University student debts and the cost-of-living crisis: What are the major parties offering to young Australians?

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Key insights

- Total outstanding HELP debt reached $81 billion in 2023-24 across 2.9 million individuals, equating to an average student debt of $27,650.
- The Job Ready Graduates Package (JRG) forces many humanities students to contribute up to 93% in course costs through the HELP system.
- For some STEM subjects, student contributions can be as low as 13% of course fees.
- Labor's commitment to a one-off 20 per cent cut in HELP debt translates to a reduction of around $6,000 for an average $30,000 of student debt but is distributionally unfair.
- For the 50,000 graduated students with HELP debts above $150,000, each will see $30,000+ wiped from their debts. But a second-year student with $20,000 in outstanding debt will benefit by $4,000 but will accrue a further $17,000 for their 2025 studies.
- Changes to HELP loan indexation offers a buffer against spikes in inflation but does little to address the growing burden of student debt.
- More substantive policy reforms are needed to address rising student debt, include a return to the fairness principles that underpinned the original HECS model.
- Discriminatory pricing under the Job Ready Graduates package should be scrapped and replaced with a flatter fee structure with students contributing at most 50% of course costs.
- The income threshold for repayment of HELP debt should be close to average weekly earnings.

The 'Job-ready Graduates' package and HECS-HELP debts: the need for reform

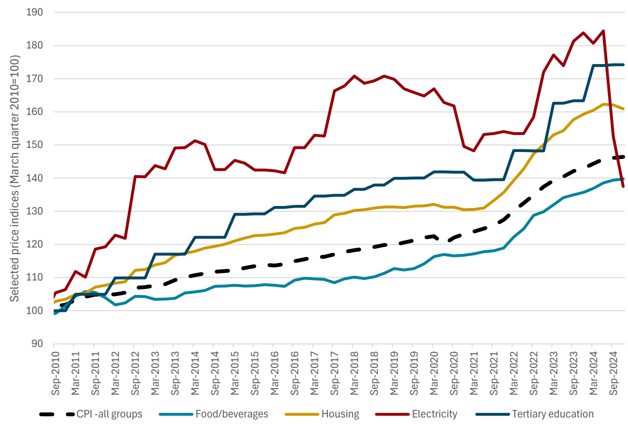
There is a broad consensus that the cost-of-living 'crisis' is the foremost issue on voters' minds as we head toward the May 3 Federal election. Declining housing affordability is one of the key areas in which household budgets are being stretched, whether for renters, people looking to buy their first home, or mortgage holders facing still elevated interest rates.

Young Australians are one voter group on the front line of this crisis. They include the current cohort of school leavers who will be voting for the first time, and their Gen Y and Gen Z predecessors seeking to make the transition out of the parental home to living independently or starting a family. They have been hit by the double whammy of rising housing costs and rising education costs manifest in growing student debts.

And yet, despite the upcoming poll being billed as a 'cost of living' election, policy pledges to date show little recognition that young Australians are one of the groups hardest hit.

The Bankwest Curtin Economic Centre's recent report[1] *Youth in Focus: Navigating Wellbeing in a Changing World*, highlighted an increase in the incidence of financial stress in recent years for those in the younger generations. Consumer Price Index (CPI) data show tertiary education and housing costs rising particularly strongly over the past decade (Figure 1).

Figure 1: *Changes to CPI and selected sub-group indices: 2010-2024*



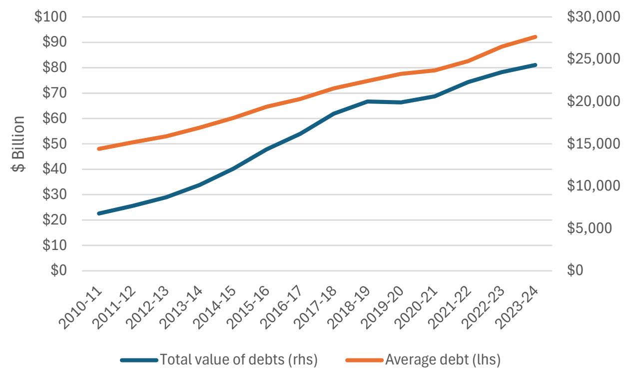
Notes: Housing and food/beverages are major expenditure groups within the CPI; electricity and tertiary education are sub-groups.

Source: Bankwest Curtin Economics Centre | ABS 6401.0 Consumer Price Index Australia

Over 40 per cent of the current youth cohort can be expected to go to university and incur student debts under the Higher Education Loan Program (HECS-HELP).

