

Higher education student charges and income contingent loans in Australia

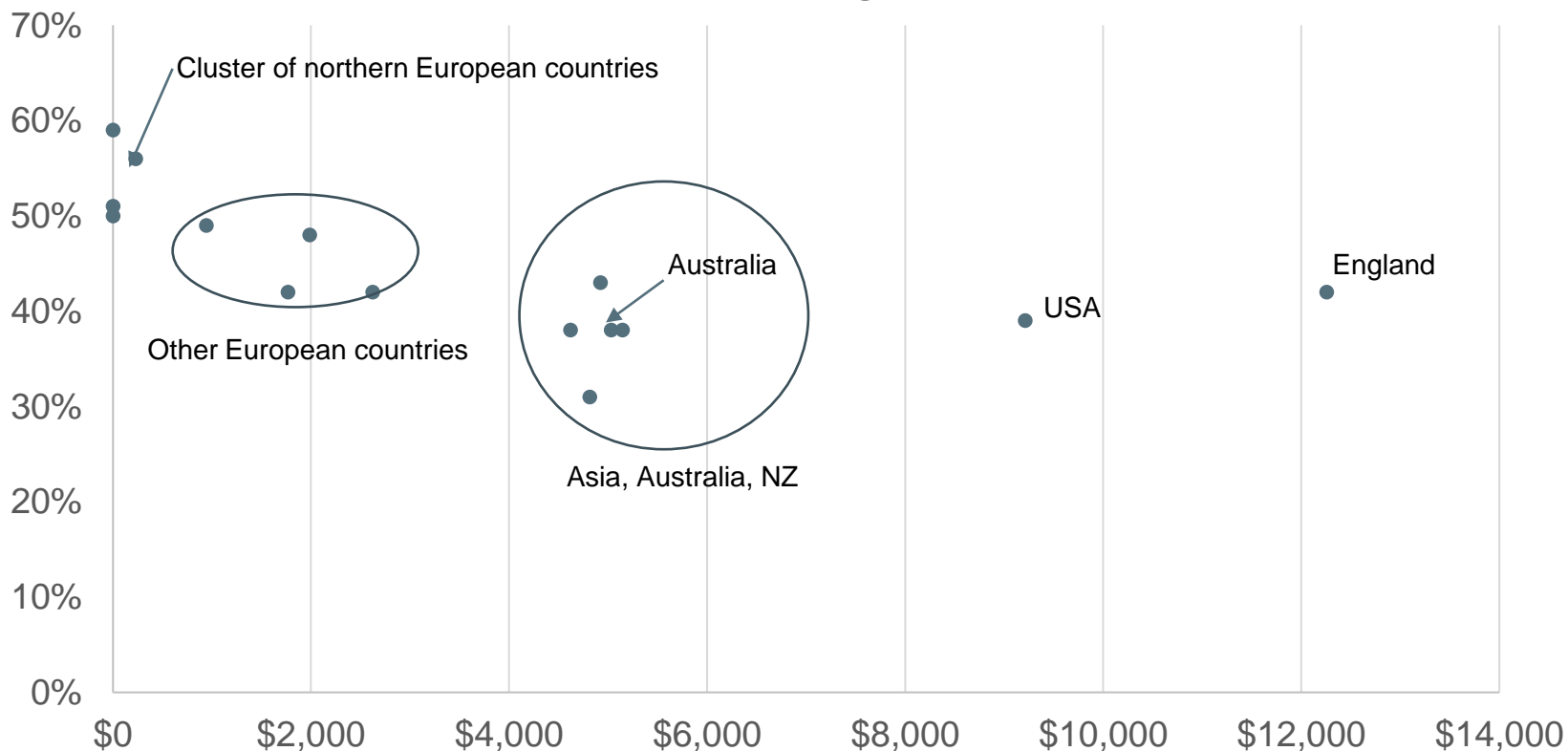
Andrew Norton – May 2023

Brief history of Australian higher education fees

- 1850s-1973 generally low fees set by universities; large % of students had scholarships
- 1974-1988 free tuition
- 1989-1996 'HECS' (Higher Education Contribution Scheme) flat rate with income contingent loan (ICL)
- 1997-2020 HECS/student contribution set roughly according to expected future income with ICL
- 2021-? student contribution set to incentivise student course choices with ICL

