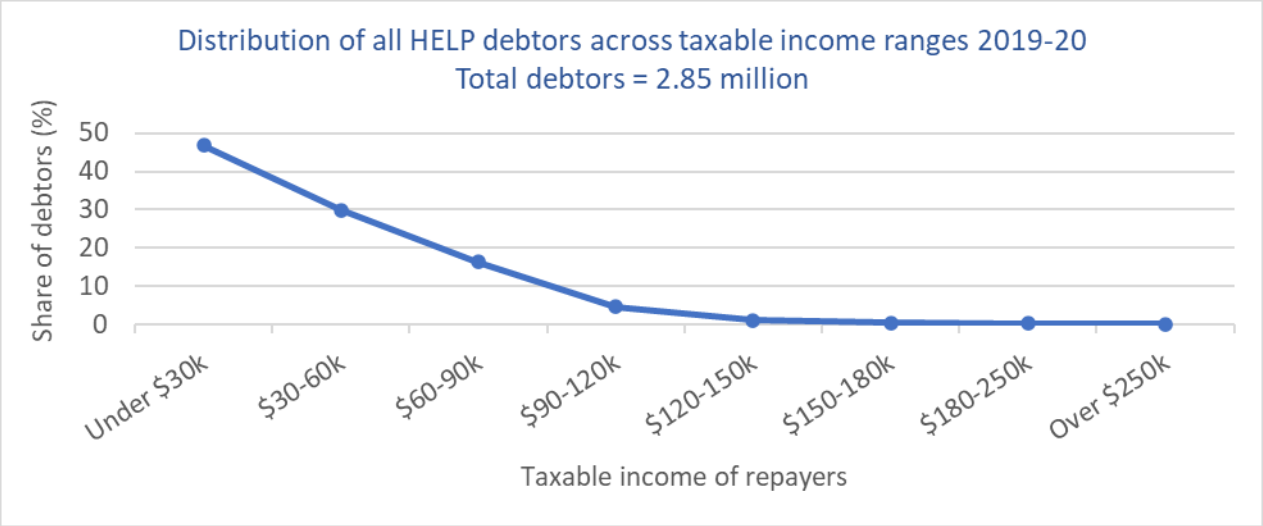
One third of all HELP debtors who lodge tax returns are among the 25 per cent of taxpayers with the lowest taxable incomes. They account for around 590,000 HELP debtors. It is possible, but unlikely, that all these debtors are current students. Even if all currents students who lodge tax returns are clustered below the 25th percentile, there is another third of debtors between the 25th and 50th percentile (i.e., with taxable incomes between $41,000 to $60,000).

The number of HELP debtors lodging tax returns declines quickly above the 66th percentile. Only around 20 per cent of HELP debtors lodging tax returns have incomes above this level. There are multiple reasons for this, such as debtors being younger and not having reached their peak earning levels. Higher income individuals also repay their debts quickly and spend less time being debtors.

At every percentile, there is a greater share of women with taxable incomes below that percentile than the share of men below that level. Around 67 per cent of female debtors have taxable income below the 50th percentile (the median) compared to only around 59 per cent of male debtors.

The taxable incomes of HELP debtors are not evident in Chart 10 but are in Chart 11. It shows the distribution of all HELP debtors across taxable income categories. It includes the 579,000 debtors not in *taxation statistics: individuals* and assumes they all have taxable incomes in the 'Under $30k' category. Only seven per cent of all HELP debtors have incomes over $90,000.

Chart 11



Source: Australian Taxation Office (2022b), Table 8; Australian Taxation Office (2022c), Table 3. Note 'k' indicates thousands – so $40,000 is presented as $40k.

The large share of HELP debtors with incomes below $60,000 is partly a result of former students who, for whatever reason, have sufficiently modest incomes that their debts remain unpaid. The number of people in this group continually increases over the years. This is consistent with the income contingent nature of the scheme and is a direct result of that policy.

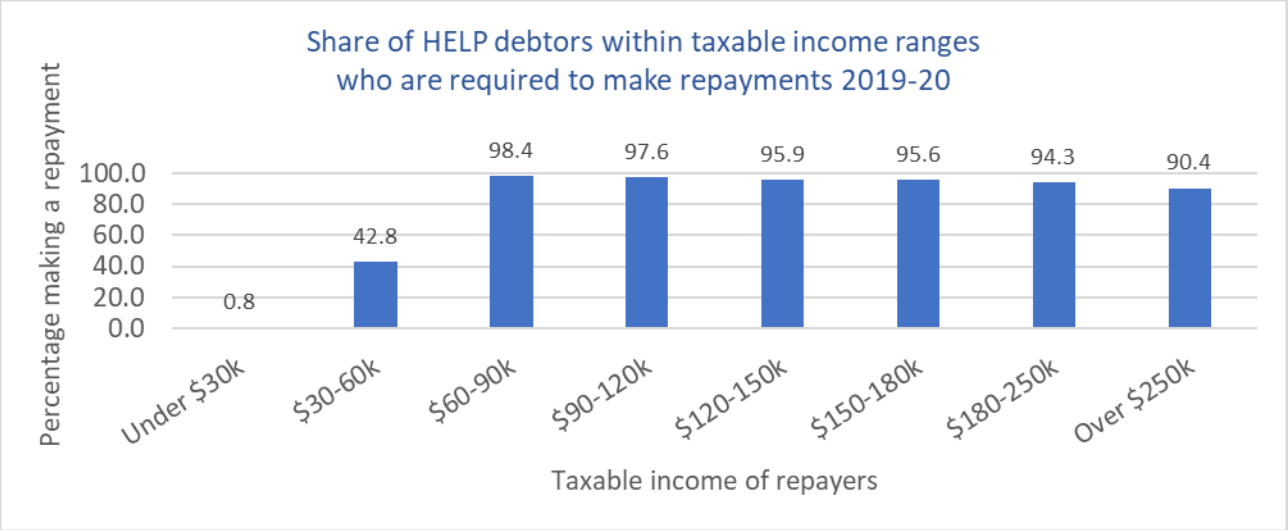
The group of debtors with incomes below $60,000 has also increased due to the higher education system expanding and providing education and training for a much wider range of potential workers. These workers receive wages more typical of the general workforce than was the case in 1989 when the first student loan scheme commenced.

The above findings do not refute that there is a premium associated with higher education study. They do show that it is false to assume that all HELP debtors are affluent and can afford to pay the higher rates of effective tax entailed in repaying HELP debts. They highlight the importance of repayment arrangements being fair and reasonable, regardless of the level of a person's taxable income.

REPAYMENTS AND THE LOWERING OF THE THRESHOLD

The share of debtors required to make repayments within various taxable income ranges is in Chart 12. Taxable income is not identical to 'HELP repayment income' which forms the basis for calculating a person's amount of HELP repayment. Essentially, some downward adjustments to income allowed in calculating taxable income are added back to produce HELP repayment income. This explains why there is a small proportion of debtors with taxable income under $30,000 who make a HELP repayment.

Chart 12



Source: Australian Taxation Office (2022b), Table 8; Australian Taxation Office (2022c), Table 3. Note 'k' indicates thousands – so $40,000 is presented as $40k.

In 2019-20, the repayment threshold was $45,881. Not everyone with income above this threshold is required to make a repayment of their debt. People are not required to make a repayment if they do not pay the full Medicare Levy. In 2021-22, a single person or a member of a couple generally did not pay the full Medicare levy until their income reached $53,777 if they had one child and $58,300 if they had two children. These two factors explain why only 43 per cent of debtors with income from $30,000 to $60,000 make repayments.

The share of people making repayments declines as taxable income increases above $90,000. The reason for this is not clear[21]. It is not explained by the Medicare Levy arrangements for low-income earners. The number of debtors with taxable income over $90,000 who do not make a compulsory repayment is around 6,000.

The distribution of people who make a HELP repayment across taxable income categories is in Chart 13. Around 36 per cent have taxable incomes between $30,000 and $60,000, 45 per cent between $60,000 and $90,000 and only 13 per cent between $90,000 and $120,000.

In 2017-18 the first repayment threshold was around 90 per cent of AWE. If this threshold had remained, it would have been slightly less than $60,000 in 2019-20. Use of this figure makes it easy to see who has been affected by the reductions in the threshold which occurred after the 2017-18 year.

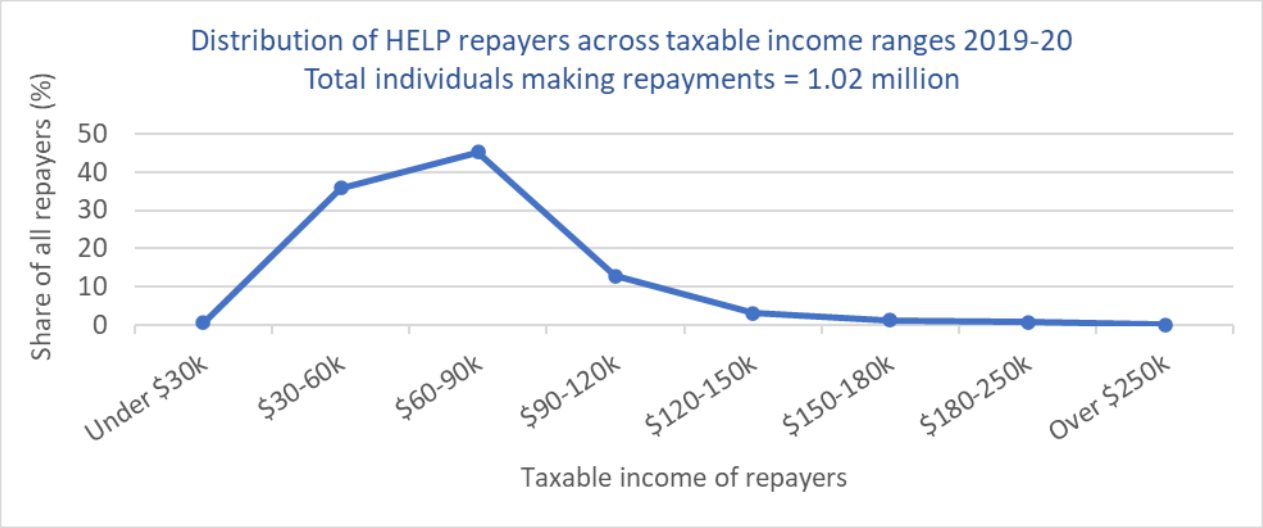
Around 370,000 people required to make a HELP repayment in 2019-20 would not have done so had the threshold remained at around $60,000. While people who had an income less than this level were one third of people making HELP repayments in 2019-20, Chart 14 shows they accounted for only 12 per cent of the total amount repaid in that year. This was due to the increased progressivity introduced by the 18 different repayment

[21] This analysis is based on the ATOs variable 'taxable income range'. In the ATO's explanatory index, the variable is listed as a demographic characteristic and is not further defined. Which label on taxation returns or what calculation is used for this classification purpose is unclear. The most probable candidate would seem to be 'taxable income or loss' which likely includes tax deductions and losses but not tax offsets. This makes the above finding difficult to explain.

rates, with those earning under $60,000 paying between 1 per cent and 3 per cent of their total income depending on its level.

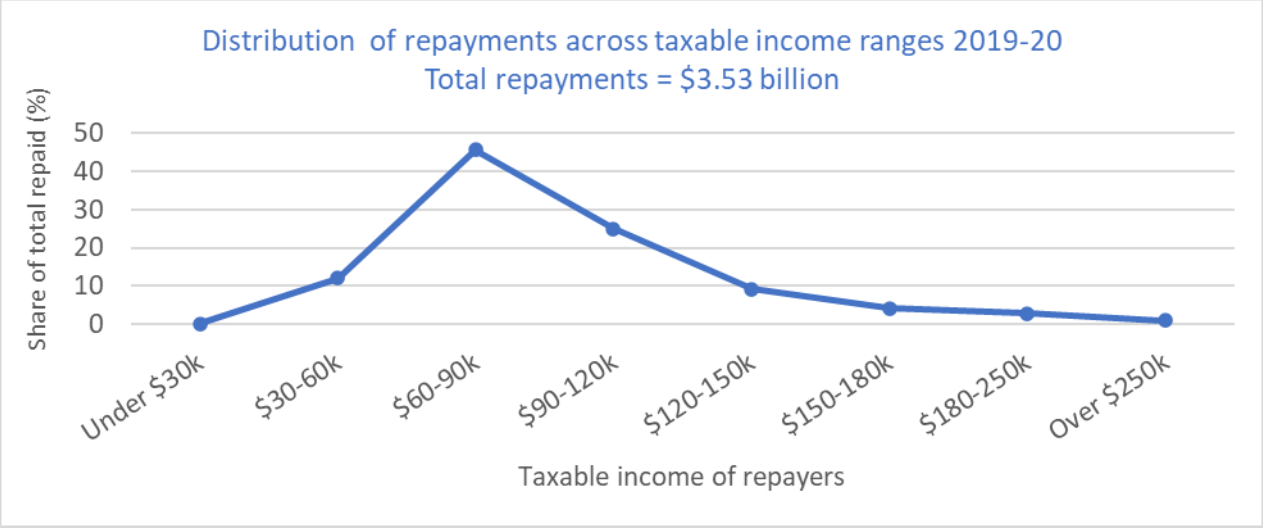
People with income between $60,000 and $90,000 were just over 45 per cent of the people making repayments and they account for just over 45 per cent of the total amount repaid in 2019-20. People with income between $90,000 and $120,000 were 13 per cent of those making repayments and contributed 25 per cent of the total amount repaid.

Chart 13



Source: Australian Taxation Office (2022c), Table 3. Note 'k' indicates thousands – so $40,000 is presented as $40k.

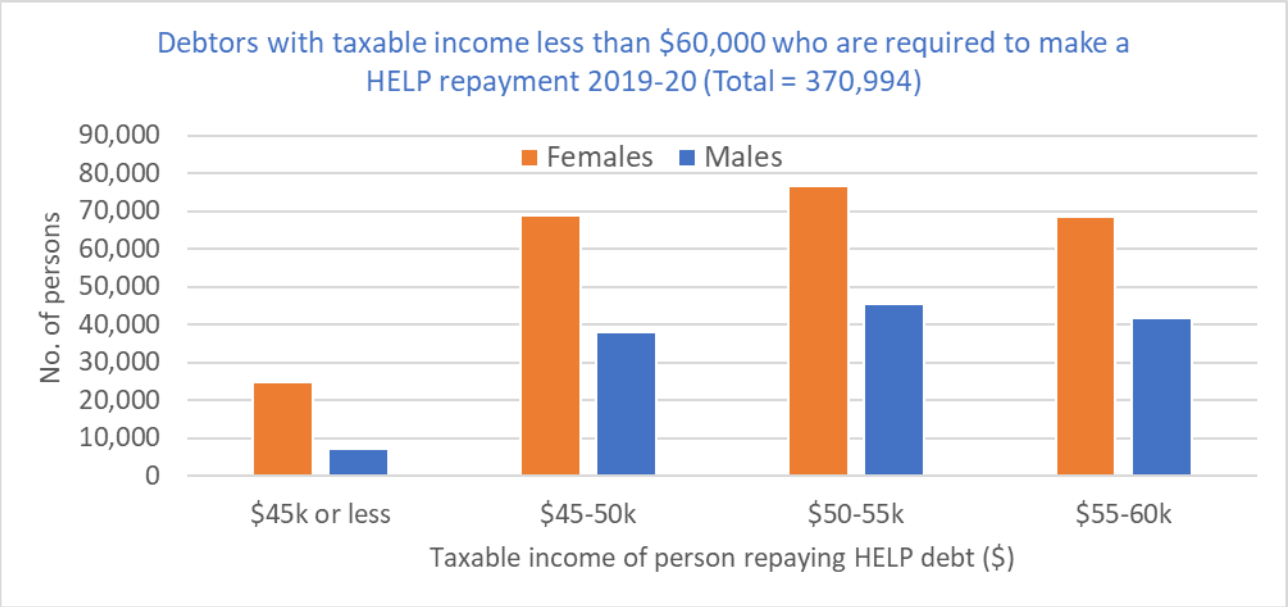
Chart 14



Source: Australian Taxation Office (2022c), Table 3. Note 'k' indicates thousands – so $40,000 is presented as $40k.

