Submission to the Senate Standing Committee on Education and Employment

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Introduction

Thank you for the opportunity to make a written submission to the inquiry on the Education and Other Legislation Amendment (Abolishing Indexation and Raising the Minimum Repayment Income for Education and Training Loans) Bill 2022.

The Centre for Future Work is a research institute located at the Australia Institute (Australia's leading progressive think tank). We conduct and publish research into a range of labour market, employment, and related issues. We are independent and non-partisan. Please see our website at http://www.futurework.org.au/ to access our full research catalogue.

We have conducted ongoing research for several years addressing the economic and social importance of tertiary education. In this submission we offer perspectives on several aspects of your inquiry, drawing on findings from our previous research. Our submission emphasises that:

- Tertiary education is essential and should be made more affordable.
    - By 2026, 52 per cent of new employment growth will require a Bachelor degree or higher, and a further 38 per cent will require a Certification II – IV.
- HELP debts are increasing and students are taking longer to pay them back.
    - Average debts have increased from $12,990 in 2008-09 up to $24,771 in 2021-22.
    - Graduates now take on average 9.5 years to pay of their HELP degree, compared to 7.3 years in 2005-06.
- Wages are lagging behind inflation which means some debts will increase despite repayments.
    - The indexation rate applied to education and training loans in June 2023 will likely be between 6 and 7 per cent – making it the highest indexation rate on record.
    - Based on the average HELP debt, this means students face an average increase in their debt of around $1,600 when their debt is next indexed.
    - In the twelve months to December 2022 real wages fell 4.2 per cent - the biggest annual fall recorded since the ABS began calculating wage growth in 1997.
- The increased financial burden of education debts is likely affecting already disadvantaged groups the most.
    - The group impacted most by growing educational debts (that consequently take longer to pay off) are also those earning lower weekly incomes.

    - The burden of educational debt particularly hurts those graduates end up working in lower wage occupations, who are also likely to be women.
- At the very least the Government should consider reducing the financial burden of education and training loans by abolishing or freezing indexation and increasing the threshold for repayments.

Several of our previous research publications are relevant to this inquiry and are referenced below.[1]

Tertiary education is essential

Primary and secondary school education is widely recognised as a basic human and social right that should be available to all students in Australia, regardless of ability to pay. That is why public schools are funded by governments. Tertiary education has similar benefits and has become essential to obtaining gainful employment and incomes in Australia.

The proportion of Australians with or in the process of obtaining tertiary qualifications has been growing. Today, 68 per cent of Australians aged 15-75 years hold a tertiary qualification or are studying towards obtaining one (including vocational qualifications), up from 62 per cent of all Australians in 2013.[2] The increasing prevalence of tertiary qualifications makes it harder for those without post-school to compete for work.

The significance of having tertiary education for individual employment prospects and for meeting future skill demands will only continue to grow. According to government estimates, 52 per cent of projected employment growth to 2026 will require a Bachelor degree or higher qualification.[3] A further 38 per cent will require a Certification II – IV, reinforcing the importance of vocational education for future job prospects. University graduates also enjoy greater success in the job market compared to those without degrees. Of those between the ages of 25-44, 88.5 per cent with a

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[1] Pennington, A., and Stanford, J. (2019) *The Future for Australian Graduates: The Changing Landscape of University Employment Transitions in Australia*, Centre for Future Work, https://futurework.org.au/report/the-future-of-work-for-australian-graduates/ ; Pennington, A. (2020) *An Investment in Productivity and Inclusion: The Economic and Social Benefits of the TAFE System*, Centre for Future Work, https://futurework.org.au/report/an-investment-in-productivity-and-inclusion/ ; Littleton (2022) *At the Crossroads: What is the post-COVID future of Australia's Public Universities?* Centre for Future Work, https://futurework.org.au/report/at-the-crossroads/

[2] ABS (2021) *Education and Work, Australia*, Table 27, https://www.abs.gov.au/statistics/people/education/education-and-work-australia/latest-release

[3] National Skills Commission (2021) *Skill Level projections – five years to November 2026*, https://labourmarketinsights.gov.au/our-research/employment-projections/

Bachelor degree or higher are employed, compared to only 78 per cent of those with year 12 or equivalent.[4]