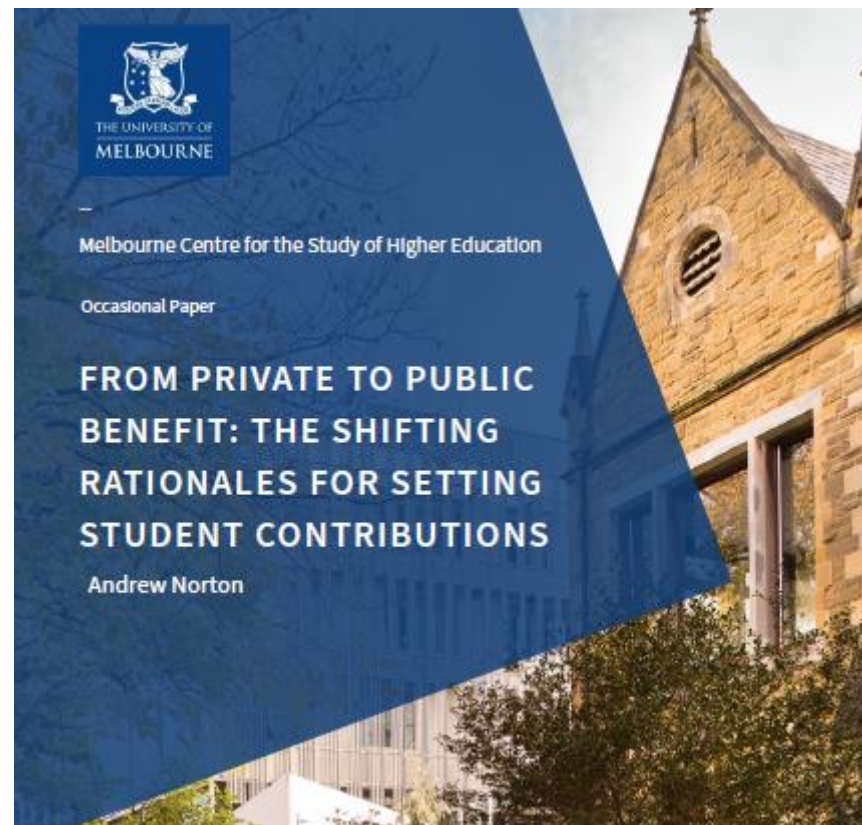
Tuition fee approaches broadly correlate with the size of government