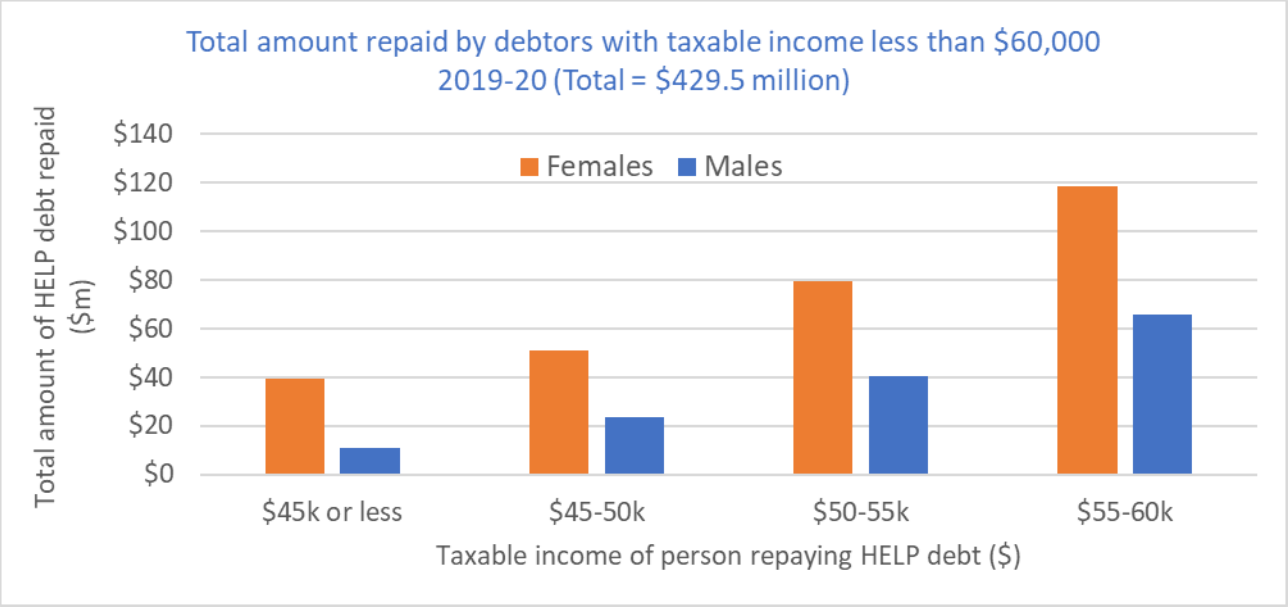
Charts 15 and 16 show how the drop in the first repayment threshold differentially affected men and women. Just under two thirds of people newly required to make a repayment were women (i.e., 239,000 of 371,000). These women paid just over two thirds of the additional repayments required by the threshold reduction ($288 of the $429 million).

Chart 15



Source: Australian Taxation Office (2022c), Table 3. Note 'k' indicates thousands – so $40,000 is presented as $40k.

Chart 16



Source: Australian Taxation Office (2022c), Table 3. Note 'k' indicates thousands – so $40,000 is presented as $40k.

The finding that the drop in the repayment threshold had a far larger impact on women than men is not surprising. There is a high level of gender-based occupational segregation in the Australian labour market and women receive less remuneration, particularly in occupations in which they have traditionally worked. Women do more unpaid caring, are more likely to work part time and are less likely to advance to higher paid positions than men.

The impact of these factors will become even clearer in the following sections which look at the occupations of people repaying debt, the incomes of debt holders in various occupations and how current arrangements might be perpetuating women's economic disadvantage.

OCCUPATIONS OF DEBTORS AND THOSE MAKING REPAYMENTS

Within the ATO's *taxation statistics: individuals*, there are occupations for 2.0 million (89 per cent) of the 2.3 million debtors who lodged tax returns. These occupations are coded into 51 occupational groups[22]. The chart at Appendix E shows that HELP debtors are distributed widely across these occupational groups.

Of the 51 occupational groups, 28 have at least 20,000 debtors and 14 have over 50,000. While there are clearly lower numbers of debtors among the 25 occupational groups which cover 'technicians and trade workers', 'machinery operators and drivers' and 'labourers', the number of debtors in these 25 categories is not negligible. There are 261,000 of them in total.

The wide distribution of HELP debtors across occupational groups provides evidence of the need to exercise caution in making assumptions about the occupations in which people who have a higher education will subsequently work. People who study in a particular area do not necessarily work in that area for the rest of their lives. There are high levels of mobility in the labour force.

Chart 17 shows the top 20 occupational groups for people required to make HELP debt repayments in 2019-20 and the amounts paid by men and women. The obvious standouts are women in the health professions, who repaid over $400 million in 2019-20, and women in the education professions who repaid nearly $280 million.

The health professional's classification is broad and includes medical practitioners, registered nurses, midwives, pharmacists, optometrists, physiotherapists, and nutrition professionals. It does not include enrolled nurses who are classified as 'health and welfare support workers', or 'carers and aides' who have their own occupational group.

Education professionals include teaching occupations from early childhood educators to university lecturers, as well as special education teachers and education advisers and reviewers.

Some of those who commence in the health and education professions take career paths that result in them being classified as 'specialist managers'. This category covers health and welfare services managers, school principals and other education managers, as well as business administrators, construction managers and those working in advertising and public relations[23].

People who start their working lives in jobs with modest pay may advance to senior managerial positions and receive remuneration at higher levels. Consequently, not only is there a need to exercise caution in making assumptions about the occupations in which people who have a higher education will subsequently work, there is also a need for caution in making assumptions about the levels of remuneration people will receive in jobs where their higher education qualification remains relevant to their occupation.

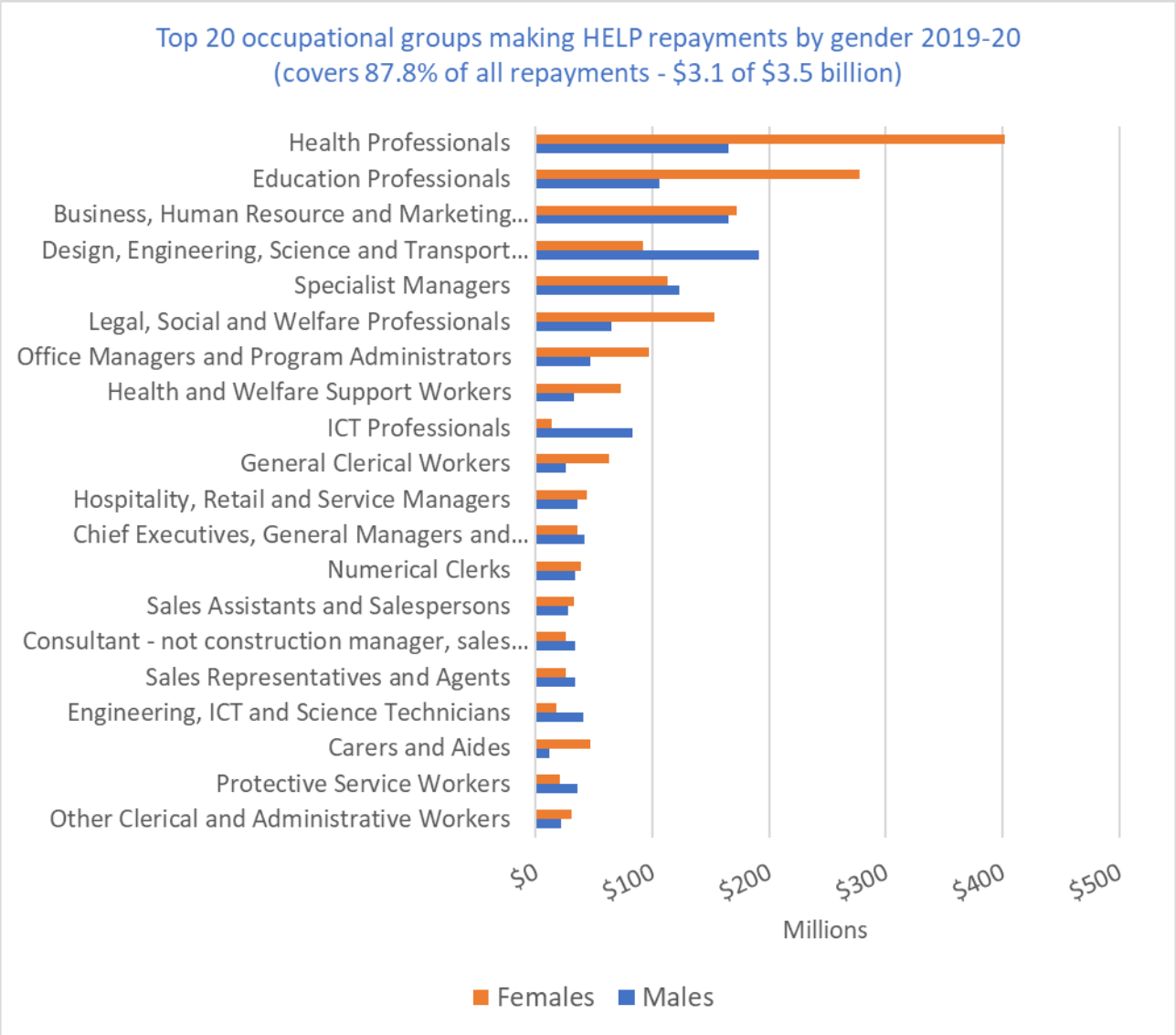
Many factors likely contribute to the differences evident in Chart 17. They include:

- the concentration of occupations requiring a higher education qualification for entry within each occupational group;
- the prevalence of modestly remunerated occupations within each group, resulting in individuals continuing as debtors for longer periods;
- the high level of occupational segregation in the Australian workforce, accounting for some of the significant gender differences; and
- the high levels of labour force mobility which may partly account for over $50 million being recovered from occupational groups where a tertiary qualification may not be a precondition of employment, such as general clerical workers and sales representatives.

[22] The ATO's classification is broadly based on the Australian and New Zealand Standard Classification of Occupations (ANZCO) with some minor differences. The ATO's classification must be based on a version of the ANZCO classification that predates the current 2021 version. The occupational groups are the sub-major groups based on two-digit ANZCO codes. Those with codes over 90 appear to be groupings defined by the ATO for the purposes of classifying consultants and apprentices/trainees.

[23] Australia Bureau of Statistics (2021d).

Chart 17



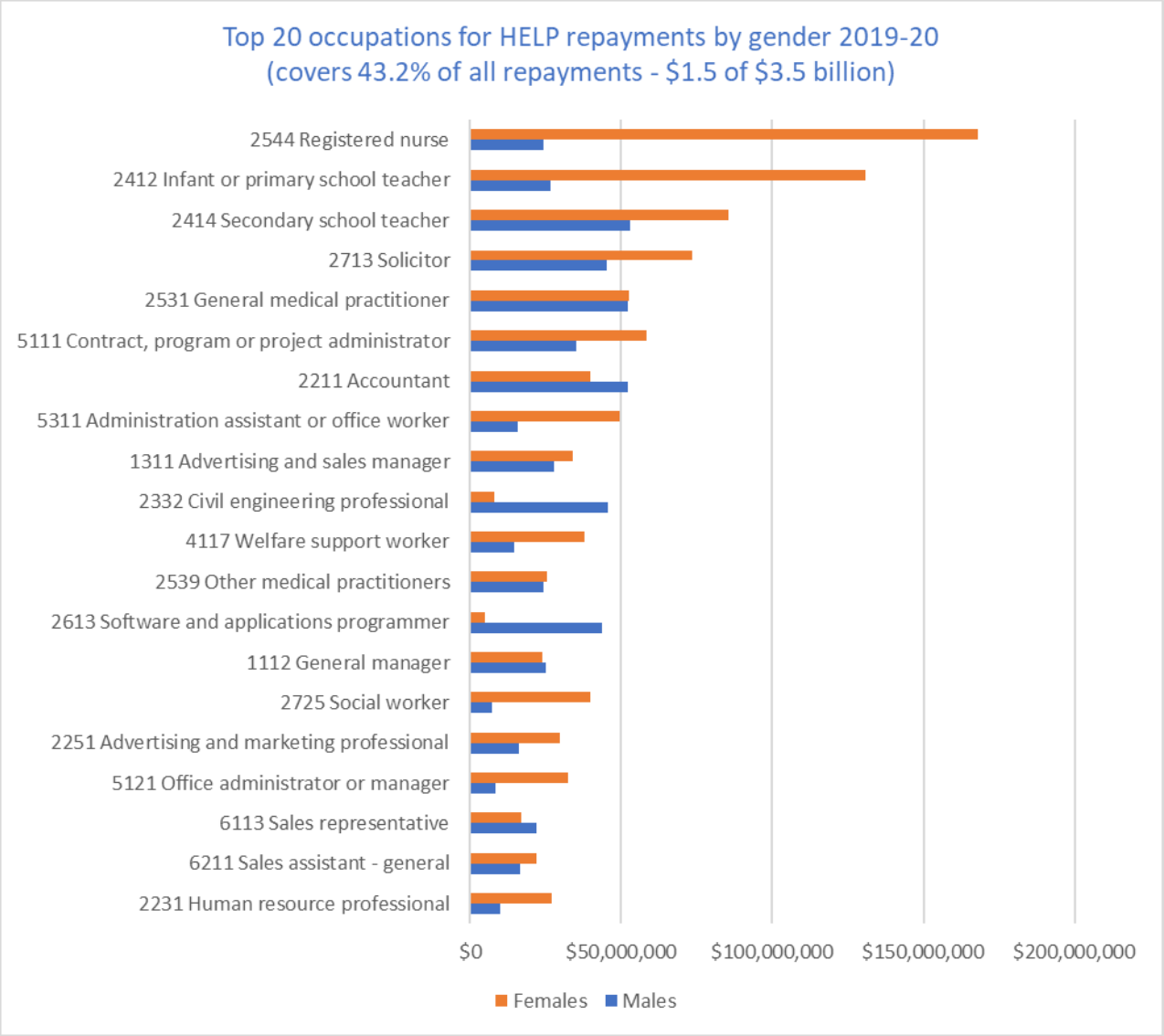
Source: Australian Taxation Office (2022c), Table 14.

Examination of the incomes of people making repayments within the occupational groups in Chart 17 provides further insight into their circumstances. Appendix F contains charts which detail the amount of HELP debt repaid by people according to their income tax bracket and gender for six of the occupational groupings in the chart. The six groups have been selected from those displaying large gender differences in repayment amounts.