It is well established that limited access to education is a key driver of inequality. Financial barriers to tertiary education hinder social mobility, making it more difficult for students from disadvantaged backgrounds to access education and in turn restricting employment and earning opportunities. On the other hand, reducing the financial barriers and burden of tertiary education breaks down the connection between family socio-economic status and the future economic prospects of the next generation, by shifting financial responsibility of education to the public sector.[5]

HELP and other education loans may allow students to defer the cost of education, but education fees and debt still act as a barrier for prospective students and place considerable pressure on graduates in their early career years. The issue is getting worse not better with education debts growing rapidly over the last decade due to rising tuition fees and the impact of indexation. Graduates are currently surviving a cost-of-living crisis, with high inflation and declining real wages; in this context, the additional pressure of debt repayments and debts increases outstripping repayments is both damaging and unnecessary.

Tertiary education should be more affordable in Australia – but at the very least debts should be made more affordable.

Debts are increasing and students are taking longer to pay them back

According to ATO data, over 3 million people in Australia had outstanding HELP loans in 2021-22, owing a total of $74 billion in debt – just over four times higher than in 2008-09.[6] In this same time, average debt has doubled: increasing from $12,990 in 2008-09 up to $24,771 in 2021-22. By comparison, average mortgages increased from $310,848 to $510,268 over the same period making the growth in HELP loans even more dramatic than mortgages for owner occupiers.[7] Furthermore, the number of

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[4] ABS (2021) *Education and Work, Australia, May 2021,* Table 23, https://www.abs.gov.au/statistics/people/education/education-and-work-australia/latest-release#data-download

[5] Oxfam (2019) *The power of education to fight inequality*, https://www.oxfam.org/en/research/power-education-fight-inequality

[6] Australian Taxation Office (2022) *HELP statistics 2021-22*, https://data.gov.au/data/dataset/higher-education-loan-program-help/resource/0661912a-d114-4155-8b42-63ab1417adea

[7] ABS (2023) *Lending indicators,* https://www.abs.gov.au/statistics/economy/finance/lending-indicators/latest-release#data-downloads

people with HELP debts worth over $100,000 has increased from 22,514 to 70,962 people in just the last 3 years.

As HELP debts increase so too does the length of time it takes people to pay off these debts. Graduates now take on average 9.5 years to pay of their HELP degree, compared to 7.3 years in 2005-06.

The size of HELP debts has increased considerably over the past decade, and is set to grow more in the coming years. This in part is due to the Job Ready Graduate (JRG) reforms, which on average increased tuition fees by 8 per cent, making higher education even less affordable.[8]

Student loans for vocational education and training (VET) also present a considerable barrier for people considering study. The establishment of private market principles for VET delivery and the VET FEE-HELP scheme increased the cost of education for individuals (many of whom could not afford the new fees). While providers experienced a short-lived surge in enrolments once VET FEE-HELP was extended across the sector, the program enrolments in vocation training (including apprenticeships and traineeships) fell sharply.[9] This is providing disincentives for people to study VET.

Indexation - wages are lagging behind inflation

Education and training loans are indexed annually on the 1st of June in line with CPI, with the intent of maintaining the real value of the loan. The last indexation rate in 2022, saw loans increase by 3.9 per cent. That was the highest rate of increase since at least 2013 (earliest ATO data).[10]

Over the twelve months to December 2022, CPI rose 7.8 per cent[11] and the Reserve Bank of Australia forecast CPI to increase by 6.7 per cent in the twelve months to June 2023.[12] Accordingly, the indexation rate applied to education and training loans in June 2023 will likely be between 6 and 7 per cent – making it the highest indexation rate on

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[8] Littleton (2022) *At the Crossroads: What is the post-COVID future of Australia's Public Universities?* https://futurework.org.au/report/at-the-crossroads/

[9] Pennington, A. (2020) *An Investment in Productivity and Inclusion: The Economic and Social Benefits of the TAFE System*, Centre for Future Work, https://futurework.org.au/report/an-investment-in-productivity-and-inclusion/

[10] ATO (2023) *Study and training loans indexation rates*, https://www.ato.gov.au/rates/study-and-training-loan-indexation-rates/

