



National Tertiary
Education Union
Let's aim higher

The Future of Graduate Debt in Australia



June
2023

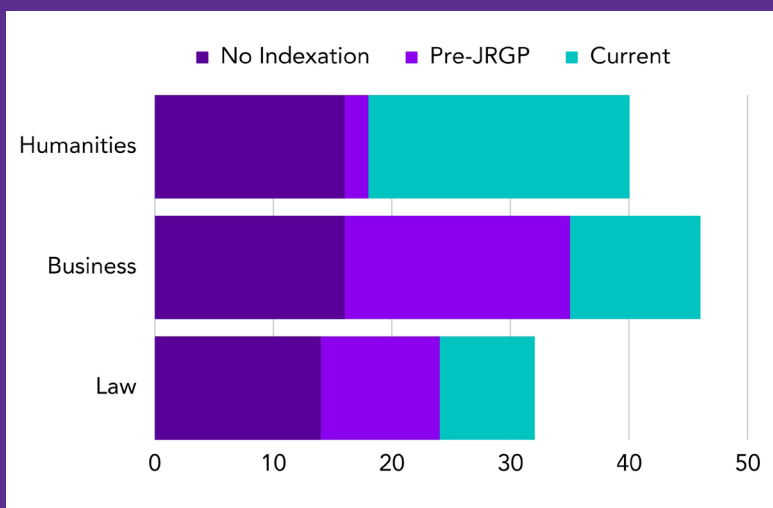
Executive Summary

Australian university graduates are potentially facing lifelong debt due to the noxious combination of newly increased course fees, reduced repayment income thresholds, and high debt indexation. New modelling presented in this report concerning the highest fee band degrees shows that repayment periods of over 40 years are plausible under current policy settings. This modelling also shows that the total repayment amounts could well exceed \$100,000 for many four-year degrees. Under these scenarios it is also likely that the total outstanding balance of all HECs-HELP debts will grow on an unsustainable trajectory.

Expected Repayment Times Under Current Policy Settings

Program	Program Length	Starting Debt	Starting Salary	Repayment Period	Total Repayment
Business Management	4 years	\$60,568	\$65,000*	44 years	\$119,331
Law	4 years	\$60,568	\$70,000	32 years	\$90,868
Law (female graduate)	4 years	\$60,568	\$68,500	36 years	\$81,833
Humanities and Social Sciences (hons)	4 years	\$60,568	\$67,000	40 years	\$60,568

*This is also the December 2022 Median Employee earnings for Australia



Years Taken to Repay Student Debt

Assumptions

- Wage growth: 2.3% - the average of the last 10 years
- Indexation rate: begins at 7.07% then falls to 2.2% over the next 7 years - 2.2% is the average indexation applied over the last 19 years
- Starting salaries are those for the industry linked to each program
- In the model repayment thresholds are indexed at the same rate as student debt

Our Current System

Introduction

This report provides a brief background of the HECS (Higher Education Contributions Scheme) and its successor HELP (the Higher Education Loan Program), followed by projections for future student repayment times in selected fee bands, and case studies of specific degrees and careers that will be most affected by HECS-HELP indexation. A range of solutions to this issue, including an end to the practice of indexing existing student debt,

Background

The Dawkins reforms of 1988 established a system of flat yearly student contributions for tertiary study (\$1800 at the time) under the program known as HECs, with these payments being deferred in an income contingent loan provided by the government, and recovered via the tax system when the pre-determined income level was met. This level was initially set at \$22,000 – the average annual earnings at that time.¹ This policy was part of a broader package that included more university places and increased student accessibility.

In 1996 flat rate payments were replaced by three different payment bands – these differential bands were based on cost of delivery, and also on the expected financial returns to the student should they be successful in a career in the given area of study. In 1996 HECS income only accounted for 11.6 percent of university income.² By 2020 this had risen to 18.2 percent after fee increases in 2005, and most recently under the Job Ready Graduates reforms. This is despite income from international student fees also rising rapidly over the same period to make up 23 percent of university income. This means that student fees now account for around 40 percent of all income in public universities.