- The two groups with the largest amounts of repayment – 'health professionals' and 'educational professionals' - both have larger levels of repayment being made by women than men. The largest amounts are recovered from women earning $37,000 to $90,000;
- The group with the fourth largest amount of repayment – 'design, engineering, science and transport professionals' – has repayments predominantly from men. The largest amounts are received from men earning $90,000 to $180,000;
- The sixth largest repayment group – 'Legal, Social and Welfare Professionals' - in which repayments are made predominantly by women also has the largest amounts being recovered from women earning $37,000 to $90,000; and
- The sixteenth and seventeenth largest groups are 'Engineering, ICT and Science Technicians' with repayments predominantly from men and 'Carers and Aides' with repayments predominantly from women. In both cases, the largest amounts are recovered from people earning $37,000 to $90,000.

Analysis at the level of occupations is more difficult than for occupational groups because of the large number of different occupations[24]. Chart 18 shows the total amounts of repayment being received from men and women for the 20 occupations with the largest amounts of HELP repayment in 2019-20. Details on the number of male and female debtors and their average repayments for these occupations are in Appendix G.

Chart 18



Source: Australian Taxation Office (2022c), Table 14.

Women who are 'registered nurses' and 'infant or primary school teachers' repay far more HELP debt than men or women in any other occupation. This is due to the large number of debtors in those occupations and because many more women are employed in them than men.

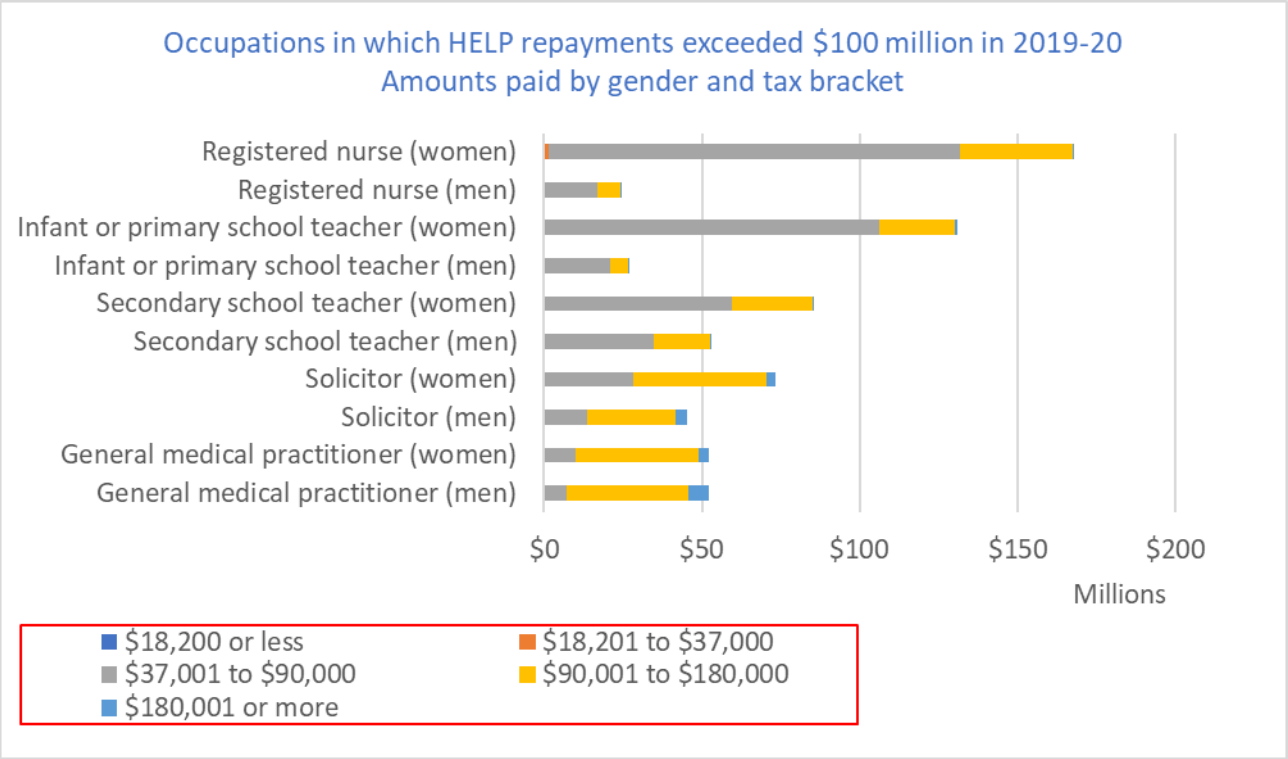
Like the findings relating to Chart 17 above, Chart 18 includes a considerable number of occupations for which a specific higher education qualification is unlikely to be a prerequisite. These include office workers and administrators; sales assistants, representatives and managers; and general managers. Even marketing managers and human resource professionals may have obtained the detailed skills and knowledge they need from work experience, rather than their specific higher education qualification.

[24] Occupations are at the four-digit ANZCO level. See also footnote 22.

People do not necessarily work in the occupations for which they initially trained. Higher education equips people with the skills and capabilities to acquire and filter knowledge and to be able to adapt to diverse circumstances and new roles. People who train for a particular occupation or profession subsequently work in other occupations or professions. They are attracted to higher remunerated positions which their qualifications assist them to obtain. They work in occupations available in their local region and which fit with their chosen lifestyle, family circumstances or caring responsibilities.

Chart 19 provides information on the incomes of men and women who made HELP repayments in 2019-20 and who worked in the five occupations from which over $100 million in repayments was obtained. It shows the high amounts obtained from registered nurses, infant or primary school teachers and secondary school teachers whose income is less than $90,000. At the same time, it also indicates that significant amounts are obtained from people in these professions who have incomes over $90,000.

Chart 19



Source: Australian Taxation Office (2022c), Table 14.

The two disciplines most often singled out for lower rates of student contribution are teaching and nursing. On the two occasions lower rates for these disciplines were introduced, the likelihood of low future earnings was not the rationale. It was the public benefit of these occupations, that they should have 'national priority' or the potential for skill shortages[25]. There were also fundamental political motivations - to reduce resistance to an increase in the average share of higher education teaching costs met through student contributions.

Many people who have trained as teachers or nurses spend only a part of their working lives in these occupations. Retention in these professions is often regarded as a problem with more than a third no longer in the profession

[25] See Australian Government (2003), p18 and Australian Government (2020), p 23. The rationale in 2005 was that they were 'National Priorities', a funding category which allowed "the Commonwealth to respond to current and emerging national needs, such as shortages in particular areas of the labour market and the education of indigenous students". In the 2020 Job-ready Graduates package, it was to encourage students into "courses that produce higher public returns or which contribute to identified national priorities", in particular to encourage "study in fields most necessary for the jobs of the future and positioning Australia to capitalise on opportunities to increase productivity and national prosperity in the decades ahead".

by the time they reach 40 years[26]. Whether this is a higher rate of withdrawal compared to other professions is worth investigation.

From a policy perspective, the question is whether people should have lower student contributions while they are studying to enter these occupations. It is not clear that they should. Many graduates in these occupations earn good salaries, particularly when they are working full-time. Some progress to be senior managers on higher salaries. Many move to other occupations with equally good, if not better, salaries. Simply reducing the student contributions of everyone studying the relevant qualification reduces the fairness of the whole system of student contributions.

The above analysis of ATO data on the occupations and incomes of people repaying HELP debt indicates how important is the design of HELP repayment arrangements. Taxpayer subsidies for higher education, including amounts of HELP debt that will not be repaid, are no longer for a minority of people who will become a privileged elite. Many recipients of higher education are typical workers in Australia's economy. It is an economy dominated by service industries and advanced technologies, but economic benefits are not distributed solely based on education levels. Not all workers with a higher education have above average incomes and some may not have the capacity to make repayments.

The purpose of student loans schemes is to obtain revenue to supplement government subsidies for tertiary education. The income contingent nature of the schemes directs government subsidy to people with low lifetime incomes and away from those with high lifetime incomes. Having lower rates of student contribution for particular disciplines reduces the effectiveness of student loan schemes. It reduces the level of contribution obtained from people who subsequently earn decent incomes.

EMBEDDING WOMEN'S ECONOMIC DISADVANTAGE IN EDUCATION FINANCING

Women's increased workforce participation, their increased levels of higher education attainment and the requirement for workers to have higher levels of skill have been contemporaneous and inter-related developments. These changes provide grounds for reviewing student financing arrangements. One of the more critical issues is whether these arrangements are contributing to or impeding economic opportunity for women and for other traditionally disadvantaged people.

When HECS was introduced, the transfer of pre-registration nurse education to the tertiary education sector had only just begun. Increased professional education and training undertaken in the higher education sector has occurred for other occupations in which women have traditionally been employed. This has occurred to a lesser extent for traditional male occupations, many of which had established training arrangements within the VET sector, particularly those requiring completion of an apprenticeship.

Over the last 34 years, a large amount of HELP debt has accumulated against particular occupations, especially those traditionally held by women. This has happened because a large number of higher educated people are employed in these occupations and because many have moderate incomes resulting in debt not being repaid or repaid slowly.

These large amounts of outstanding debt mean tightening HELP repayment arrangements potentially yield considerable revenue for a government. While that may be tempting for government, it may also have significant adverse financial implications for the holders of that debt. The most recent tightening of repayment arrangements had most impact on women.

Chart 20 shows seven of the ten top occupations against which most help debt is held for women and Chart 21 provides the same information for men[27]. The two charts reveal stark gender differences.

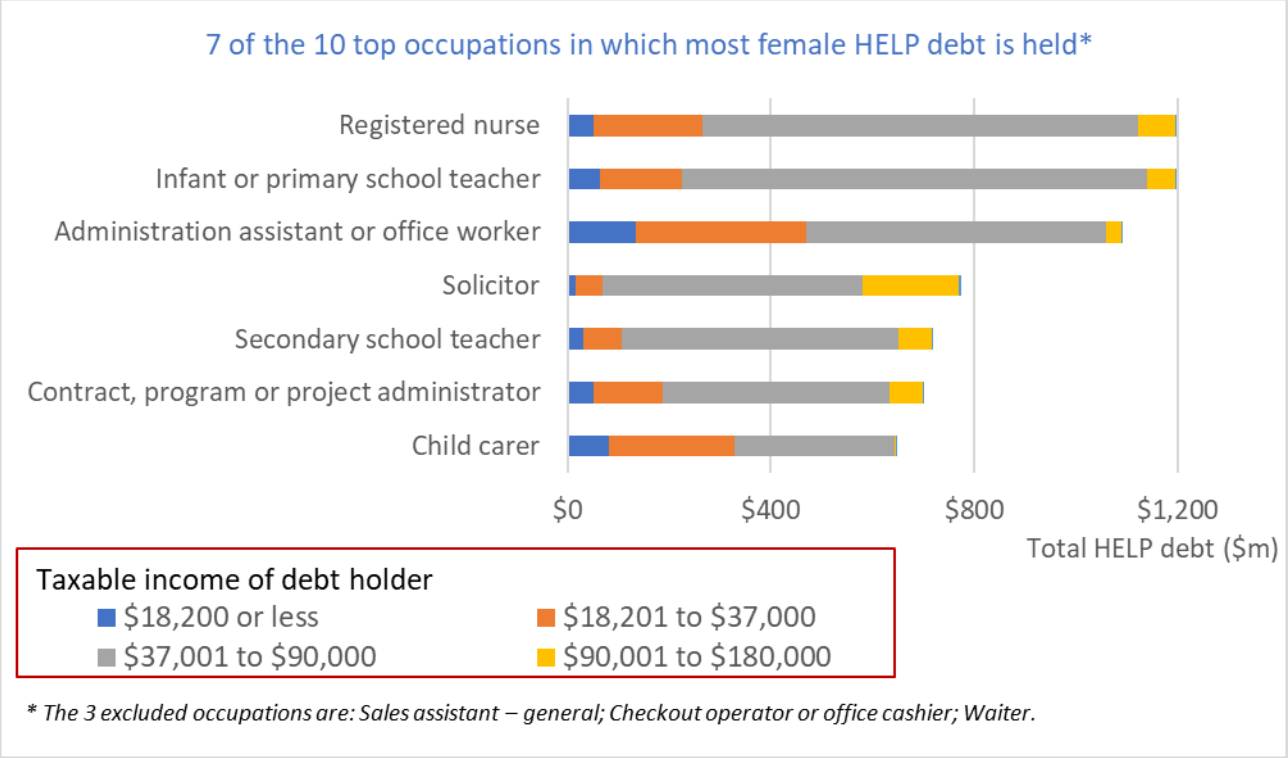
[26] Australia Bureau of Statistics (2021c).

[27] The three occupations excluded from the tables likely included large numbers of current students and would be less reflective of post study occupations. 'Sales assistants' and 'checkout operators' were excluded from the charts for men and women. 'Waiters' were excluded from the women's chart and 'bar attendants and barristers' from the men's chart. The average taxable income for all taxpayers in the excluded occupations in 2019-20 was less than $40,000, whereas for included occupations it exceeded $40,000.

For women, the largest debt occupations include registered nurses, primary school teachers and child-care workers. In each of these occupations, HELP debt exceeds two thirds of a billion dollars and $1 billion in two cases.

For men, the largest debt occupations include accountants, engineers and software programmers. In each of these occupations, the HELP debt is half a billion dollars or less.

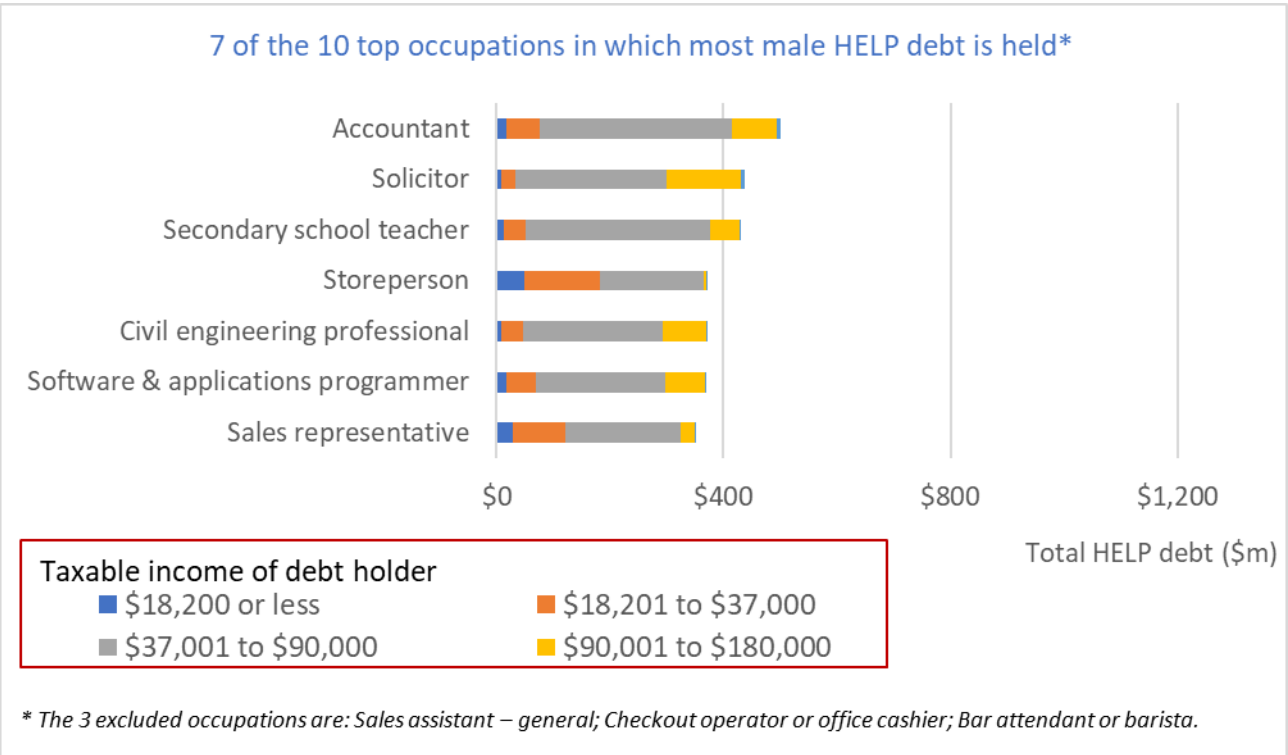
Chart 20



** The 3 excluded occupations are: Sales assistant – general; Checkout operator or office cashier; Waiter.*

Source: Australian Taxation Office (2022c), Table 14.