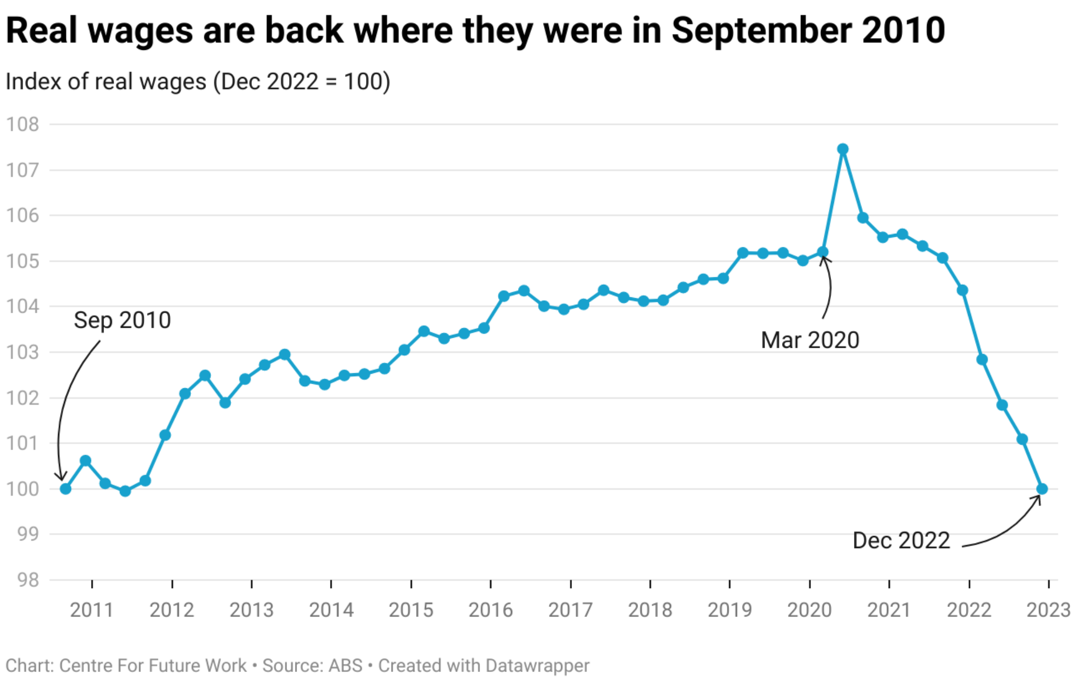
[11] ABS (2022) *Consumer Price Index, Australia,* https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release

[12] Reserve Bank of Australia (2023) *Forecast Table – February 2023*, https://www.rba.gov.au/publications/smp/2023/feb/forecasts.html

record. Based on the average HELP debt, this means students face an average increase in their debt of around $1,600 when their debt is next indexed.

On the other side of the equation are loan repayments. Repayment rates are dictated by income, with repayments starting once graduates start earning over $48,361 a year. The issue is that because loans are indexed to CPI and CPI is growing fast than wages. Consequently, some graduate's loans will increase in 2022-23 despite making repayments. The latest ABS wage price data reveals wages grew by 3.3 per cent in the twelve months ending in December 2022. With inflation running at 7.8 per cent this means real wages fell 4.2 per cent – the biggest annual fall recorded since the ABS began calculating wage growth in 1997. The fall in real wages during the current inflationary episode has left real wages back at the level they were in September 2010 (Figure 1).

Figure 1.