Changes under the Jobs Ready Graduate Program have meant an average reduction of funding per undergraduate place, and a dramatic increase in student fees. In economics, law, commerce and accounting student fees increased by 28 percent, while for humanities students fees have increased by 113 percent, with these programs and other high fee band places now costing Australian students \$15,142 per year (a figure also subject to annual indexations). Overall students paid an extra \$414 million to study in 2022, while the federal government saved \$1 billion in commensurate funding reductions.³ Our modelling shows that many students graduating under these new higher fees will likely take decades to pay off their HECS-HELP debt. It is inevitable that the number of people who are simply unable to pay down their debt over their lifetime will also skyrocket.

Student Debt today

Current total outstanding HELP debt stands at \$74.3 billion for the financial year ending 2022, around four times as much as 2009. The average amount of student debt is now \$24,770 per student, up from \$15,191 in 2012.⁴ This means that debt repayments are becoming an increasing burden during important early-career years. Students now take an average of 9.5 years to pay off their degree, compared to 7.3 years in 2006.⁵ This trend will continue to worsen under the current model - with high inflation linked indexation, low wage growth, and all-time high fees feeding into higher debt burdens for students and graduates.

The people carrying these debts are not just young graduates and students. Of the three million people with HELP debts, 300,000 are aged over 50, and of these two thirds are women. Meaning older women are disproportionately affected by indexations.⁶ This compounds existing issues for women when it comes to saving for retirement and building independence. It is notable that women are much more likely to work in careers that, while important, don't attract high incomes, such as social work and in the community sectors and that conversely, these areas are also often placed in the highest student contribution band - where the student is expected to cover around 90 per cent of the

Treading Water: Debt indexation and repayment thresholds

Under the current model, it is very plausible that a graduate will be making regular repayments but making no progress on the principal of their debt, as shown in the table below. This is because the repayment amounts are very low compared to the total new costs of many degrees.

HECS-HELP debt is increased each year on June 1 by an indexation factor based on the consumer price index. This is measured using the average consumer price index (CPI) of the preceding two-year period ending in the March quarter. In 2022 the rate applied was 3.9 percent. For 2023 the rate will be 7.07% - higher than the average home loan rate.⁸

For the 2022-23 financial year the minimum repayment threshold is set at \$48,361 (in a band up to \$55,836) at this income level a graduate will have a compulsory repayment of 1 percent of their income or \$484 - this does not come close to the amount added on to their debt by indexation (using the average outstanding debt).

In fact, a graduate must earn around \$60,500 before their mandatory repayments will even cover the indexation amount for the current average balance (see table above) - meaning that any graduates with incomes lower than this will be going backwards this year. Under these circumstances a HECS-HELP debt could become a tax liability for life.

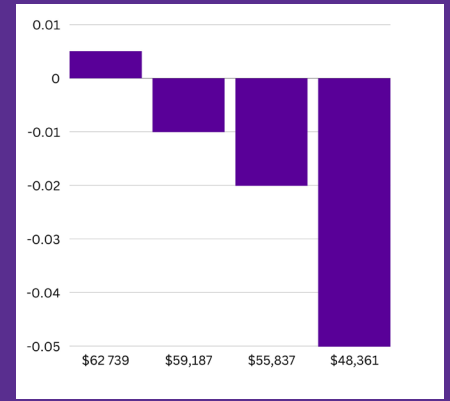


ORIGINAL DEBT (\$60,568) as a percentage of **TOTAL REPAYMENTS**

How This Works:

June 2023 Indexation: 7.07%
New Debt Created: \$1,751

Graduate Income	Repayment Rate	Repayment	Net Position Change After Repayment
\$48,361	1%	\$484	- \$1,268
\$55,837	2%	\$1,117	- \$634
\$59,187	2.5%	\$1,480	- \$272



Percentage of Debt Repayed That Year

* Based on current average outstanding HECS-HELP debt of \$24,770. New debt created 1 June, repayment date 30 June ation

Case Studies

Humanities and Social Sciences

What follows are a number of case studies that model the trajectories of wage growth and indexation on student debts over time in order to estimate plausible repayment scenarios. These projections assume wage growth is 2.3% - the average of the last 10 years, indexation begins at 7.07% then rapidly falls to 2.2% - the average of the last 19 years; and starting salaries are those for the industry linked to each program.