Bachelor degree tuition fees \$USD PPP and government expenditure as % of GDP

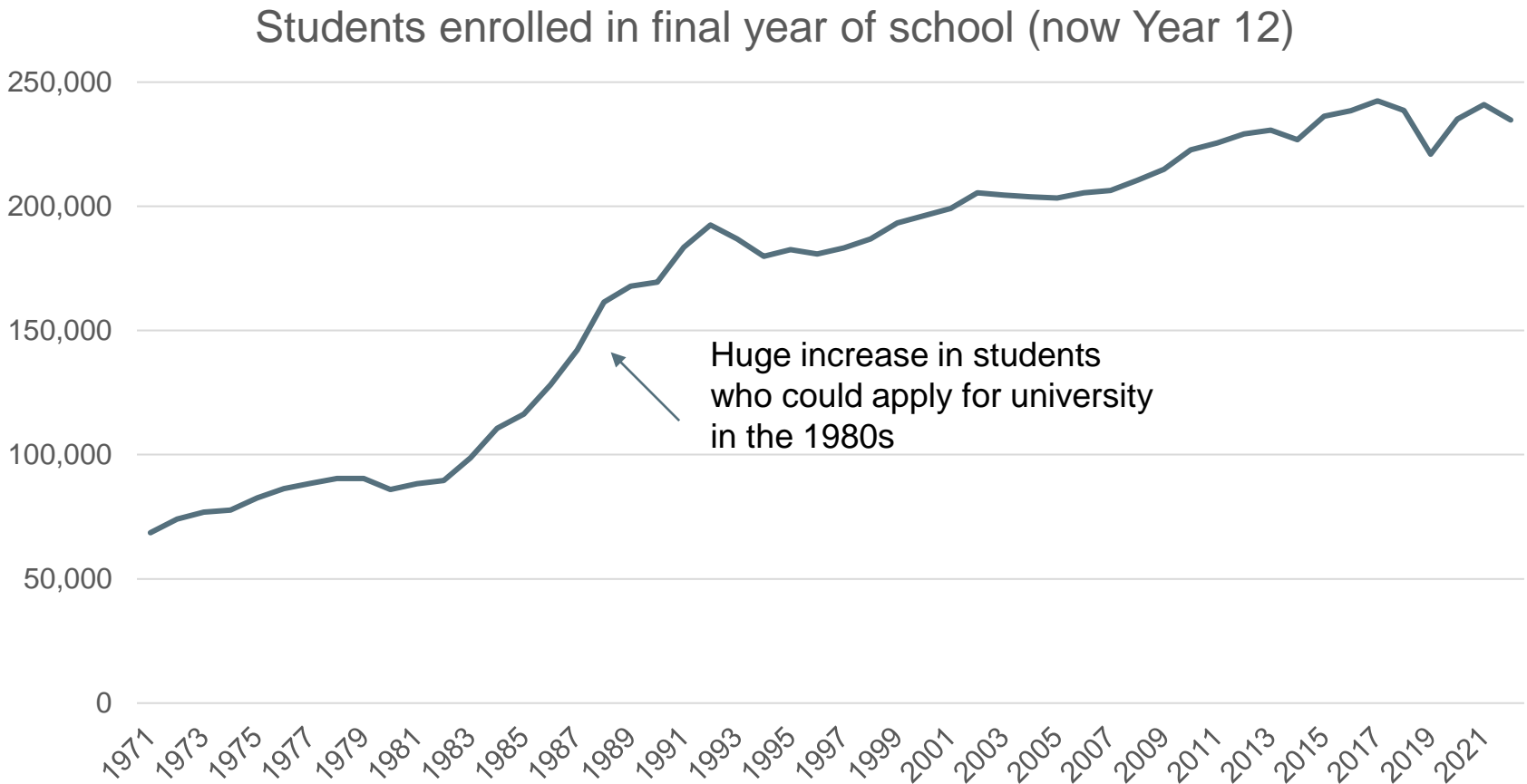


Source: OECD Education at a Glance, table C5.1 (late 2010s); OECD.Stat Government expenditure as % of GDP (2018)

When governments set fees they need rationales – no one right answer; it depends on policy goals & political context