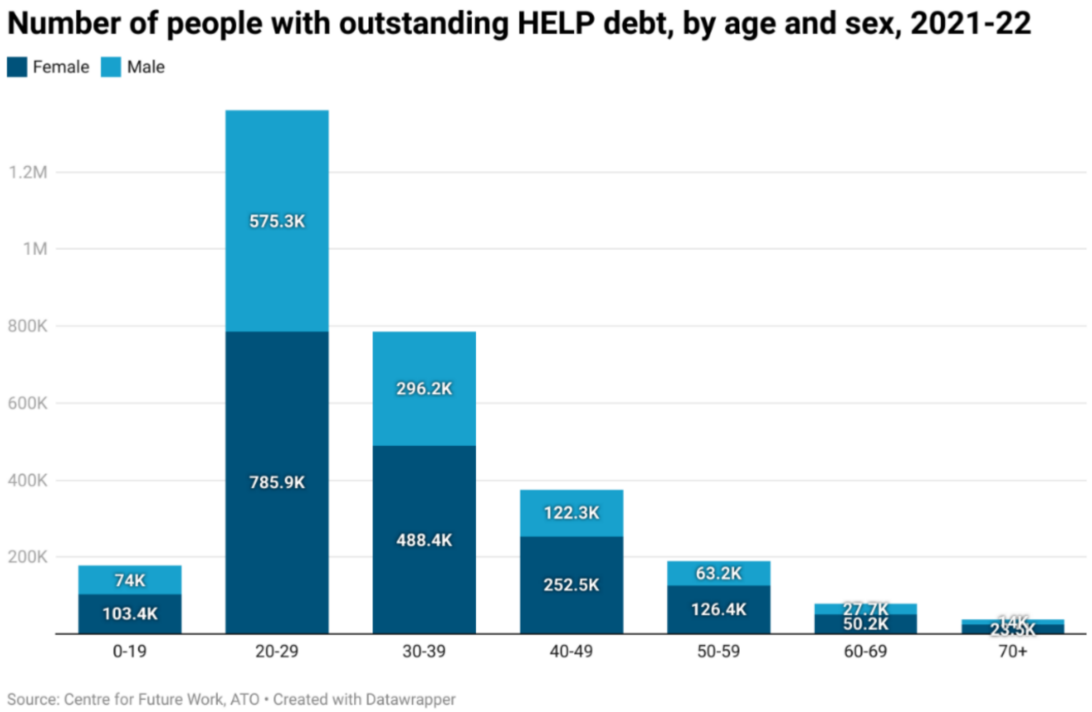


In the current situation, with prices rising faster than wages for an extended period of time, the real purchasing power of wages is falling. Australians are already experiencing financial pressures – with buffers dwindling as they make their wages stretch further and, in many cases, must cut back on buy goods and services. The additional pressure for graduates of having education and training debt increase, even as they make yearly repayments, is adding unnecessary pain. Worst still, this increased burden is likely affecting already disadvantaged groups the most.

Compounding existing inequalities

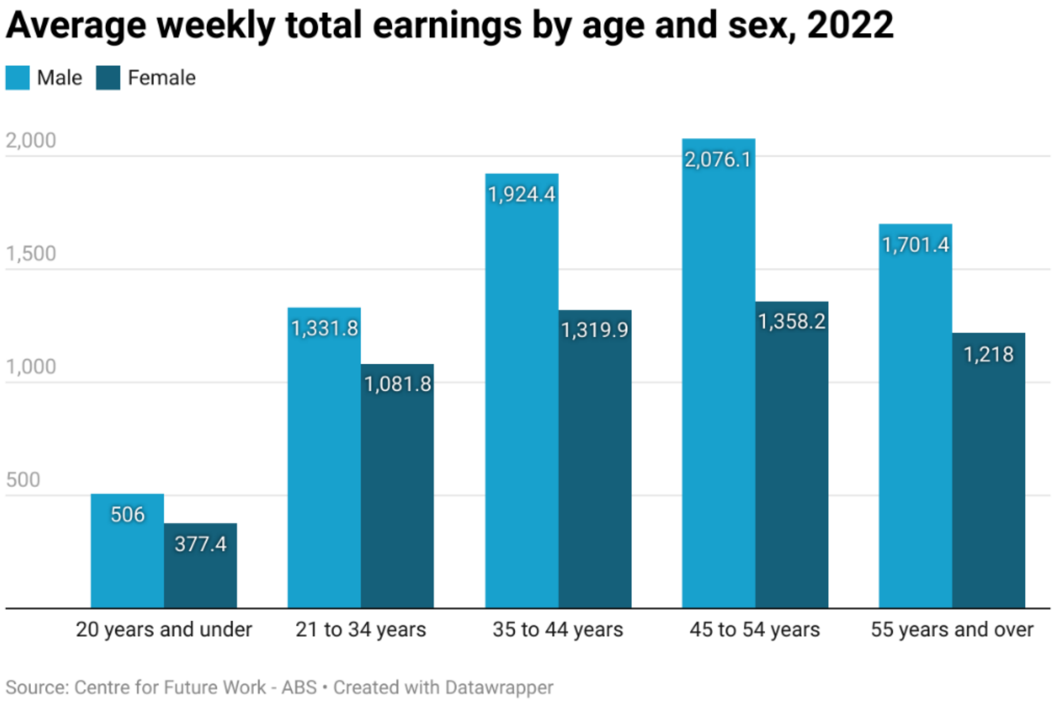
Debt repayments are a substantial financial burden during important early career years. New graduates, with the largest debts, are also more likely to be earning less. Australians between the age of 20 and 29 make up 45 per cent of people with outstanding HELP debt, equal to 1.3 million people (Figure 2). This is not surprising, as a majority of students are also in this age group and as people graduate from educational institutions and enter the workforce, they start paying off their loans. However, workers in this age group are also more likely to be earning lower weekly wages.