	Program Length	Starting Debt	Starting Salary	Repayment Period	Total Repayment
Current Rates	4 years	\$60,568	\$67,000	40 years	\$110,353
	3 years	\$45,426	\$67,000	29 years	\$72,726
Pre-JRGP	4 years	\$28,420	\$67,000	18 years	\$40,214
	3 years	\$21,315	\$67,000	13 years	\$27,752
Current Rates w/o Indexation	4 years	\$60,568	\$67,000	16 years	\$60,568
	3 years	\$45,426	\$67,000	12 years	\$45,426

A Humanities and Social Sciences student completing a four-year degree in 2023 would face similar repayments. For this student, earning the average graduate salary of \$67,000 would mean a student debt that takes 40 years to repay. If they were to take a career break their total repayment amount would increase from \$110,353 to \$123,328 due to the compounding impact of additional indexations.

Using the grandfathered rates of the pre-JRGP fee bands we can see that total lifetime repayments in this model are 175% higher under the JRGP fee structure with all other assumptions held constant.

This case study also shows that freezing indexation for these students would not prevent them from making significantly higher lifetime repayments than under the pre-JRGP rates with indexation.

	Program Length	Starting Debt	Starting Salary	Repayment Period	Total Repayment
Current Rates	4 years	\$60,568	\$65,000*	44 years	\$119,331
Current Rates w/ High Wage Growth	4 years	\$60,568	\$65,000	22 years	\$90,868
Pre-JRGP	4 years	\$47,428	\$65,000	35 years	\$81,833
Current Rates w/o Indexation	4 years	\$60,568	\$65,000	16 years	\$60,568

*This is also the December 2022 Median Employee earnings for Australia

^ Assume 3.5% annual wage growth, compounded and 2.2% annual indexation

The second example is business management graduate. Their debt could take 44 years to repay under recent average economic conditions. This student begins with a debt of \$60,568 at an indexation rate of 7.07% and a graduate average salary of \$65,000. Accounting for inflation, wage growth and a return to average indexation, they will have a peak debt of more than \$67,000.

If we are to assume long term wage growth healthily outstrips inflation over the coming years, their repayment time is reduced to 22 years - primarily due to the effect of moving into higher repayment bands. Over the term of their debt this saves them from accruing significant indexation.

	Program Length	Starting Debt	Starting Salary	Repayment Period	Total Repayment
Current Rates	4 years	\$60,568	\$70,000	32 years	\$100,519
Female Current Rates	4 years	\$60,568	\$68,500	36 years	\$106,525
Pre-JRGP	4 years	\$47,428	\$70,000	24 years	\$72,021
Current Rates Without Indexation	4 years	\$60,568	\$68,500	14 years	\$60,568

**The pre JRGP model uses the indexed grandfathered rates for 2023 x 4

This example is of a law student graduating with a four-year degree in 2023. This student can expect to be in over \$60,000 of debt the moment they graduate. If they enter the workforce and begin earning the average graduate salary, in this case \$70,000, they would be paying this debt for 32 years, until 2055. If this student is a woman, they can expect to be repaying this debt until 2059, or for 36 years, due to a lower starting salary - even without a career break.

The Impact of high student fees and debt

We know that many cohorts of potential students are debt adverse, including those who would be first in family to attend higher education, mature age students (especially women) and those who are from Aboriginal and/or Torres Strait Islander communities. It is also very possible that the increasing levels of debt may also act as a disincentive in the future to the broader community.

Increasing levels of debt does not only have consequences for the individual, but there are broader socio-economic impacts. High debt impacts on ability to save and the loan burden can be detrimental to applying for finance for major investments such as a home or starting a business. It can have ramifications on access to health, education, and other social-welfare services, and can even prevent or delay starting a family. All of these have socio-economic impacts beyond the individual.

These case studies demonstrate the extreme impact that the indexation model has with the new high fee model in an environment of average inflation and wage growth. Under this system only those graduates who excel in their careers and outpace average wage growth will stand a chance to avoiding career-long debt. Of course, this is not the norm, more and more individuals are taking career breaks to have children, change careers, or even work part-time. The impact of indexation is amplified in all of these circumstances by the high debt balance hundreds of thousands of graduates will be saddled with.

Finally, a ballooning national HECS-HELP debt balance could become politically unsustainable, leading to attacks on our higher education sector, and a further shift towards a fully privatised model of higher education.

For these reasons it is imperative that the government act to reverse JRGP fee increases and review the equity of the current HECS-HELP system.