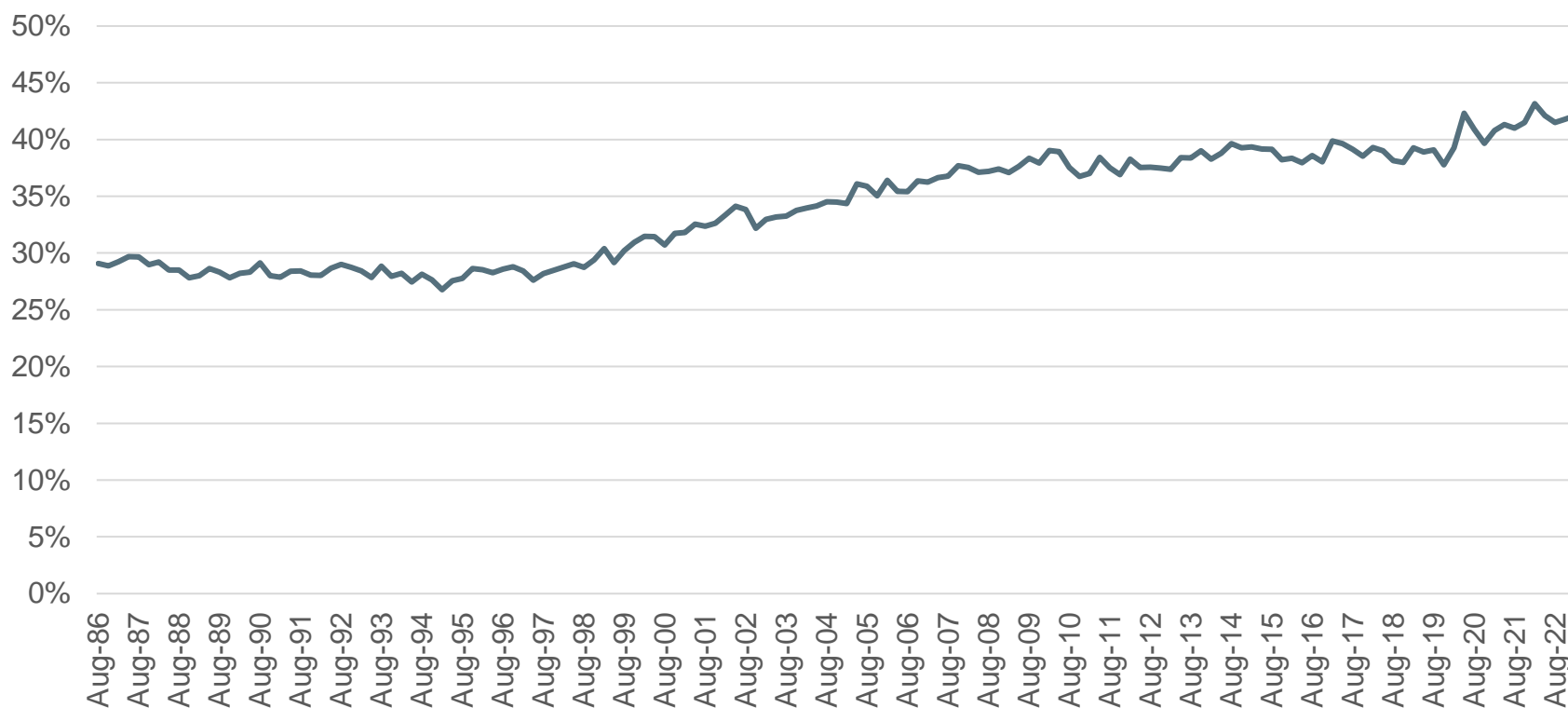
Student charges were reintroduced in 1989 to finance more student places



Source: Australian Bureau of Statistics, Schools (and predecessor publications)