Chart 21



** The 3 excluded occupations are: Sales assistant – general; Checkout operator or office cashier; Bar attendant or barista.*

Source: Australian Taxation Office (2022c), Table 14.

These charts also show that much larger amounts of debt are held by women with taxable incomes in the $18,201 to $37,000 and $37,001 to $90,000 tax brackets, than is the case for men. This explains in large part why lowering the first repayment threshold had a greater impact on women than men.

The average taxable income of HELP debtors within each of the occupations in these charts cannot be calculated from the data in *taxation statistics: individuals* but it is possible to calculate it for all taxpayers in those occupations. This is provided in Table 3. It shows large differences in average taxable incomes in the seven major debtor occupations for men and women. For women, six of the seven occupations have average taxable incomes less than $80,000. For men, only two have average taxable incomes less than $80,000.

Table 3: Average taxable incomes for all taxpayers in major HELP debtor occupations

Females	**Total HELP debt for occupation ($b)**	**Aver. taxable income for all taxpayers in occupation (<$80,000 highlighted)**
2544 Registered nurse	$1.20	$66,600
2412 Infant or primary school teacher	$1.19	$70,090
5311 Administration assistant or office worker	$1.09	$51,631
2713 Solicitor	$0.78	$120,360
2414 Secondary school teacher	$0.72	$78,053
5111 Contract, program or project administrator	$0.70	$64,713
4211 Child carer	$0.65	$38,305
Males		
2211 Accountant	$0.50	$120,396
2713 Solicitor	$0.44	$154,372
2414 Secondary school teacher	$0.43	$85,509
7411 Storeperson	$0.37	$49,911
2332 Civil engineering professional	$0.37	$120,615
2613 Software and applications programmer	$0.37	$114,371
6113 Sales representative	$0.35	$70,113

Source: Australian Taxation Office (2022c), Table 14.

The average taxable incomes of women in these major HELP debtor occupations are significantly lower than for many technician and trades occupations. This can be seen in Table 4 which provides average taxable incomes for a selection of these occupations. Most of the vocational qualifications required for these occupations are delivered in the VET sector and they are undertaken predominantly by men.

This finding is reinforced by an examination of data from the 2021 Census. Chart 22 compares the distribution of men and women aged 25-40 years across income ranges for those whose highest qualification is a bachelor degree or above with those whose highest qualification is a Certificate III to advanced diploma.

Only 22 per cent of women aged 25-40 years whose highest qualification is a Certificate III to advanced diploma have incomes of $65,000 or more. In contrast, 66 per cent of men of the same age whose highest qualification is a bachelor degree or above have incomes that exceed this level. These are the two extremes in Chart 22.

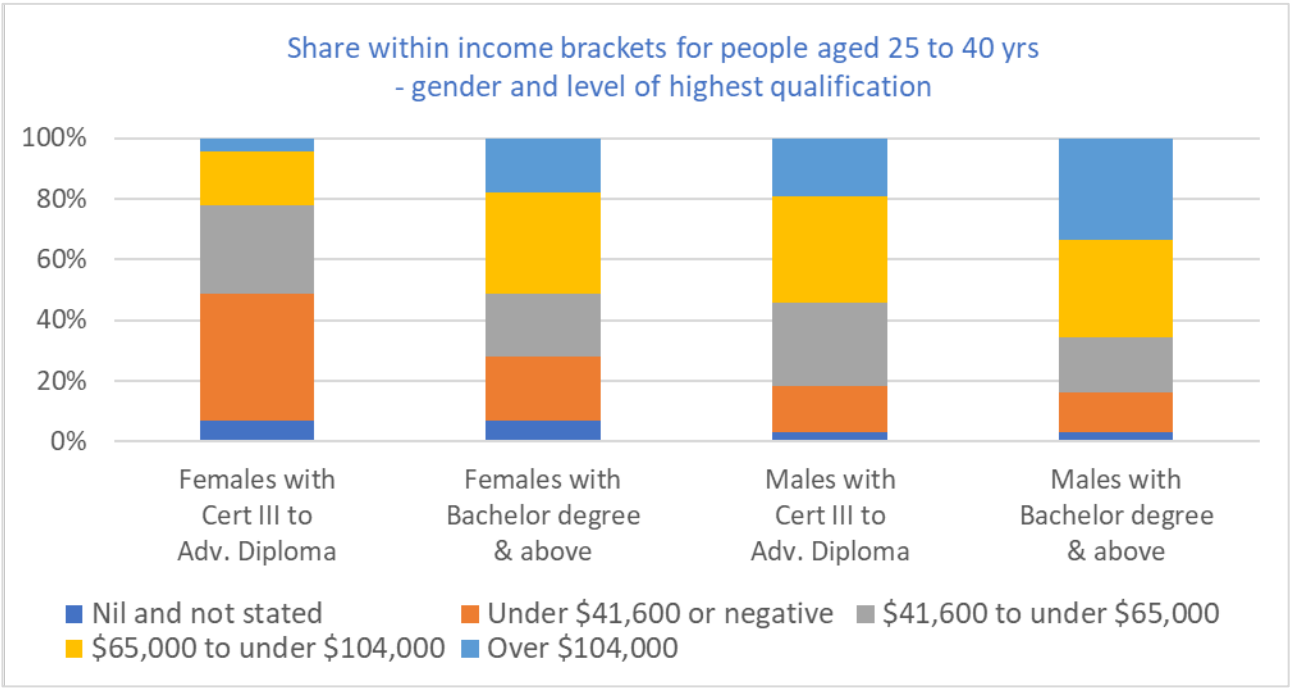
In between these two extremes are men whose highest qualification is a Certificate III to advanced diploma and women whose highest qualification is a bachelor degree or above. It is, however, the male grouping with largely VET qualifications that has the highest proportion with incomes of $65,000 or more. For men aged 25-40 years with a Certificate III to advanced diploma, 54 per cent have an income of $65,000 or more. For women with a bachelor degree or above, only 51 per cent have an income above this level.

Table 4: Average taxable income for select technician and trades occupations

Occupation	Total number of taxpayers	Average taxable income for all taxpayers in occupation
3992 Chemical, gas, petroleum or power generation plant operator	10,615	$130,845
3422 Electrical distribution trades worker	9,373	$116,084
3126 Safety inspector	7,650	$102,447
3411 Electrician	108,253	$97,828
3232 Metal fitter or machinist	61,986	$96,367
3211 Automotive electrician	7,057	$88,357
3421 Air conditioning and refrigeration mechanic	16,264	$82,244
3423 Electronic equipment trades worker	26,774	$81,858
3341 Plumber	57,787	$76,749
3212 Motor mechanic	102,012	$76,672
3223 Structural steel or welding trades worker	70,953	$76,402
3424 Telecommunications trades worker	16,016	$74,929
3312 Carpenter and joiner	84,027	$69,228

Source: Australian Taxation Office (2022c), Table 14.

Chart 22



Source: Australian Bureau of Statistics (2021c).

Funding and student fee arrangements in the VET sector are more complex than the relatively uniform and nation-wide arrangements for higher education, making comparisons difficult. It is likely that the student contribution requirements applying to the women now educated and trained in the higher education sector are inequitable compared to the arrangements applying for men training in the VET sector.

While there are substantial levels of government subsidy supporting VET training, students who are not undertaking an apprenticeship usually have higher upfront fees than apprentices. Income contingent loans are only available in limited circumstances and non-apprentices may be required to undertake unremunerated job placements.

Higher levels of government subsidy are available for off-the-job training for traditional trade apprenticeships which continue to be predominantly undertaken by men. Governments also provide incentives to encourage employers to take on and retain apprentices and often subsidise the payment of apprentice wages. Employers often pay tuition fees for apprentices under industrial agreements. The arrangements have a long history and substantial support from industrial parties. Once an apprenticeship is complete, the student will only have a debt if they have received a loan, usually small, under the Trade Support Loan Scheme.

There are few areas in which women have been traditionally employed which have arrangements like those of traditional trade apprenticeships. Rather, women tend to receive their tertiary education for skilled occupations in the higher education sector, with 'fees' paid through the various income contingent loan schemes. Placements undertaken with employers to help with the acquisition of skills are unremunerated. Under Job-ready Graduates, women will complete their higher education qualifications with debts between $16,000 and $20,000 if their degree is in nursing, early childhood education or primary education, but in other cases may have a debt closer to $60,000 in which case they are likely to be repaying it well into their thirties.

These gender differences in how tertiary education is delivered and the different funding arrangements associated with them are likely to be perpetuating women's economic disadvantages. In particular, the continuation of historical patterns of occupational segregation and the lower wages associated with traditional women's occupations are combining with student financing arrangements to produce such a result.

Student financing arrangements in 2023, particularly since HELP repayment arrangements have been tightened, are resulting in some women having less access to income and further reducing their lifetime incomes compared to those of men. They particularly do this when women are caring for children and the resulting financial pressures may in turn limit the opportunity for those children to reach their potential. How this may occur is examined in more detail in the next section.

EFFECTIVE TAX RATES AND INCENTIVES TO WORK

HELP repayment arrangements interact with the taxation system and a range of other social programs. While the interactions are complicated, this is not an acceptable reason for ignoring them. They are quite real for people who are required to make repayments. When the HELP repayment arrangements were recently tightened, there was no inquiry to examine whether the proposed new arrangements were fair and reasonable for those who would be affected.

Australia's social welfare system aims to ensure that adults and children do not live in poverty and they do this through provision of a system of means-tested benefits. These means-tested benefits are withdrawn over income ranges in which people are also required to repay HELP debts. At the same time, people are paying standard tax rates and the Medicare levy, and various tax offsets are being phased out.

The combined result is that over some income ranges people obtain only a slight increase in disposable income from undertaking additional work or obtaining a higher paying job. Table 5 shows average effective tax rates over two income ranges for people with HELP debts in a variety of family circumstances.

A single person without children who is repaying their HELP debt gets to keep around 50 cents of every dollar when their income increases from $48,000 to $60,000. The same applies when their income increases from $60,000 to $100,000. The situation is similar for a person who is a member of a couple without children when their partner has average weekly earnings. It is also similar for a person who is a member of a couple with two children if the person's partner is earning $100,000.

In the other cases, namely those highlighted in Table 5, average tax rates are often punitive. They exceed 70 per cent and in one case they exceed 100 per cent.

The yellow-highlighted case in Table 5 provides a useful illustration of why more attention should be paid to the interaction of HELP repayment arrangements with other aspects of the tax transfer system. This example concerns a couple who do not have children. In this case, the HELP debtor's partner is receiving JobSeeker Payment. There could be any number of legitimate reasons why this is so. They may not have a high level of education and may be long-term unemployed. Alternatively, they may have a significant disability but be unable to obtain a Disability Support Pension.

Table 5: Average effective tax rates over two income ranges for various family types[1]

As on 1 July *2022* Family type	Average effective tax rate from $48,000 to $60,000	Average effective tax rate from $60,000 to $100,000
Single, no kids	49%	51%
Single, 2 kids (4 & 7 years)	77%	77%
Single, 2 kids (10 & 13 years)	63%	73%
Couple, no kids (one earner)[2]	109%	51%
Couple, 2 kids (one earner)[2]	94%	73%
Couple, 0 kids (two earners, one at AWE)	49%	49%
Couple, 2 kids (two earners, one on AWE)	79%	52%
Couple, 2 kids (two earners, one on $100,000)	48%	54%

1. Average effective tax rates based on change in disposable income of the family due to change in HELP debtor's income. All scenarios assume people are renting privately with the level of rent able to attract maximum rent assistance; no-one has private health insurance; everyone is under 60 years of age and no-one is a single principal carer granted an exemption from mutual obligation requirements. These results have been derived from output of EMTR models maintained by David Plunkett.
2. In one earner couple families, the HELP debtor's partner is assumed to be eligible for a means tested income support payment.

The expectation built into the social security system is that the HELP debtor will financially support their partner. As the HELP debtor's income increases, their partner's income support is reduced. The Government expects them to feed and clothe their partner. As their income increases further, it expects them to pay their partner's share of the rent.

The Government also expects the HELP debtor to pay tax, the Medicare levy and, since the lowering of the threshold, to repay their HELP debt. On average, the Government takes $1.09 away from this couple for every extra dollar the HELP debtor earns between $48,000 and $60,000. If the HELP debtor has the choice of working for an extra day to increase their earnings from $48,000 to $60,000, they would be stupid to do it because it would result in them having less disposable income.

The situation for families with children is not as bad, but it is not good. Average effective tax rates over 70 per cent for a $50,000 range of income for a single parent and for a parent whose partner is unable to work are punitive and highly undesirable. They substantially reduce the incentive to work and are an effective poverty trap. They are a result of the combined impact of tax and Medicare Levy arrangements (approx. 35%), the withdrawal of Family Tax Benefit (20%) and the HELP repayment arrangements which cause disposable income to repeatedly decline as the repayment rate 'steps up' (this is explained further below).