Appendices

Example of modeling used (Law)

	Salary (National Median)	Repayment Rat	Wage Growth	Debt	Repayment	Indexation	New Debt	Total Debt
2023	70000	4.00%	0.023	60568	2800	0.0707	4282.1576	62050.1576
2024	71610	3.50%	0.023	62050.1576	2506.35	0.05	3102.50788	62646.31548
2025	73257.03	3.00%	0.023	62646.31548	2197.7109	0.0374	2342.972199	62791.57678
2026	74941.94169	3.00%	0.023	62791.57678	2248.258251	0.035	2197.705187	62741.02372
2027	76665.60635	3.00%	0.023	62741.02372	2299.96819	0.034	2133.194806	62574.25033
2028	78428.91529	3.00%	0.023	62574.25033	2352.867459	0.033	2064.950261	62286.33313
2029	80232.78035	3.00%	0.023	62286.33313	2406.98341	0.03	1868.589994	61747.93972
2030	82078.13429	3.00%	0.023	61747.93972	2462.344029	0.025	1543.698493	60829.29418
2031	83965.93138	3.00%	0.023	60829.29418	2518.977942	0.0225	1368.659119	59678.97536
2032	85897.14781	3.00%	0.023	59678.97536	2576.914434	0.022	1312.937458	58414.99838
2033	87872.7822	3.00%	0.023	58414.99838	2636.183466	0.022	1285.129964	57063.94488
2034	89893.8562	3.00%	0.023	57063.94488	2696.815686	0.022	1255.406787	55622.53598
2035	91961.41489	3.00%	0.023	55622.53598	2758.842447	0.022	1223.695792	54087.38933
2036	94076.52743	3.00%	0.023	54087.38933	2822.295823	0.022	1189.922565	52455.01607
2037	96240.28756	3.00%	0.023	52455.01607	2887.208627	0.022	1154.010354	50721.8178
2038	98453.81418	3.00%	0.023	50721.8178	2953.614425	0.022	1115.879992	48884.08336
2039	100718.2519	3.00%	0.023	48884.08336	3021.547557	0.022	1075.449834	46937.98564
2040	103034.7717	3.00%	0.023	46937.98564	3091.043151	0.022	1032.635684	44879.57817
2041	105404.5714	3.00%	0.023	44879.57817	3162.137143	0.022	987.3507198	42704.79175
2042	107828.8766	3.00%	0.023	42704.79175	3234.866298	0.022	939.5054185	40409.43087
2043	110308.9407	3.00%	0.023	40409.43087	3309.268222	0.022	889.0074791	37989.17013
2044	112846.0464	3.00%	0.023	37989.17013	3385.381392	0.022	835.7617428	35439.55048
2045	115441.5055	3.00%	0.023	35439.55048	3463.245164	0.022	779.6701105	32755.97542
2046	118096.6601	3.00%	0.023	32755.97542	3542.899802	0.022	720.6314593	29933.70708
2047	120812.8833	3.00%	0.023	29933.70708	3624.386498	0.022	658.5415558	26967.86214
2048	123591.5796	3.00%	0.023	26967.86214	3707.747387	0.022	593.2929671	23853.40772
2049	126434.1859	3.00%	0.023	23853.40772	3793.025577	0.022	524.7749698	20585.15711
2050	129342.1722	3.00%	0.023	20585.15711	3880.265165	0.022	452.8734565	17157.7654
2051	132317.0421	3.00%	0.023	17157.7654	3969.511264	0.022	377.4708389	13565.72498
2052	135360.3341	3.00%	0.023	13565.72498	4060.810023	0.022	298.4459495	9803.360904
2053	138473.6218	3.00%	0.023	9803.360904	4154.208654	0.022	215.6739399	5864.82619
2054	141658.5151	3.00%	0.023	5864.82619	4249.755453	0.022	129.0261762	1744.096913
2055	144916.6609	3.00%	0.023	1744.096913	4347.499828	0.022	38.3701321	-2565.032783

Assumptions

- Wage growth: 2.3% - the average of the last 10 years
- Indexation rate: begins at 7.07% then falls to 2.2% over the next 7 years - 2.2% is the average indexation applied over the last 19 years
- Starting salaries are those for the industry linked to each program
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