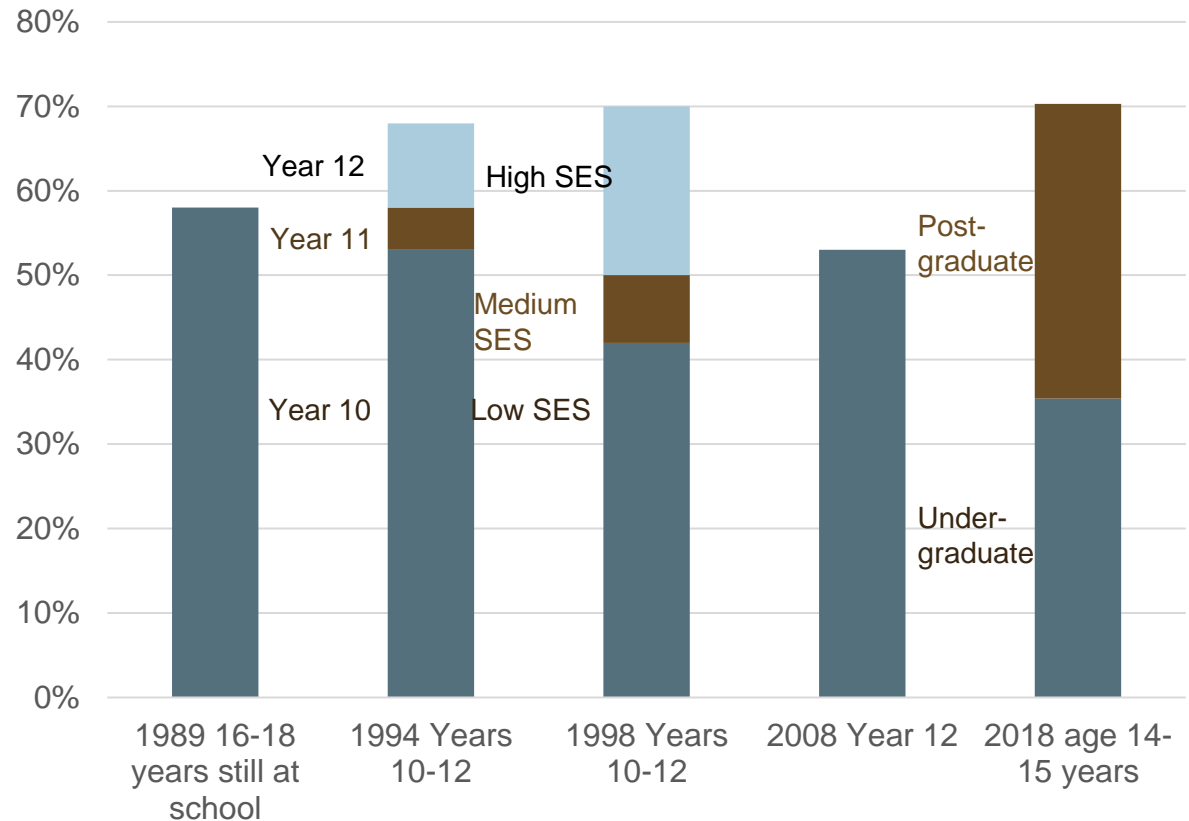
Major reforms announced in 1988 assumed significantly increased demand for graduate workers

Percentage of 25 to 34 year old workers in professional employment, 1986-2022



Social demand has exceeded labour market demand since the late 1980s

Aspirations for higher education



Sources: Australian Youth Survey 1989; Young people's attitudes to tertiary education 1994; Socioeconomic background & higher education participation (1998, published James 2002); Year 12 Student choices 2008; LSAC 2018.

Student finance systems

- All student finance systems deal with the problem that young adults typically cannot self-finance multi-year degrees
- Family payments/loans
- Philanthropy
- Commercial loans
- Government subsidy
- Government loans

Public student finance

Options include

- Subsidies and free to student (previously used in Australia, common in Europe)
- Subsidies plus capped fees and government loans (most domestic undergraduates in Australia)
- No subsidy, fees set by higher education providers with government loans (some domestic students in Australia)
- Student income support (means-tested in Australia)

Student loan systems

- **Mortgage style**
 - Instalment repayments over a fixed period of time
 - Default a problem, affecting student/graduate credit rating
 - Inflexible to life circumstances, eg taking time off to care for young children
- **Income contingent**
 - Repayment a percentage of income above a threshold level
 - Flexible to life circumstances
 - But potential high costs to government

Feasibility of income contingent loans

- A tax system capable of collecting repayments
 - In the 1980s Australia already had a high proportion of taxpayers in its PAYG system
- IT systems capable of keeping track of debt and debtors over decades
- Overseas collection
 - Not done in Australia until 2016-17 tax year