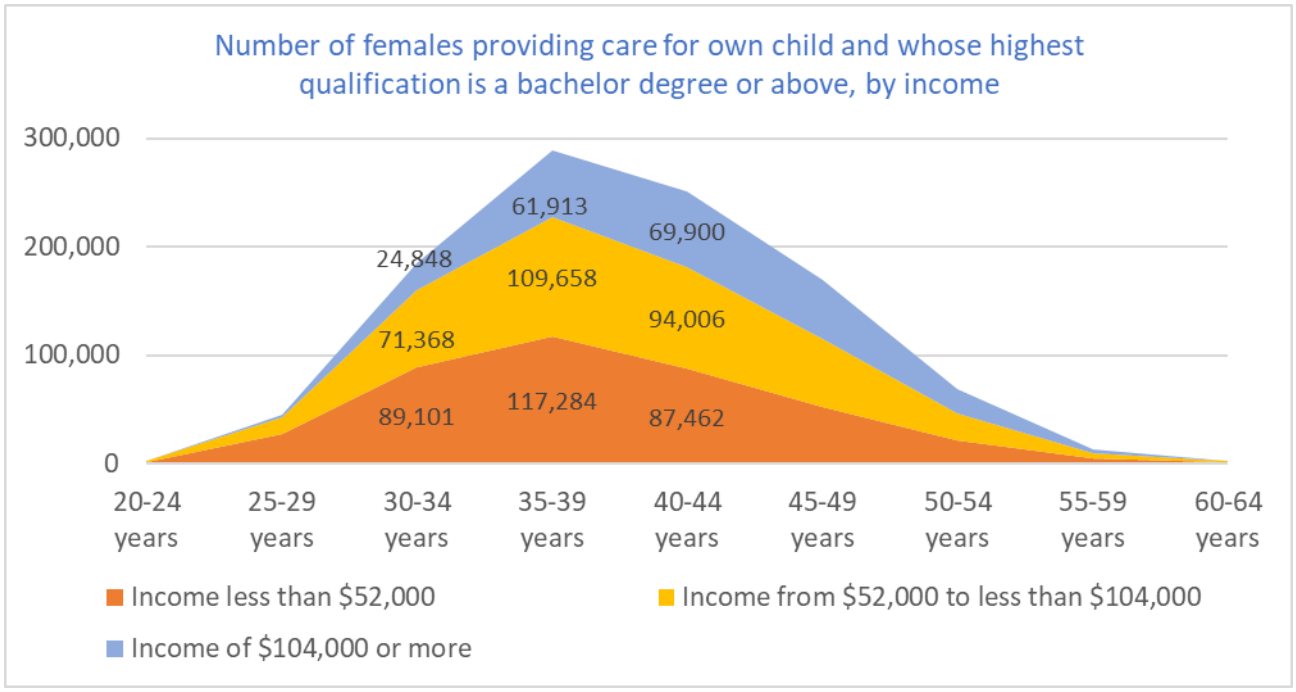
In the past, interactions with other elements of the tax-transfer system have not been as significant for HELP debtors as they are now. Two major factors have increased the importance of these interactions. The first is the substantial lowering of the first HELP repayment threshold. The second is the substantial increase in the level of debts students are incurring and the implications of this for the time taken to repay those debts.

In the past, students completing their studies had small debts which were repaid quickly. Current students will continue to pay the higher effective rates of tax associated with repaying their debts well into their thirties. By this time, they will be forming families and having children in much greater numbers than when debts were small and repayment times short.

Charts 23 and 24 provide an indication of how many people may be affected by the excessively high average tax rates affecting people with children. The data is from the most recent census. For people with a bachelor degree or above, the charts provide an indication of the number of men and women 'caring for their own child' in three income bands. This data is only a proxy for those who have children as it is primarily about having provided care

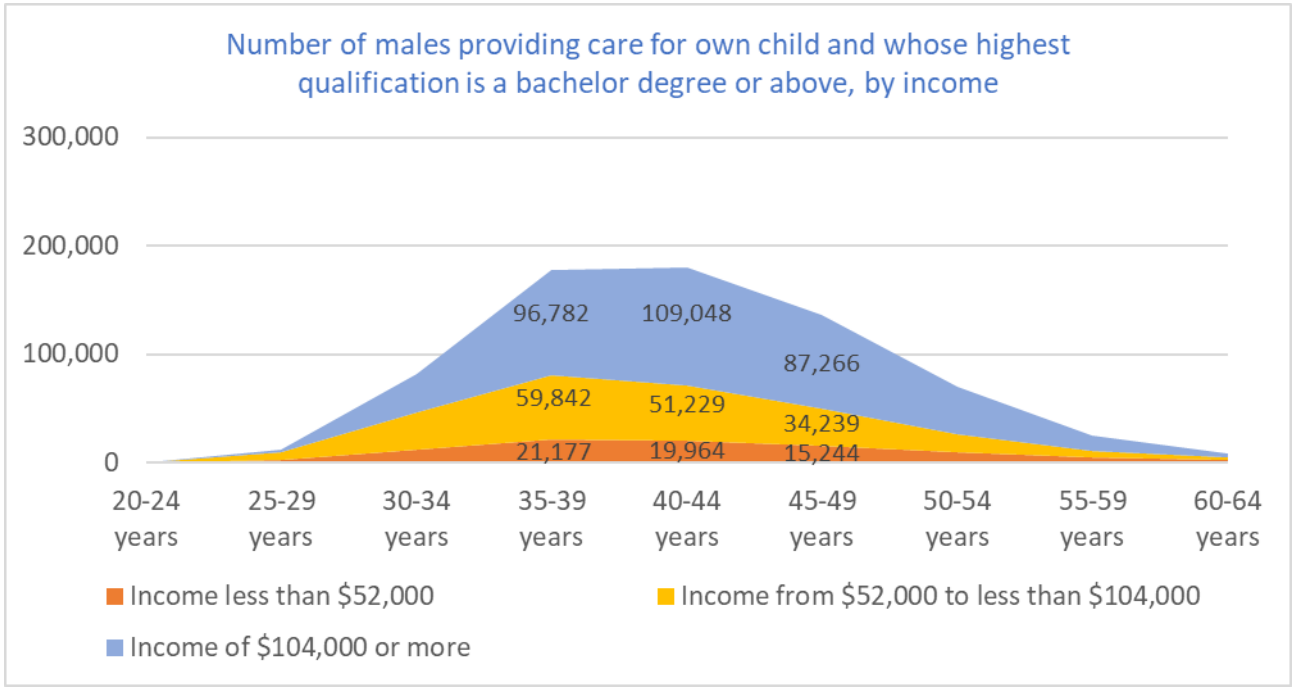
in the past fortnight. The results partly reflect that men are less involved in caring for their own children than women[28].

Chart 23



Source: Australian Bureau of Statistics (2021c)

Chart 24



Source: Australian Bureau of Statistics (2021c)

[28] This data is based on the 2021 Census question: In the last two weeks did the person spend time looking after a child, without pay? Respondents were instructed to only include children who were less than 15 years of age.

The data show that women are more likely to have children while still repaying their HELP debts. The number of women caring for their own child is greatest for the three age groups beginning with that for 30-34 years. For men, it is greatest for the three age groups beginning with that for 35-39 years. This five-year lag reflects that men tend to be older than women when they have their first child.

There are nearly 160,500 women aged 30-34 years with a bachelor degree or above and an income of less than $104,000 who are caring for their own child. Of these, 89,100 have an income of less than $52,000. For men, the comparable figures are 46,500 with income less than $104,000 and only around 11,800 with income less than $52,000.

The student financing arrangements for higher education are part of Australia's overall welfare system. They need to be appropriately integrated with its other elements. This is currently not the case. The current design of HELP repayment arrangements is contributing to the perpetuation of women's economic disadvantage.

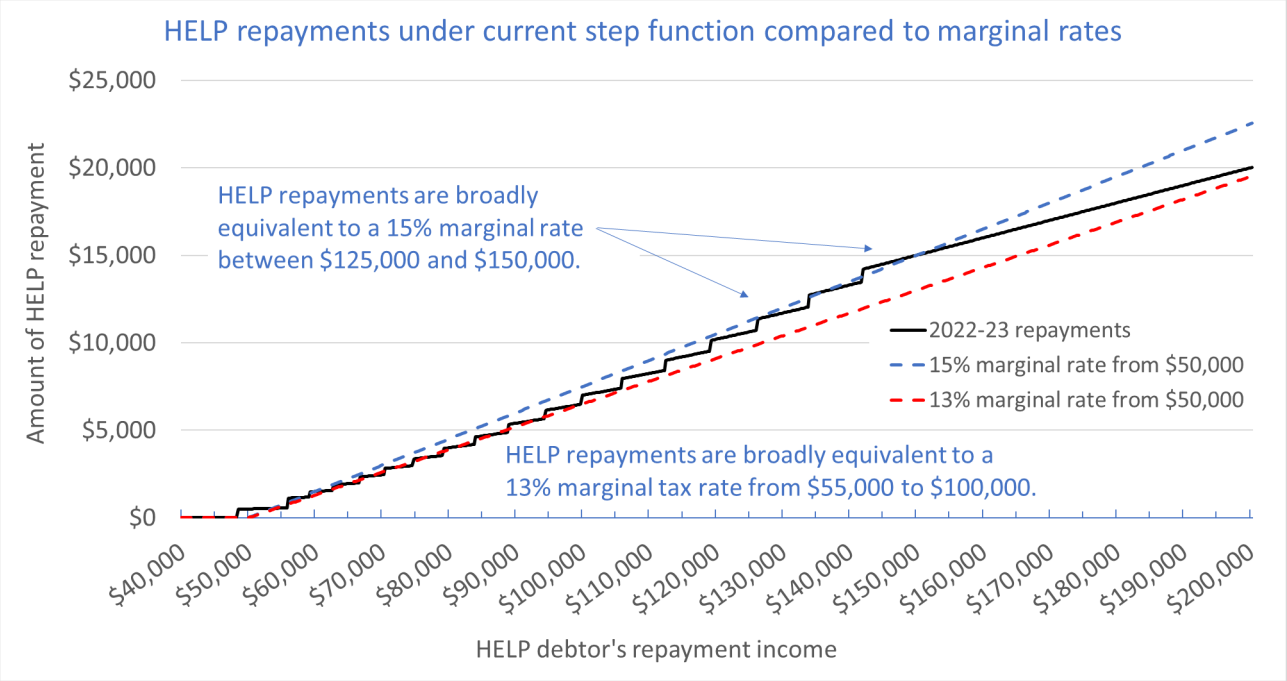
The punitive average tax rates evident in Table 5 can and should be avoided. This can be done by redesigning HELP repayment arrangements so they only require repayments from people who can afford to make them.

PART D: A MORE EQUITABLE APPROACH TO REPAYMENTS

WHY A MARGINAL REPAYMENT RATE IS PREFERABLE

Once the first HELP repayment threshold is reached, the repayment amount is calculated as a percentage of a person's total income. The result is that in 2022-23 when a person's income increases by $1 to $48,361, they must repay $483.61 of their HELP debt. This 'step up' in the amount of HELP debt repayment occurs at 18 different income levels. At each of these levels, earning one more dollar results in an additional HELP repayment of several hundred dollars. This step function is the black line in Chart 25.

Chart 25



The approach differs from the standard taxation arrangement which applies a tax rate to each extra dollar over a threshold, referred to as a marginal rate approach. Chart 25 shows that the current repayment arrangement usually results in a HELP debt repayment amount that falls between the amount repayable based on marginal rates of 13 and 15 per cent of income above $50,000.

There does not appear to be a good reason to specify the amount of repayment as a percentage of total income. It is possible that the original design was intended to ensure that most people had cleared their debt by their

early 30s, but with student contribution increases this is becoming less likely. Another reason might be that this approach to specifying the amount of repayment makes the arrangement sound more generous than would a marginal rate approach. There are good reasons not to specify the repayment amount as a percentage of total income.

It is inequitable for a start. Chart 25 shows that the current repayment arrangement is harsher for people with incomes of less than $50,000 than a marginal rate approach with the same threshold. It also shows that the arrangement is more generous for people earning over $200,000, despite these people having a greater capacity to make repayments.

The repayment arrangement also contributes to excessive average effective tax rates and it makes it more difficult to design policy to prevent the work disincentives and poverty traps identified in the previous section.

The ability to improve the equity of repayment arrangements, to increase the incentive to work and to remove poverty traps are good reasons to change to a marginal rate approach.

COST ESTIMATES FOR THE SIMPLEST MARGINAL RATE APPROACH

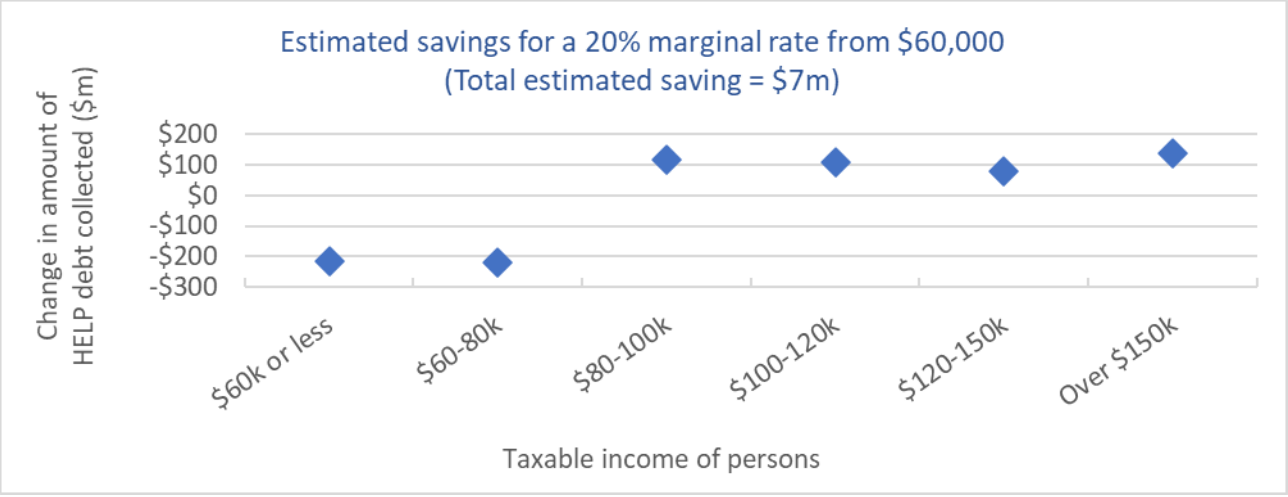
The current repayment arrangements with 18 thresholds and 18 repayment rates, ranging from one to ten per cent of total income, are complex. A single rate of repayment applied to income above a single threshold would be a simpler and more rational approach.

A 14 per cent marginal rate applied to income over $50,000 would raise more revenue than the current arrangement. The additional annual revenue that would be raised is estimated to be around $60 million[29]. This simple change would also result in a higher threshold than the current first repayment threshold. It would ensure that people do not have their disposable income decline as their repayments 'step up'.

If the threshold were raised to $60,000, a level similar in relation to AWE as in 2017-18, a higher marginal repayment rate would be needed to be cost neutral. It would require a 20 per cent marginal rate to raise the same amount each year in HELP repayments as now.

Chart 26 provides an indication of how the total amount collected from people within different income brackets would change if repayments were based on a 20 per cent marginal rate and a $60,000 threshold. Debtors with incomes under $80,000 would have their HELP repayments reduced by over $400 million a year. Debtors with incomes over $80,000 would pay about $400 million a year more in HELP repayments.

Chart 26



Derived using data in Australian Taxation Office (2022c), Table 3. Note 'k' indicates thousands – so $40,000 is presented as $40k.

[29] Cost estimates have been derived using the number of people required to make repayments by taxable income range from Table 3 of the ATO's *taxation statistics: individuals* for the 2019-20 financial year. Revenue from the various marginal rate approaches was compared with the revenue that would be collected using 2022-23 repayment thresholds.

The group which would lose most has an income over $150,000. This group is a significant beneficiary of the Stage 3 tax cuts due to come into effect in July 2024. If they repaid their HELP debt more quickly it would reduce the amount of education subsidy they are currently receiving.

THE BENEFITS OF POTENTIAL VARIABLE THRESHOLD APPROACHES

The major advantage of a marginal rate approach is that it would allow excessive average effective tax rates to be removed. This would improve work incentives and remove poverty traps for single parents and parents with partners who are unable to work. These people are significantly disadvantaged by current HELP repayment arrangements.

Excessive average effective tax rates could be removed by having higher thresholds of repayment for people meeting criteria related to their family status. The marginal rate for income over the threshold, for example 20 per cent, could be the same in all cases. This type of approach is outlined in Table 6.

Table 6: Example of variable thresholds for a marginal rate approach to HELP repayments.