On the most recently available figures, the total outstanding HELP debt reached $81 billion in 2023-24 across 2.9 million individuals, equating to an average debt of $27,650 (Figure 2).

Figure 2: *Outstanding Higher Education Loan Program (HELP) debts, 2010-11 to 2023-24*



Notes: Figures include HECS-HELP debts plus other student debts provided under HELP.

Source: Bankwest Curtin Economics Centre | Australian Taxation Office.

A major contributor to the accumulation of student debt is the Job Ready Graduates Package (JRG), which came into effect in 2021. Under the package, the government sought to increase the number of graduates in areas of expected demand “such as teaching, nursing, agriculture, STEM and IT”, as well as to increase higher education in regional Australia.

The JRG more than doubled the financial contributions many humanities students have made to their courses, increasing fees for those students by 113 per cent. Contributions for a number of STEM subjects, on the other hand, dropped by 40-60 per cent.[2]

Students undertaking courses in a wide range of fields, including society and culture, social studies, law, accounting, economics, and behavioural sciences, now contribute 93 per cent of the course costs through the HELP system, almost the full cost of their education.

Currently that amounts to $16,992 of student debt accumulated for every full-time equivalent year of study in those fields.

In other fields, including agriculture, nursing, education, and mathematics, student contributions are currently $4,627 per annum, with students in agricultural courses contributing just 13 per cent of course costs and the Commonwealth making up the difference.

The motivation for this discriminatory pricing, as set out in (then) Minister Dan Tehan’s speech to the National Press Club, was to:

> *“... incentivise students to make more job-relevant choices, that lead to more job-ready graduates, by reducing the student contribution in areas of expected employment growth and demand.”* (Tehan 2020)

Along with other analysts, BCEC’s *Youth in Focus* report is highly critical of this current approach to setting course fees.

First, the contributions many students make far exceed what was considered a fair contribution when HECS was introduced. The original recommendation was that students should bear around 20 per cent of course costs. As noted above, many now pay 93 per cent.

Second, the assumptions upon which this discriminatory pricing are based have proven to be quite unfounded. There is very limited concordance between the price structure put in place and subsequent graduate outcomes, changes in skills demand in the labour market, or student responses in terms of course enrolment patterns.[3]

What are the parties promising?

Since the election was called on Friday 28 March 2025, there have been no new campaign promises from either of the major parties that address the growing burden of student debts. Rather, several past announcements are being spruiked.

In the May 2024 Federal budget, the Labor government announced a change to the way outstanding debts are indexed. That change has already come into effect.

And in November 2024 the Government committed to further changes that will apply if they are re-elected.

One is to reduce all outstanding HELP debts as of 1 June 2025 by 20 per cent, at a cost of $16 billion over the coming financial year. The other is to reduce the rate at which outstanding debts are repaid, with effect from 1 July 2025.

HELP indexation

Outstanding HELP debts do not attract interest charges but, quite justifiably, are indexed to maintain their real value.

With debts previously indexed to the consumer price index (CPI), the surge in inflation in late 2021 and through 2022 saw all student debts increased by 7.1 per cent on June 1, 2023.

The outcry was sufficient to move the government to introduce a change that will see indexation capped to the lower of the rise in the CPI or the wage price index (WPI). This legislation was passed in November 2024, and backdated so that the indexation applied was retrospectively reduced for 2023 (to 3.2% from 7.1%) and on 1 June 2024 (from 4.7% to 4.0%).

The government estimated this change to result in a $3 billion reduction in outstanding debts. As the change in the WPI was also lower for 2024, there will have been a further saving of $0.6 billion as debts were indexed by less than they would have been under the old arrangement.

In the longer run, however, this change will have a very minor effect.

Generally, wages tend to outpace prices, leading to real wages growth. In the 25 years of the current WPI series, the new formula would have led to indexation being lower for only two other years: in 2001 and 2002 following the blip in inflation associated with the introduction of the GST.

That is to say, the cap would have made no difference in all other 19 years.

So, while the indexation change does offer a welcome buffer against sudden spikes in inflation, it will do very little to address the growing burden of student debts.

The 20 per cent cut in outstanding HELP debts

With the average HELP loan nearing $30,000, Labor’s promise to cut outstanding debt by 20 per cent implies an average reduction of around $6,000 per student with an outstanding debt.