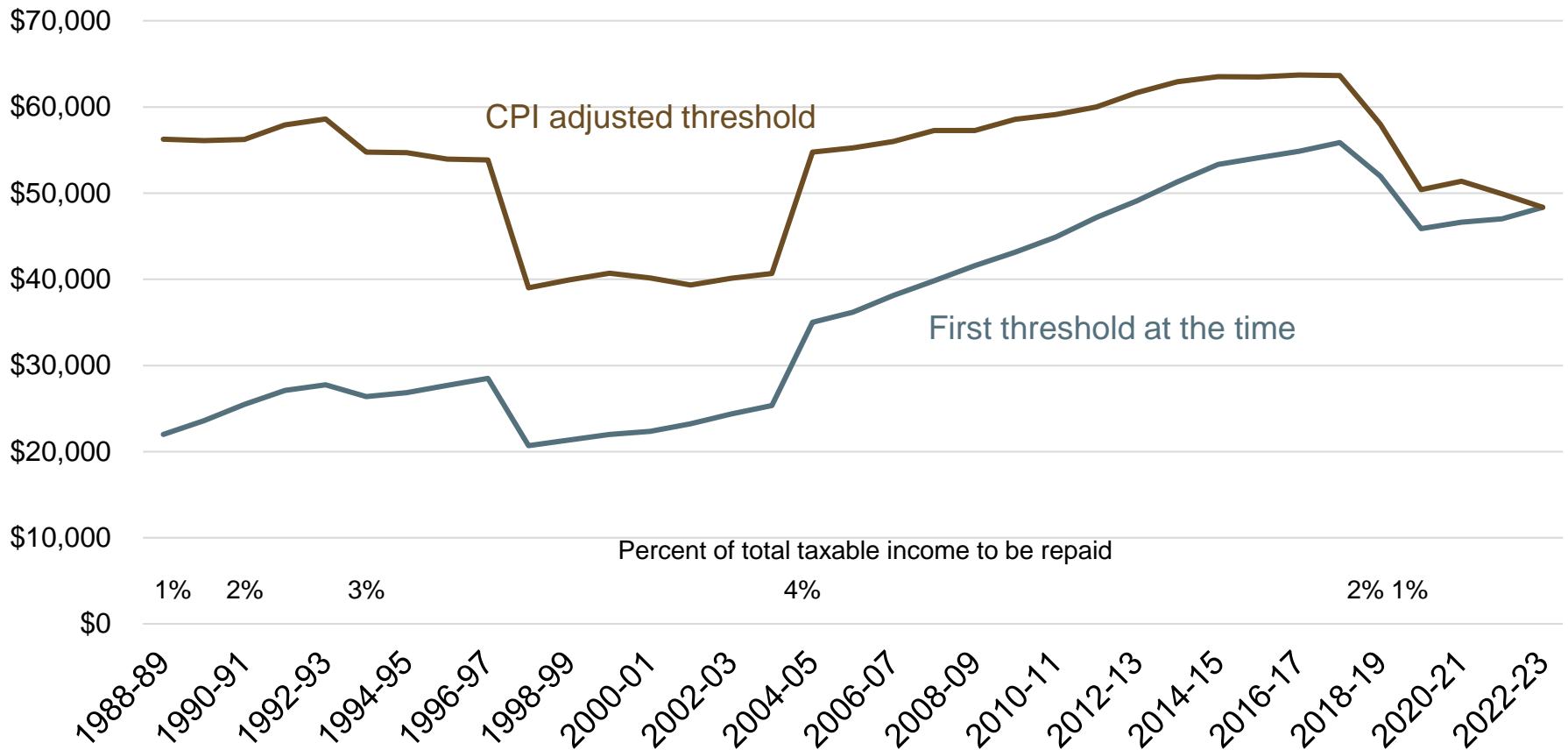
ICLs designed to transfer repayment risks to government, but controlling losses is important

- Possible restrictions by course (to those with better repayment prospects)
- Caps on fees that can be supported by loans
- Limits on how much a person can borrow
- Limits on eligible higher education institutions

No real interest on HELP debt, but

- Indexation to CPI on 1 June each year
 - High current inflation has made this very controversial – not suited to eras of price instability
- 20% loan fee for undergraduate non-university higher education providers and VET Student Loans students
 - Applied in an arbitrary way but has proved more politically acceptable than real interest rates