Family type	Repayment arrangement
Single or member of a couple with children	20 cents for each dollar of taxable income over $100,000
Member of a couple, no children	20 cents for each dollar of taxable income over $65,000
All other cases	20 cents for each dollar of taxable income over $60,000

The disadvantage of the approach in Table 6 is that a person would obtain the benefit of the higher repayment threshold regardless of their partner's income. For example, a member of a couple would have the $65,000 threshold even if their partner earned over $100,000. The cost of this approach may be too high.

The cost could be reduced by having the higher thresholds only available where a person's partner had income below a specified level. This type of approach is outlined in Table 7. While this adds complexity to the simplest marginal rate approach and the approach in Table 6, the arrangement remains much simpler than the current 18 thresholds with 18 separate repayment rates.

The approach in Table 7 can be readily adapted to meet various policy objectives including those related to revenue raising. It could be modified to have a lower threshold for a member of couple who has a high earning partner. For example, the threshold could be $40,000 where a person's partner had income over $250,000. This could increase revenue in a manner that remains consistent with the principle of only requiring repayments where there is the capacity to make them.

Table 7: Example of variable thresholds which are dependent on partner income.

Family type	Repayment arrangement
Single, no kids	20 cents for each dollar of taxable income over $60,000.
Couple, no kids	If partner's income is over $20,000, 20 cents for each dollar of taxable income over $60,000. Otherwise, 20 cents for each dollar of taxable income over $80,000 minus partner's income.
Single or couple, 1 or 2 kids	If partner's income is over $60,000, 20 cents for each dollar of taxable income over $60,000. Otherwise, 20 cents for each dollar of taxable income over $120,000 minus partner's income.
Couple, 3 or more kids	If partner's income is over $70,000, 20 cents for each dollar of taxable income over $60,000. Otherwise, 20 cents for each dollar of taxable income over $130,000 minus partner's income.

A marginal rate approach to specification of the amount of HELP debt repayment does not guarantee that all problems identified earlier would be solved. Its advantage is that it is an approach that allows them to be solved.

The choice of parameters depends on the government's tolerance for DNER. If the government wants lower DNER, then in general it wants lower-income graduates to repay more. This, however, has substantial potential to produce poor social policy outcomes as this paper has attempted to demonstrate. Preventing those poor outcomes requires a more sophisticated approach to repayment arrangements than the current blunt instrument.

There is also a need for greater recognition that DNER is not 'bad'. It is simply government expenditure. The important policy questions are: is the expenditure warranted? who is benefitting from DNER? and are there other higher priorities for expenditure?

The great benefit of a marginal rate approach to HELP repayments is that it enables a more nuanced approach, one that would be more consistent with the original intention of the HECS/HELP scheme. It could result in a more equitable distribution of income in Australia, particularly if high income earners from the VET system also had to contribute to the cost of their post-secondary qualifications.

CONCLUSION

Australia could choose to increase taxes and have 'free' tertiary education. It is not a decision likely to made any time soon. If the Government had more tax revenue, there would be higher priorities for expenditure.

The issue remains, as it was 34 years ago, how best to finance post-school education and training.

Australia's choice to use income contingent loans for this purpose is one of the best options available. For those who are eligible, it avoids up-front fees. It does not impose repayments on those who do not have an income. Unlike some overseas schemes, people do not default on their loans and potentially obtain adverse credit rankings, requiring the government to step in and forgive loans in times of economic crisis to avoid such adverse consequences for thousands of former students.

But the settings for Australia's income contingent student loan schemes are not optimal, particularly in the wake of Job-ready Graduates. For Commonwealth supported students, there are massive differences in student contribution rates, ranging from around 4,100 for some students to around $15,100 for others in 2023. Higher contributions were not required from students likely to obtain higher incomes. Future doctors have lower annual student contributions than future librarians, curators, religious ministers, human services managers and accountants.

The size of debts has grown considerably since student loans were introduced and on average will continue to grow under Job-ready Graduates. The time it takes to repay debts has lengthened and now frequently extends into the main years during which people are caring for young children and pursuing home ownership.

It is no longer reasonable to think that student loans can be repaid before these life events occur. The option of reducing average student contributions and increasing average government subsidies is not likely to occur in the current economic environment. Instead, the Government should ensure that the repayment arrangements for Australia's student loan schemes are designed to take people's different circumstances into account. They need to be fair and reasonable to all people living in circumstances that are reasonably foreseeable. This requires them to be integrated with and complement other social programs and taxation arrangements.

Lowering contribution rates for particular disciplines such as early childhood educators, primary teachers and nurses, especially when it requires substantial increases for other disciplines, is unlikely to result in arrangements that are fair and reasonable for all. People employed in these occupations tend to have modest incomes, but not all do. A significant number earn above average incomes and, for some that do not, the reason is their decision to work part time. Other graduates face similar economic circumstances to early childhood educators, primary teachers and nurses.

Over the duration of a course, a student's contributions are added to produce a cap on the total amount collected under the repayment arrangements. The total depends on both the student contribution rate for the discipline and the number of years of full-time study.

This total becomes the maximum that may be collected, but it does not change the annual amount of repayment. In combination with the person's income, it determines the number of years over which repayments are made.

Some people may suggest that fairness requires student contribution rates for disciplines to be set to produce similar repayment periods for different occupations. This is not easily done and requires reliance on broad generalisations about the future labour market income of people entering particular professions. For many people, these generalisations would not reflect their actual circumstances.

Australia's student loan schemes aim to raise revenue from those who have benefitted from tertiary education to supplement government subsidies for tertiary education. They aim to do that in a manner that is fair and reasonable. The operation of these schemes should be assessed for their effectiveness in achieving these objectives. Like many areas of social policy, setting the parameters of Australia's student loan schemes requires difficult judgements.

Both the student contribution rates for disciplines and the repayment arrangements have an impact on the amount of revenue received by the government each year and on the fairness of the arrangements for citizens.

It is important that student contribution rates for disciplines do not undermine the revenue raising objective. Evidence elsewhere suggests that reducing the student contributions for disciplines to encourage demand for particular courses is not a cost-effective way to increase the supply of people with particular qualifications.

The fairness objective is more likely to be achieved by focusing on the circumstances in which people make repayments and how much they are required to repay in a year, rather than focusing on setting different student contribution rates for disciplines. A single annual student contribution rate with fair and equitable repayment arrangements may produce a better overall outcome than current arrangements.

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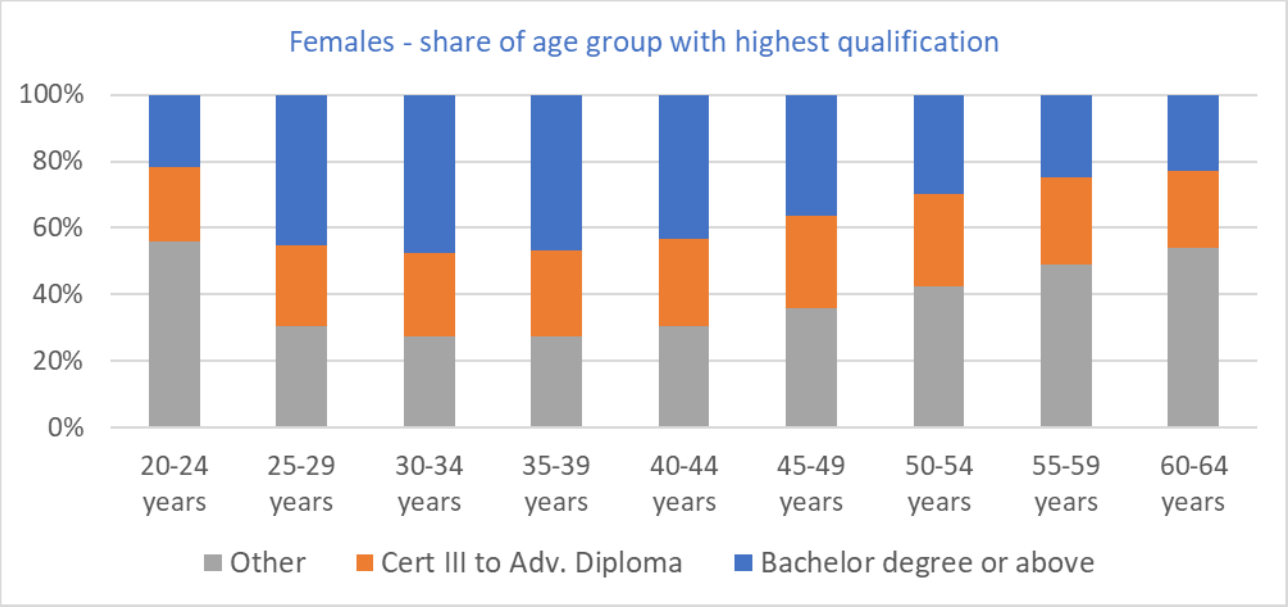
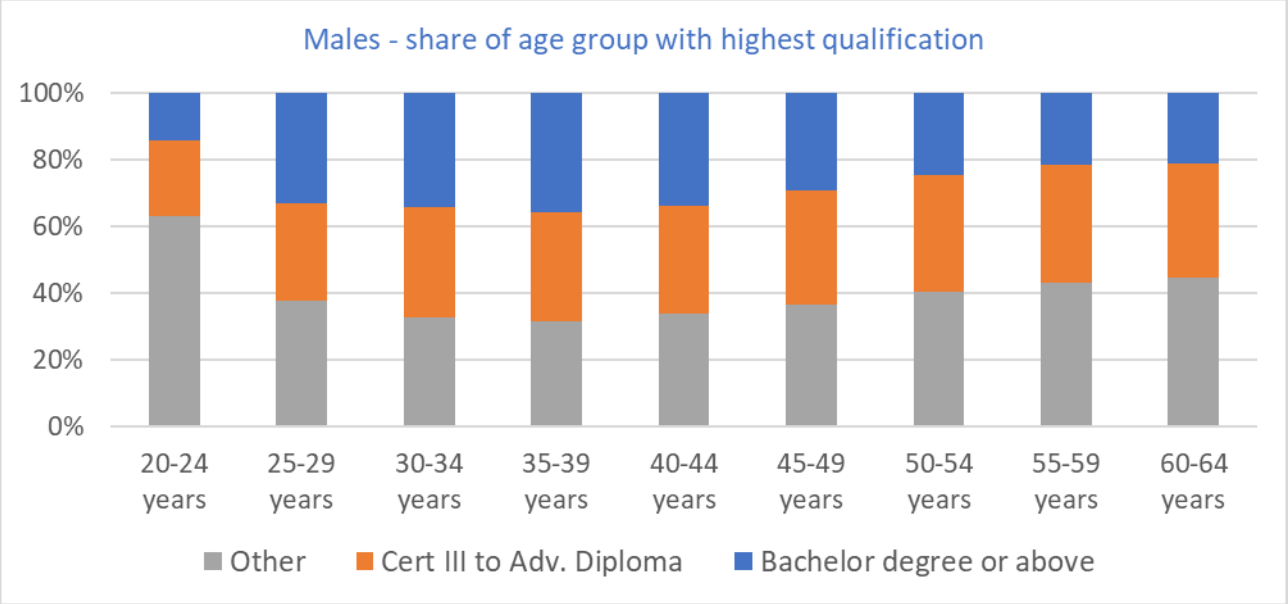
APPENDICES

Appendix A Educational attainment in five-year age brackets for working-age women and men, 2021



Source: Census (2021b).



Source: Census (2021b).

Appendix B HELP thresholds and repayment rates from 1988-89 to 2018-19

Year	1.0%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%
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				
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				
2017-18						55,874	62,239	68,603	72,208	77,619	84,063	88,487	97,378	103,766				
2018-19		51,957				57,730	64,307	70,882	74,608	80,198	86,856	91,426	100,614	107,214				
2019-20	45,881	52,974	56,152	59,522	63,093	66,878	70,891	75,145	79,653	84,433	89,499	94,869	100,561	106,594	112,990	119,770	126,956	134,573
2020-21	46,620	53,827	57,056	60,480	64,109	67,955	72,032	76,355	80,936	85,793	90,940	96,397	102,180	108,310	114,810	121,699	129,000	136,740
2021-22	47,014	54,283	57,539	60,992	64,652	68,530	72,642	77,002	81,621	86,519	91,710	97,213	103,046	109,228	115,782	122,729	130,093	137,898
2022-23	48,361	55,837	59,187	62,739	66,503	70,493	74,723	79,207	83,959	88,997	94,337	99,997	105,997	112,356	119,098	126,244	133,819	141,848

Sources: Australia Bureau of Statistics (2021b); Norton, A. and Cherastidtham, I. (2016); Australian Taxation Office (2022).

Appendix C Comparison of first repayment threshold with Average Weekly Earnings, 1988-89 to 2018-19

Year	First repayment threshold ($)	AWE as of November of financial year ($)	Annualised AWE (AWE x 52) ($)	HECS/HELP threshold as percentage of annualised AWE (%)
1988-89	22,000	430.10	22,365	98.4%
1989-90	23,583	457.20	23,774	99.2%
1990-91	25,469	490.60	25,511	99.8%
1991-92	27,098	501.30	26,068	104.0%
1992-93	27,748	504.80	26,250	105.7%
1993-94	26,403	527.00	27,404	96.3%
1994-95	26,853	542.40	28,205	95.2%
1995-96	27,675	555.40	28,881	95.8%
1996-97	28,495	570.60	29,671	96.0%
1997-98	20,701	592.60	30,815	67.2%
1998-99	21,334	603.40	31,377	68.0%
1999-00	21,984	613.00	31,876	69.0%
2000-01	22,346	643.10	33,441	66.8%
2001-02	23,242	673.60	35,027	66.4%
2002-03	24,365	699.40	36,369	67.0%
2003-04	25,348	740.30	38,496	65.8%
2004-05	35,001	761.70	39,608	88.4%
2005-06	36,185	800.60	41,631	86.9%
2006-07	38,149	837.40	43,545	87.6%
2007-08	39,825	873.20	45,406	87.7%
2008-09	41,595	909.50	47,294	87.9%
2009-10	43,151	955.00	49,660	86.9%
2010-11	44,912	996.10	51,797	86.7%
2011-12	47,196	1,033.70	53,752	87.8%
2012-13	49,096	1,081.30	56,228	87.3%
2013-14	51,309	1,114.20	57,938	88.6%
2014-15	53,345	1,128.70	58,692	90.9%
2015-16	54,126	1,145.70	59,576	90.9%
2016-17	54,869	1,163.50	60,502	90.7%
2017-18	55,874	1,191.50	61,958	90.2%
2018-19	51,957	1,225.30	63,716	81.5%
2019-20	45,881	1,257.00	65,364	70.2%
2020-21	46,620	1,280.30	66,576	70.0%
2021-22	47,014	1,328.90	69,103	68.0%
2022-23	48,361	N/A	N/A	N/A

Sources: Australia Bureau of Statistics (2021b); Norton, A. and Cherastidtham, I. (2016); Australian Taxation Office (2022).

Appendix D ATO statistics on HELP debts and repayments: their limits and problems

Each year, the ATO produces excel tables containing aggregate statistics on HELP debts and repayments called *help-statistics*. It has data on the debts of 3.0 million HELP debtors in its most recent release which is for 2021-22. The analysis in Part B of this paper draws on this data.