Figure 2.



Young workers have less experience in their fields of work compared to older workers and are typically employed in more junior positions attracting lower wages. On average, people between 21 and 34 years of age earn $1,207.90 per week (Figure 3). This is 13.4 per cent below the average for all workers, and the lowest weekly earnings compared with all other age groups except for people aged 20 years or younger. The group impacted most by growing educational debts (that consequently take longer to pay off) are also those earning lower weekly incomes. Indexing these loans in line with CPI (which is now outstripping wage growth) is compounding these existing inequalities.

Figure 3.



The burden of educational debt particularly hurts those graduates end up working in lower wage occupations, like aged and disability carer, social services officer, or nursing assistant,[13] as debts will take longer to pay off. This also has implications for gender inequality – as women earn less on average than men but attend tertiary education at the same rate. This results in women taking longer to pay off their education loans.

Solutions

In 1987 taxpayers provided practically all of the finances for higher education, which was financed overwhelmingly through government funding. When fees for education were introduced, HECS was introduced in 1989. It was hoped that income-contingent loan arrangements would preserve educational equity and access. HECS repayments were originally set to kick in once a student's earnings met the average earnings for all Australians working in the paid labour market.[14] This was done in the interest of

[13] ATO (2021) *Taxation Statistics 2019-20*, Individuals – Table 14 https://data.gov.au/data/dataset/taxation-statistics-2019-20

[14] Chapman, B., and Nicholls, J. (2013) HECS, Chapter 5 (ed) *The Dawkins Revolution: 25 Years on* by Croucher, G., Marginson, S., Norton, A., and Wells, J. Melbourne University Publishing.

“fairness”, so that no graduate had to repay their debt “unless they were receiving at least as much as the taxpayers subsiding most of their education.”[15]

Today, in contrast, graduates start to repay debt once they earn over $48,361 per year –far less than median or average earnings across the labour market (the median wage in Australia in 2022 was $62,868, and the average wage was $71,687).[16] This low threshold for loan repayments puts significant financial burden on graduates at a time when they have less income.

The HECS system has strayed from its original principles: students incur bigger debts, that take longer to repay, and at times increase faster than they can be repaid. This disproportionately impacts disadvantaged groups – including young people, women, and those working in low-income industries and occupations.

The Federal Government will never recover the entire value of its educational and training loans – as each year some debts are written off. Additionally, aggregate yearly repayments are always much smaller than government annual expenditure on HELP. Expenditure on education and training loans represents 33 per cent of total Australian Government financial assistance to higher education.[17] Government spending on loans amounted to $6 billion in 2020 which is less than the Government spends on subsidising the cost of fuel for business via the fuel tax credit ($7.8 billion in 2020-21). Comparatively in 2020-21, $294 million of HELP debt was repaid (5 per cent of HELP costs).[18]

As tertiary education has become increasingly essential to employment outcomes, financial security, and meeting the demands of the future economy, the importance of affordable or free tertiary education increases. The Government could cover the cost of education for Australian students without significant budget expansion. At the very least the Government should consider reducing the financial burden of education and training loans by abolishing or freezing indexation, and increasing the threshold for repayments.

[15] Ibid. page 112

[16] ABS (2022) *Average Weekly Earnings, Australia*, https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/average-weekly-earnings-australia/nov-2022 ; ABS (2021) *Employee Earnings and Hours, Australia*, https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/employee-earnings-and-hours-australia/may-2021

[17] Australian Government (2021) *2020 Higher Education Providers Finance Tables,* https://www.education.gov.au/higher-education-publications/resources/2020-higher-education-providers-finance-tables

[18] ATO (2023) *Study and training loans indexation rates*, https://www.ato.gov.au/rates/study-and-training-loan-indexation-rates/