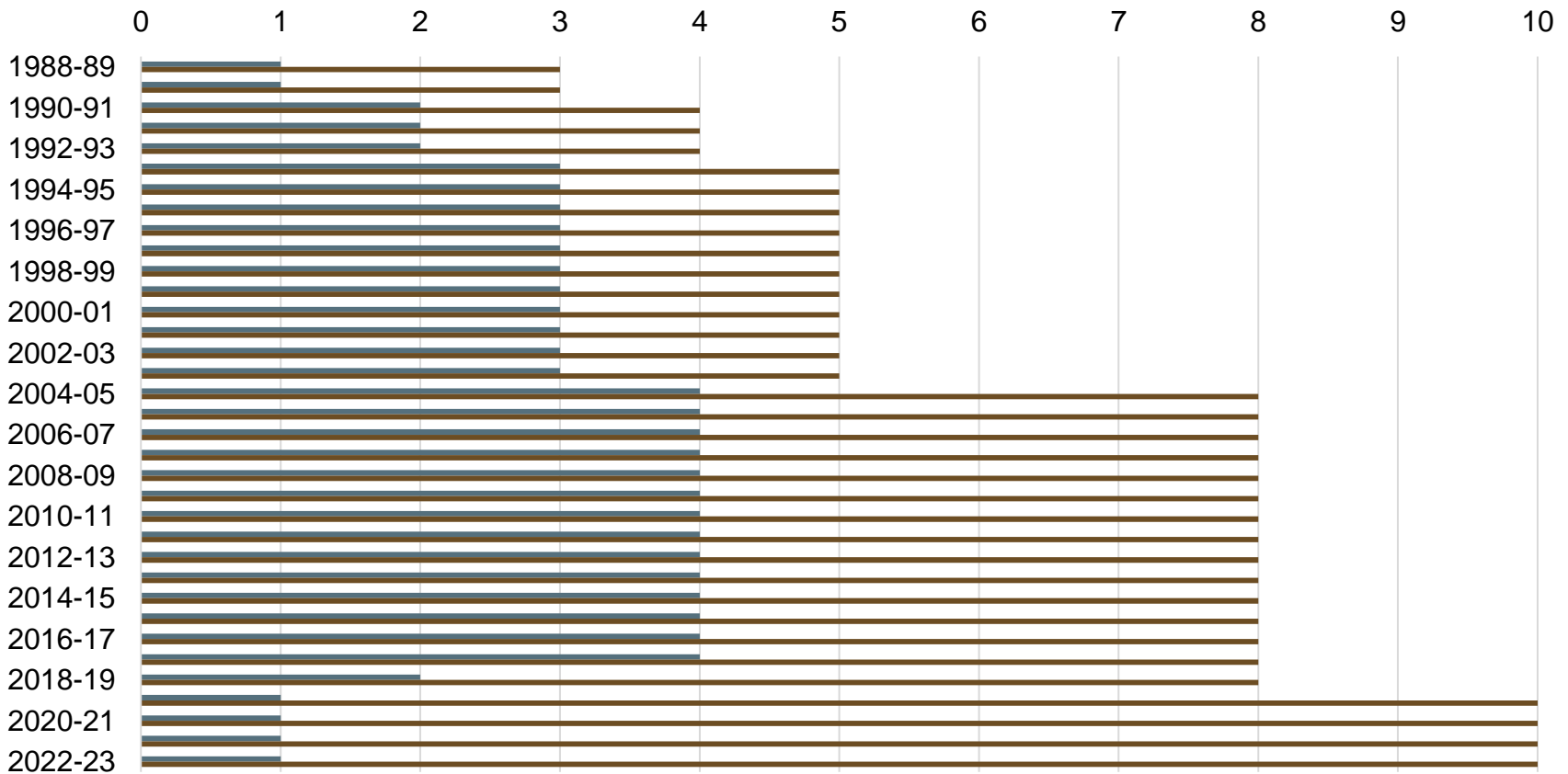
The income threshold at which repayment starts a financially and politically crucial decision