- These cover the original HECS scheme and then include debts from each of the subsequently created HELP loan schemes in an aggregated form. They include VET FEE-HELP though debts from this scheme are being removed from the data. They do not include debt from VET Student Loans (VSL), Student Start-Up Loans (SSL), Trade Support Loans (TSL) or the now closed Student Financial Supplement Scheme (SFSS).
- Most of the data presented in *help-statistics* is cumulative and aggregated data covering the entire life of all the relevant schemes. The tables identify the total number of people with a current outstanding debt, regardless of whether they have completed their qualifications or lodged a tax return in the year.
- The tables need to be analysed to ascertain what has happened each year and how this might have changed from previous years. This is made difficult by a lack of documentation on the data and how it might be affected by recent administrative processes. This has been a particular issue over the last few years as discussed below.

The other ATO data source is the *taxation statistics: individuals* collection. This contains data from annual income tax processes for a particular financial year. Its most recent release is for 2019-20. It has data on the debts and repayments of 2.3 million of the 2.9 million debtors identified in *help-statistics* for 2019-20. These are essentially the debtors who were required to lodge tax returns in that year. The analysis in Part C of the paper draws on this data.

- It includes the number of individuals making repayments, the total amounts repaid, and mean and median repayment amounts for all schemes, except VSL. If VSL data is included with the HECS / HELP schemes, this is not made clear.
- It includes information on the individual characteristics of debtors and those making repayments under the HECS / HELP schemes.
    - It also includes the characteristics of individuals who have debts under the TSL and SFSS, but not for those with debts under VSL or SSL.
    - It does not have information on the characteristics of individuals making repayments under TSL, SFSS, VSL or SSL.
- It is produced around 18 months after the end of the relevant financial year.

The documentation for *taxation statistics: individuals* is better than for *help-statistics* because many of the data items relate to fields on tax returns or highly defined tax calculations. It has the advantage of containing more detailed information on the taxable incomes, occupations, HELP debts and repayments of those included in the collection.

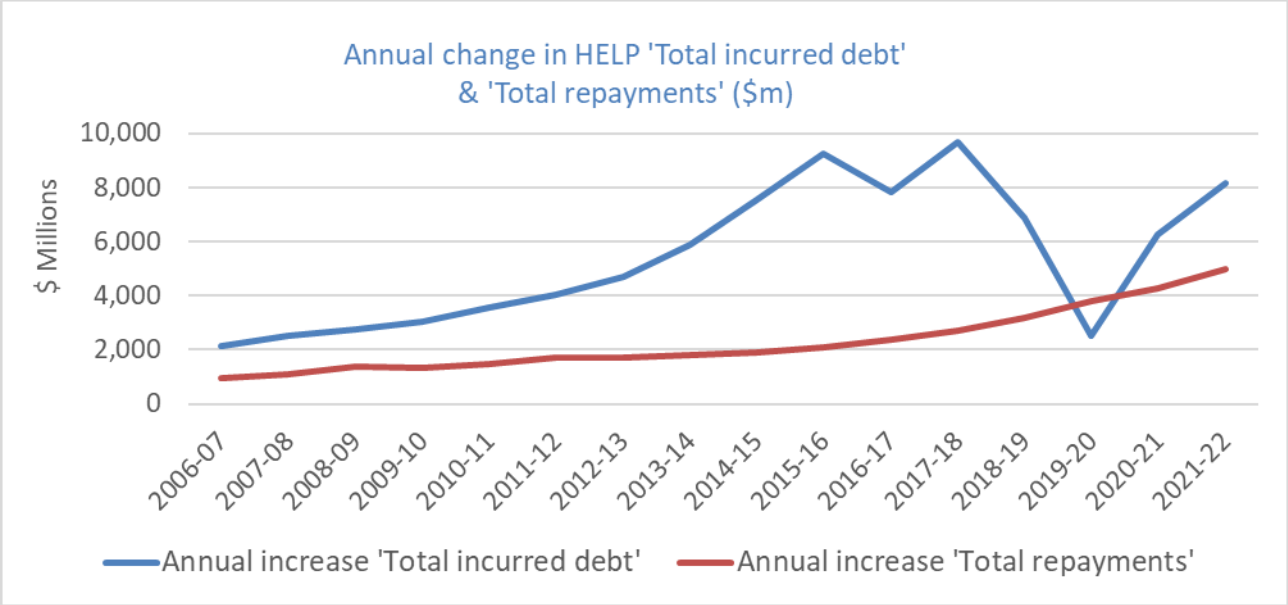
The lack of documentation on how the removal from the ATO's records of illegitimate VET FEE-HELP debt over recent years may be affecting these data sets is a problem, as is the absence of documentation clarifying whether VSL is included or omitted from the data. The Australian Government Actuary (AGA) has estimated that illegitimate VET FEE-HELP debt may exceed $4 billion. As at April 2021 around $2.7 billion had been re-credited under the Redress Scheme. AGA's modelling of the HELP receivable allows for a further $1.5 billion of recredits to be made. (See Australian Government Actuary (2021), pp 10-11.)

The lack of documentation for the *help-statistics* collection means that researchers need to presume the logical relationships between data items. It is unclear whether items are sufficiently well defined for these presumptions to be valid. The extent to which items may be affected by administrative processes is also unclear.

These concerns about the data are best explained by an example. Data items are for the life of the scheme. Consequently, to ascertain an annual figure for the current year requires you to subtract the figure for the previous year from the current year figure. So, to discover that $5 billion was repaid in 2021-22, you need to subtract the $38.8 billion repaid between 1989-90 and 2020-21 from the $43.8 repaid between 1989-90 and 2021-22.

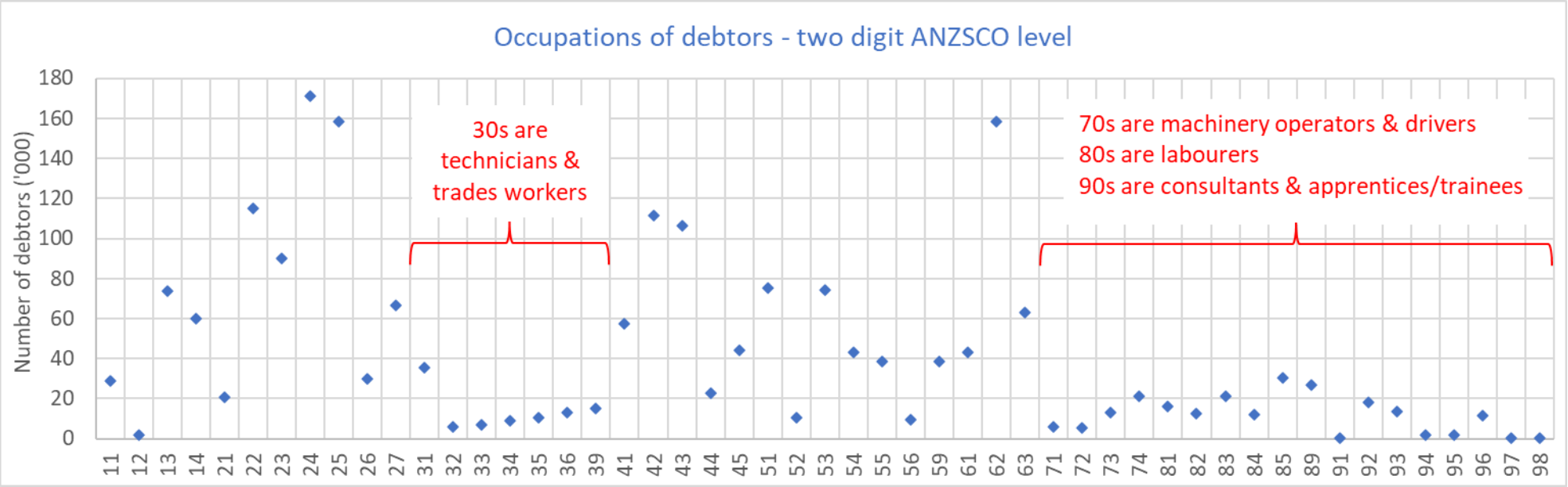
The Chart below has been produced by making such presumptions and the figures for total incurred debt demonstrate that there are anomalies in the *help-statistics* data which require explanation. Some of the figures for the annual change in total incurred debt for years after 2017-18 are clearly wrong. They have been affected by changes in the timing of data transfers from the education department to the ATO, a covid-related measure allowing universities more time to submit data, IT system errors and development delays within the education department, and the removal illegitimate VET FEE-HELP debt. ATO processing may also affect data.

For the purposes of this paper, it has been assumed that the statistics being released are not fatally flawed and can be used to infer broad trends. Readers should, however, note their limitations.



Source: Australian Taxation Office (2022b), Table 1.

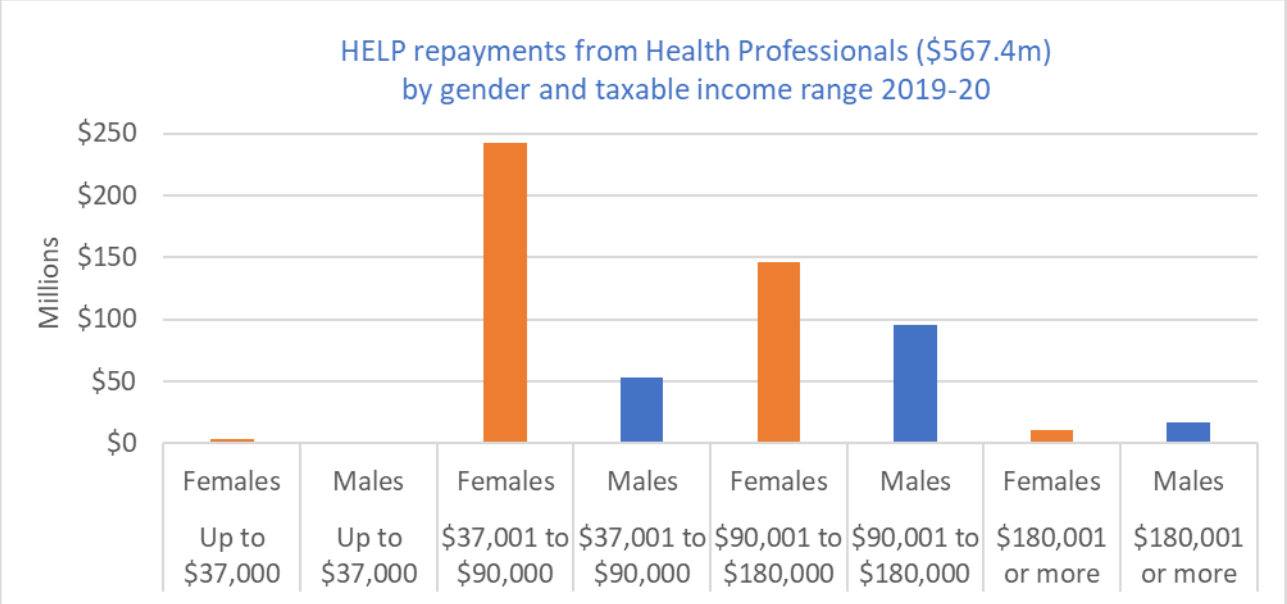
Appendix E Number of debtors within each two-digit ANZCO occupation group



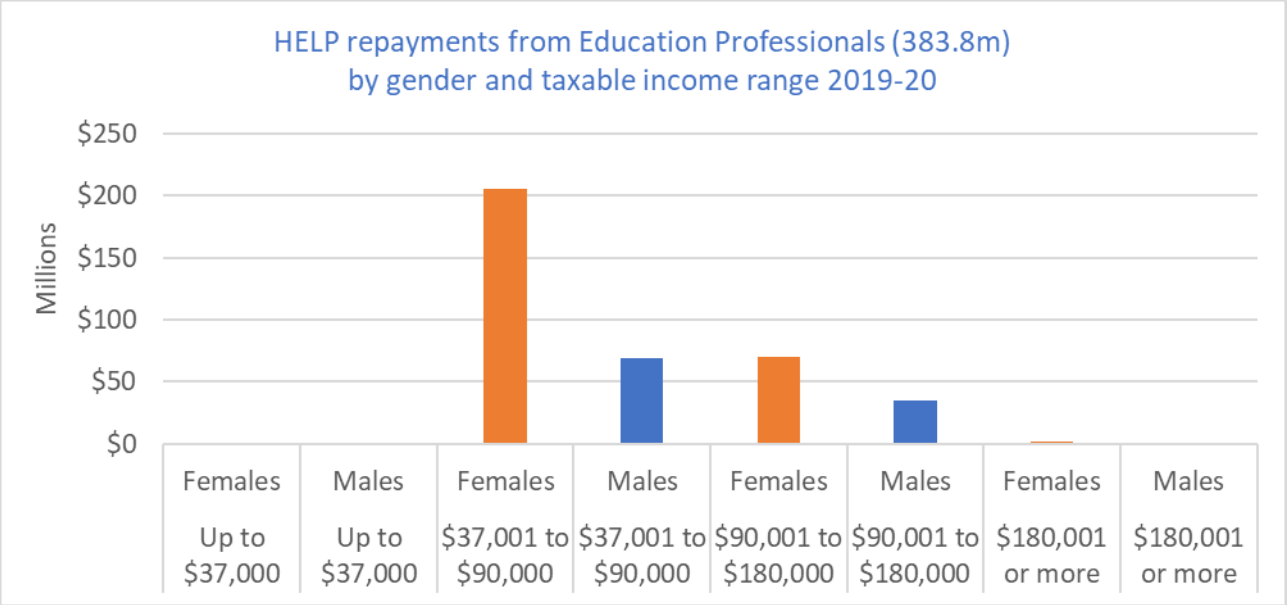
Source: Australian Taxation Office (2022c), Table 14; Australia Bureau of Statistics (2021d).

Note: The ATO's classification is broadly based on the Australian and New Zealand Standard Classification of Occupations (ANZCO) with some minor differences. The ATO's classification must be based on a version of the ANZCO classification that predates the current 2021 version. The occupational groupings with codes over 90 appear to be groupings defined by the ATO for the purposes of classifying consultants and apprentices/trainees.