No doubt some will welcome the contribution from the government to alleviate their education debt. But the commitment seems somewhat arbitrary as a response to cost of living pressures.

It is also unfair.

There are around 50,000 people with HELP debts in excess of $150,000, each of whom will see $30,000-plus wiped from their debts.

But a current second-year student with a debt of, say, $20,000 will see a reduction of $4,000, while they accumulate as much as a further $17,000 debt for their 2025 studies.

And those who have finally paid down their debts by 1 June 2025 will get nothing and will rightly feel a somewhat miffed.

Repayment rates

Changes to repayment arrangements will reduce the rates at which outstanding debts are collected by the tax office. Repayments are contingent on individuals’ taxable incomes, which are in turn determined by the relevant tax rates and the income thresholds at which they are applied.

The proposed arrangements will see repayments collected at a rate of 15c in every dollar earned in excess of $67,000 in annual taxable income, rising to 17c for every dollar earned above $125,000.

Relative to the existing settings, this will see annual compulsory repayments fall by as much as $1,300 for people earning $70,000, and all people with taxable incomes between $55,000 and $180,000 per annum will see some reduction.

The threshold at which those with outstanding debts start making contributions will be increased to $67,000. By 1 July 2025, this will equate to around 64 per cent of average annual earnings.

In contrast, when HECS was introduced, it was recommended that students commence repayments only when their incomes rose to around average annual earnings. And for someone on average weekly earnings, their student debt will be collected at an average tax rate of 5.5 per cent, compared to a maximum rate of 3 per cent when HECS was introduced.

Summary

Recent graduates are battling on the front line of the cost-of-living crisis, carrying the burden of substantial HELP debts and facing a housing market that has become ever-less affordable over the past few years. The current cohort of school leavers and university students are headed towards that front line.

Along with the decline in housing affordability, the discriminatory and unjustifiable shares of course fees that many students now have to bear under the Job Ready Graduates package, and the consequent burden of student debt, is the main contributor to this intergenerational inequity.

While the Job Ready Graduates package was introduced by the previous Liberal-National Coalition government, key elements of the package - including the differential course fees - have been retained by the Labor Government under Prime Minister Anthony Albanese.

Meanwhile, the current Universities Accord stresses that we need to increase the proportion of 25-34 year-old Australians who are university educated to 55 per cent 'as a matter of urgency' to prevent 'lasting damage to Australia's national economic success' and social cohesion.[4]

As we encourage young people to go on to university for the good of the country, it is worth remembering that, from an economic standpoint, students already bear the largest cost of their education – the years of foregone earnings while they study.

Last year's changes to indexation and the Labor Government's existing pledges if re-elected do nothing to address the underlying cause of the growing burden of student debts.

Of course, the 20 per cent cut to outstanding debts will be very much welcomed by some, but the measure can legitimately be interpreted as an acknowledgement of the growing inequity in the existing system.

The Liberal party has not indicated whether it would commit to either the 20 per cent cut to outstanding debts or the changes to repayments if the Coalition were to win the election.

In any case, much more substantive policy proposals are required to address the double whammy facing recent and prospective higher education students, leaving many young Australians wondering if they will ever be able to afford their own home.

These should include reforming HECS-HELP back to something more in line with the principles of fairness set out when HECS was introduced.

The top priority should be to scrap the discriminatory pricing introduced under the Job Ready Graduates package and revert to a flatter fee structure in which students contribute at most 50 per cent toward the cost of their courses.

A second priority is to lift the threshold at which compulsory repayment of student debt commences to be closer to the equivalent of average weekly earnings.

Election campaigns and campaign promises are always a moving feast, and the information contained in this brief is based on our best knowledge at the time of writing.

Hopefully there will be cause to issue an update with some major announcements in this area before polling day on 3 May 2025.

Notes

[1] Dockery, A.M., Duncan, A.S., Mavisakalyan, A., Sanchez-Arenas, V., Twomey, C. and Loan Vu, L. (2025), Youth in Focus: Navigating wellbeing in a changing world, Bankwest Curtin Economics Centre, Focus on the States Report Series, Issue #11, March 2025.

[2] Chapman, B., & Khemka, G. (2021). Understanding recent HECS–HELP price misunderstandings. *Australian Journal of Public Administration*, *81*(1), 53–69.

[3] For a detailed assessment, see the Bankwest Curtin Economics Centre's *Youth In Focus* report, pages 109-117.

[4] Australian Universities Accord, Final Report, released February 2024, p.2.