Sources: ATO, ABS CPI June quarter 2022 base

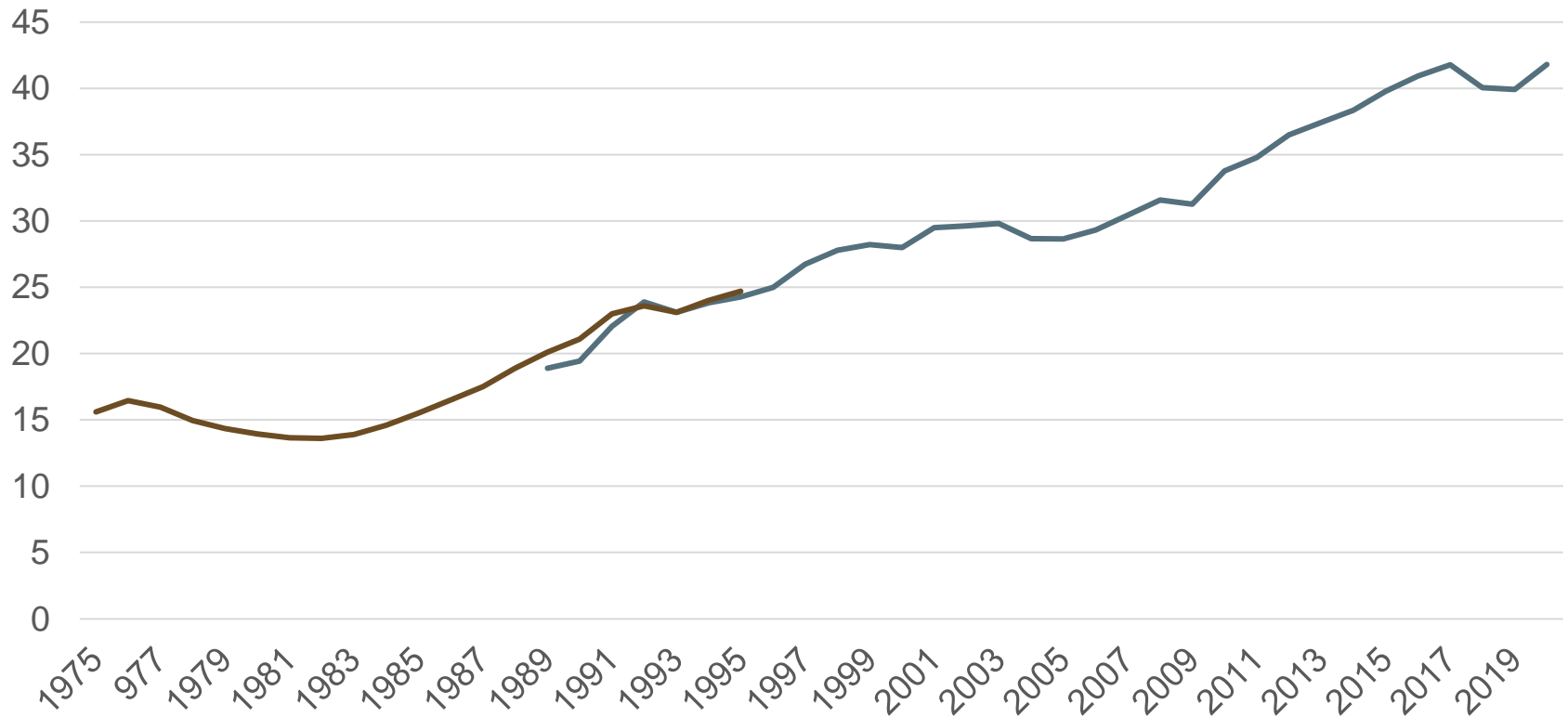
Australia has an unusual repayment system – increasing shares of total income, not flat % above the threshold (England, NZ)

HELP repayment, by lowest and highest payable % of taxable income



Predictions that fees or loans would deter enrolments not realised

Higher education participation rate at age 19 years



Sources: ABS, Population data; Department of Education, enrolment data

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