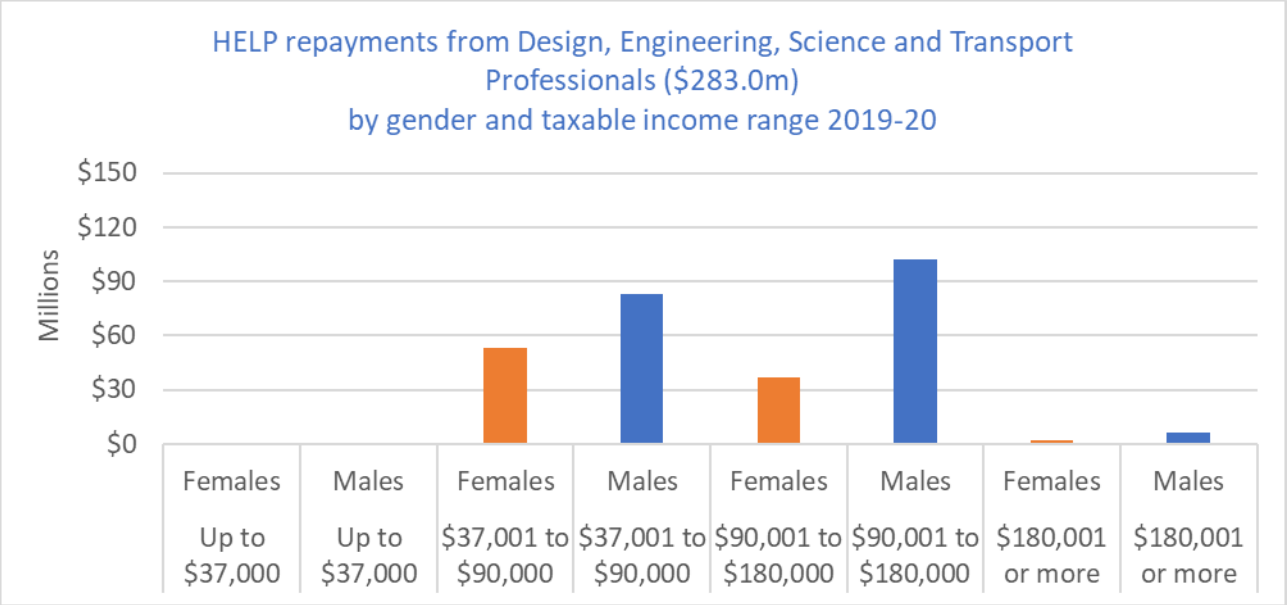
Appendix F Amount of repayments received from men and women by income tax bracket for select two-digit ANZCO occupational groups



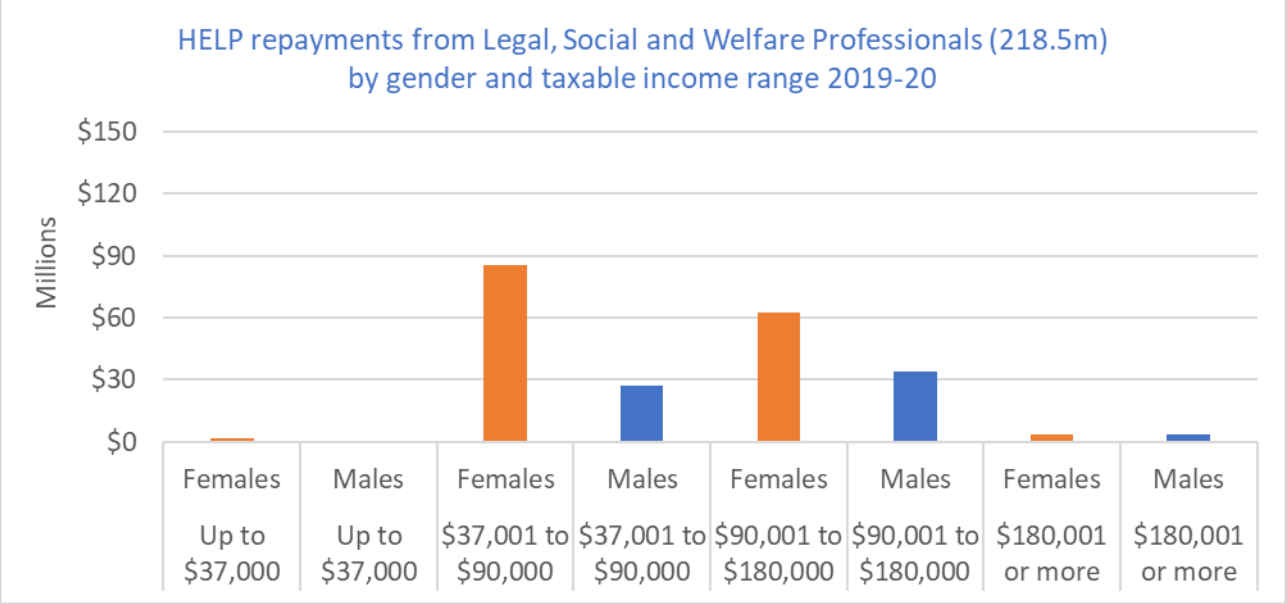
Source: Australian Taxation Office (2022c), Table 14; Australia Bureau of Statistics (2021d).



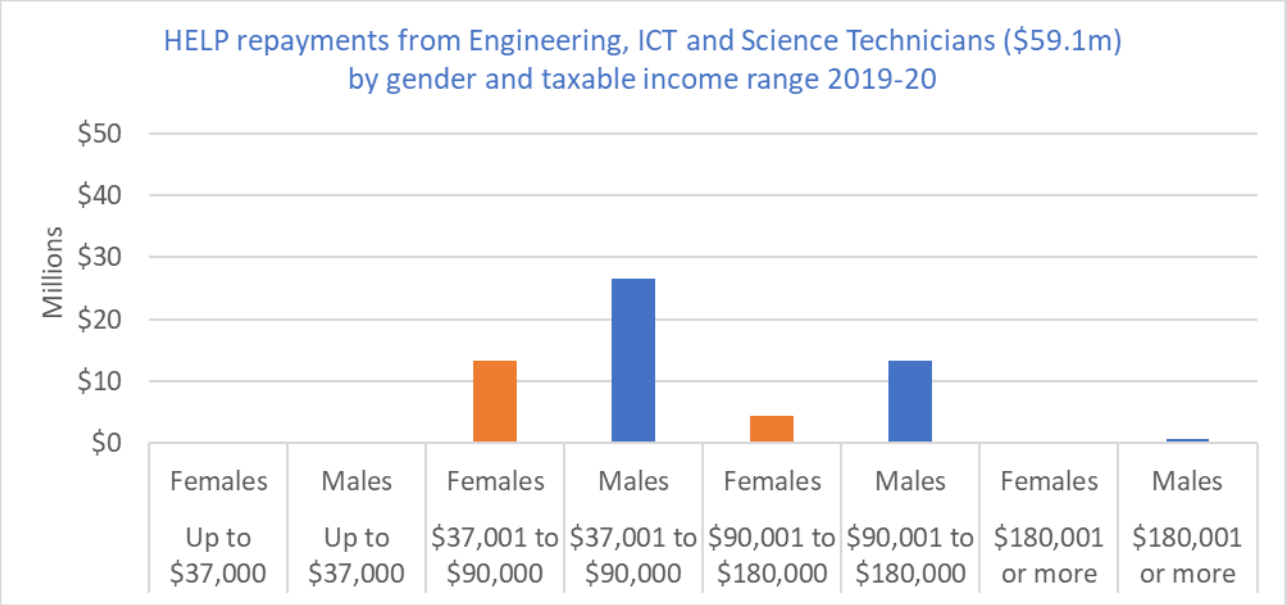
Source: Australian Taxation Office (2022c), Table 14; Australia Bureau of Statistics (2021d).



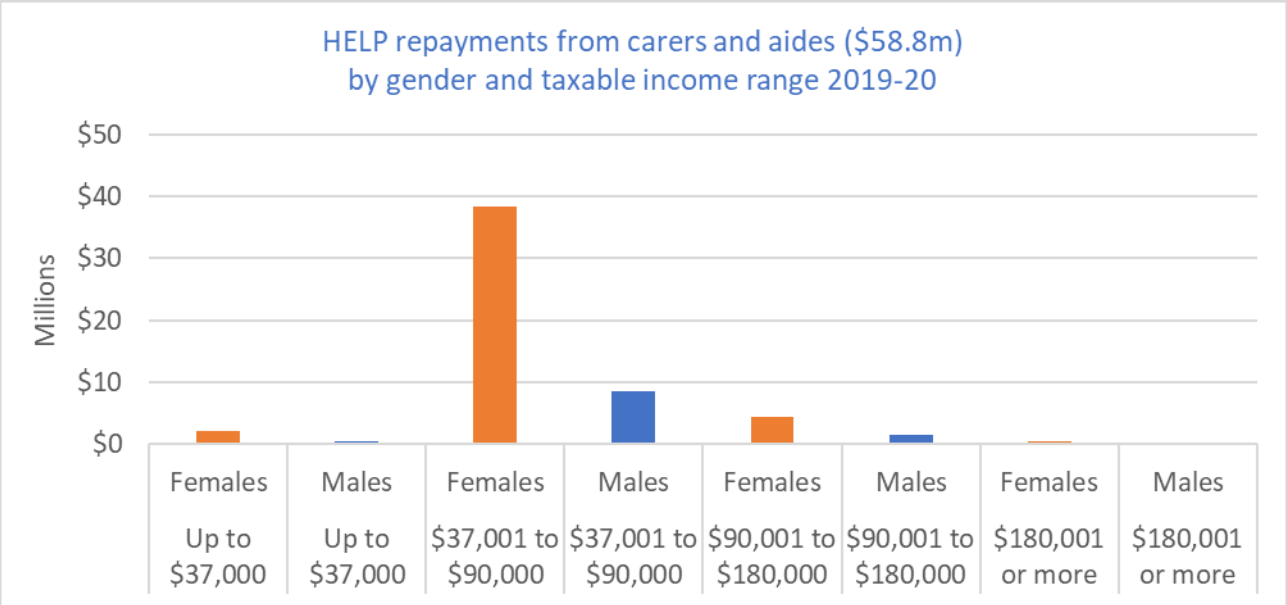
Source: Australian Taxation Office (2022c), Table 14; Australia Bureau of Statistics (2021d).



Source: Australian Taxation Office (2022c), Table 14; Australia Bureau of Statistics (2021d).

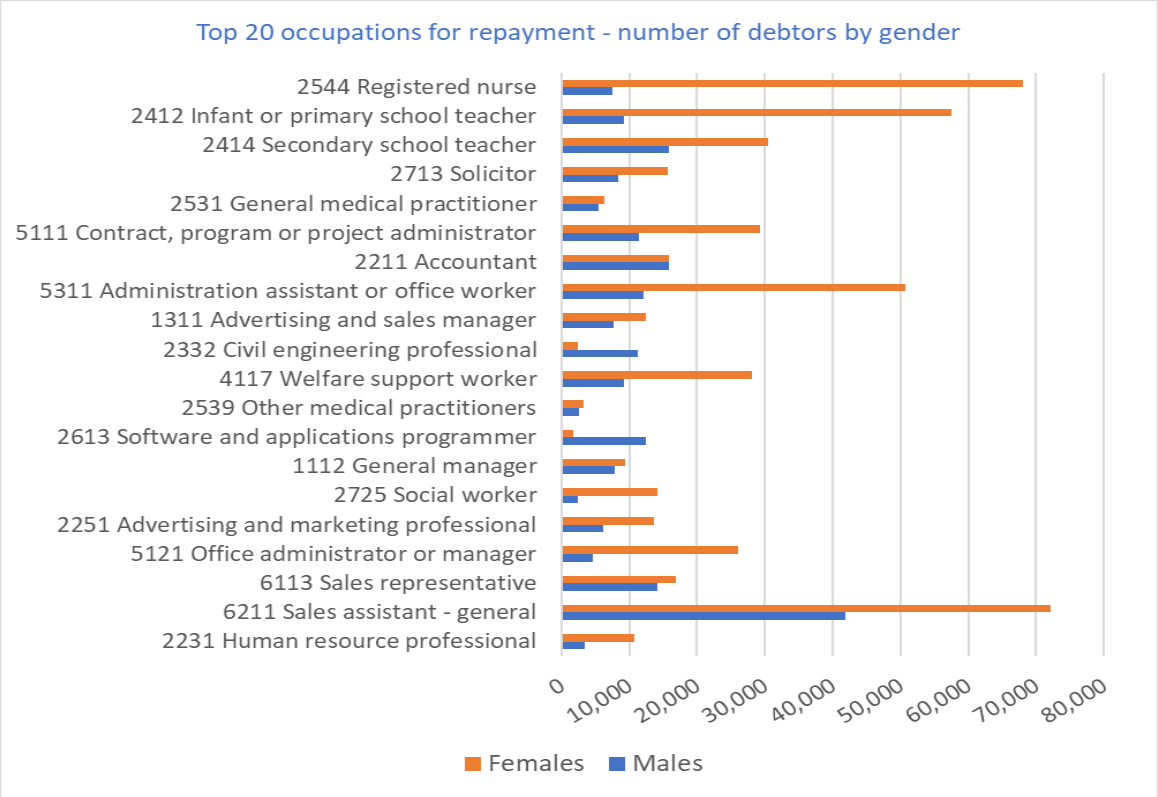


Source: Australian Taxation Office (2022c), Table 14; Australia Bureau of Statistics (2021d).

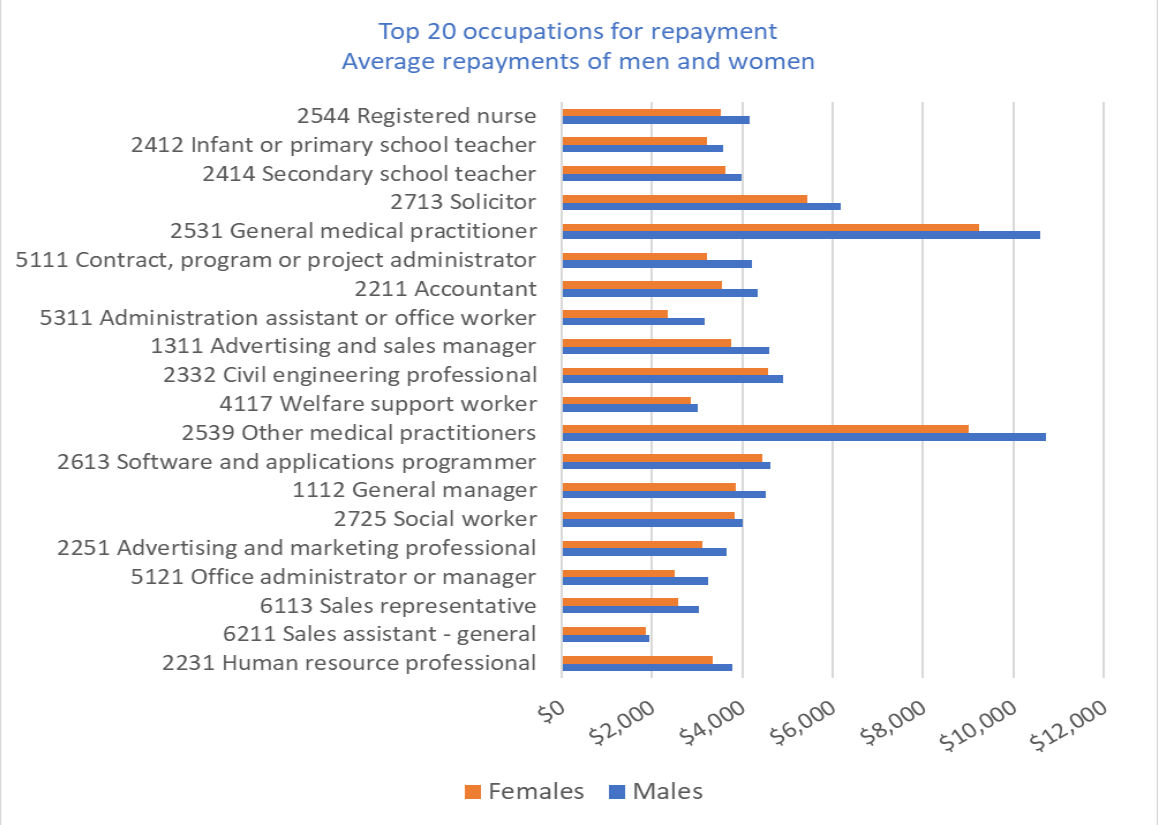


Source: Australian Taxation Office (2022c), Table 14; Australia Bureau of Statistics (2021d).

Appendix G The 20 occupations with the largest amounts of HELP repayment: male and female debtors and their average repayments



Source: Australian Taxation Office (2022c), Table 14



Source: Australian Taxation Office (2022c), Table 14

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