

“The HECS generation will lead a further surge in demand for Higher Education”,
argues Conor King, IRU Executive Director.

The impact of the HECS generation

22 February 2013

The viability of HECS-HELP has been under scrutiny following the annual Grattan Institute report on Australian higher educationⁱ.

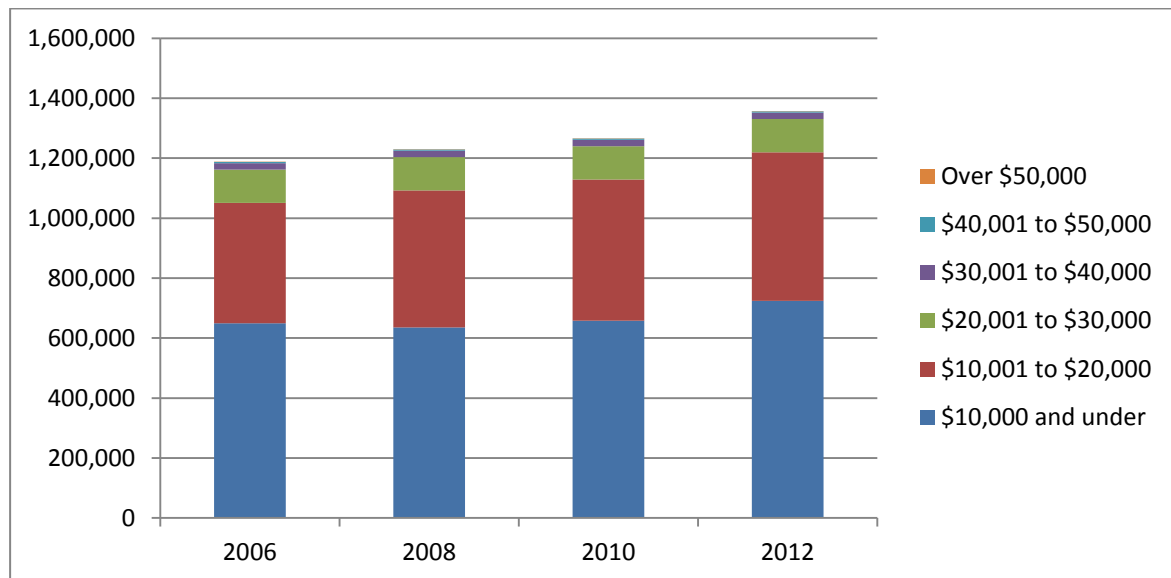
The following looks at the inevitable tendency for overall outstanding HECS debts to rise and why, and then at the implications of the HECS generation for higher education policy.

The shape of HECS-HELP

[The Grattan report features two charts, pp 43 and 44.](#) One shows the growth in total outstanding debt year by year. The second estimates the cost to Government each year for the loans it makes. The first is a steadily rising amount; the second fluctuates more but is trending upwards. Both are an inevitable consequence of the HECS-HELP system and do not need to generate concern.

The missing chart is of the amount of debt each individual holds. The data show that most HELP debts are less than \$20,000, and very few over \$50,000. Most of the latter are likely to be FEE-HELP debts not HECS-HELP. However there is a drift to proportionally more mid and high level debts fuelled by the 2006 and 2008 increases to student contributions.

HELP Debts by number of people, 2006 to 2012



Source: DEEWR *Higher Education Reports 2006, 2008, 2010*; data from DIISRTE for 2012. See table at end of comment for actual figures.

The point of a HECS-HELP loan is to allow the individual to enroll in higher education without any financial barrier. Once the person’s salary reaches the threshold she or he begins to repay. Not everyone will reach the threshold for long enough to pay off their debt. Further, since the debt is indexed against consumer prices it tends to lose value.

This means that of the loans made each year a proportion will not be repaid and, when it is, the value to Government is less than the value of the money when lent. This has been estimated at between 10% and 20% over the twenty or so years we have had HECS.

Since each year more loans are made the amount of unlikely to be repaid debt accumulates. So if university enrolments were steady state where the same number of students enrolled each year incurring the same level of HECS-HELP debt both individually and collectively after about ten to fifteen years the system would settle to a standard annual increase in total accumulated HECS debt.

But we have not had a steady state. The amount of debt each year has increased due to expansions in the number of students. This was significant through the 1990s and has again risen rapidly since 2009. The increases to the amount students are charged in 1998 and then 2005 and 2008 push up the average amount a student borrows. Increasing the debt of an individual pushes out the number of years for repayment and the likelihood that a proportion will not be repaid.

The key point is that many people with a moderate debt will produce a good level of repayment, which is better than fewer people having higher levels of debt (due to higher charges) where repayment will take longer and each individual will be a little less likely to complete repayment.

Longer term expectations

HECS debt finally ends when the person dies. It is not clear whether the ATO tracks death of tax payers other than where it is informed by the estate of the death. It would then write off any outstanding HECS. To date the amount would be tiny. Most students are aged under 25, with a large proportion of the rest between 26 and 40. Hence even the initial group of HECS students is now mostly in their 40s, with some in their 50s and few much older. It will not be until the 2030s at earliest that death will confirm the final level of non-repayment.

Repayment is also deferred if the person moves overseas but on any return to Australia further payments will be due. The overseas issue is a distraction. Certainly graduates do leave Australia, many return but some will not. If a viable means of interaction with other countries' tax systems can be worked through then it could be applied. However since there is no reason to volunteer the information it would require matching of identities across countries to enforce rather than operate based on self-identification.

Moving from global estimates to real data

The extent of repayment, and the time it takes, is a general estimate based on very crude assumptions. They are estimates because no-one appears to have tracked a particular cohort to test the actual level and pattern of repayment. This is a major gap which DIISRTE and the ATO could address to reduce the amount of generalization that Andrew Norton, me and others with our interests engage in. Seeing how the debt was repaid for sets of individuals would significantly deepen our understanding of how it works (or not).

The impact of the HECS generation

The reason we have HECS is that in the 1980s the then Labor Government oversaw a massive increase in year 12 completions. Nationally these went from 35% in 1980 to 77% in 1992, with fluctuations up and down sinceⁱⁱ. This doubled the size of universities' major group of commencing students and hence the demand for university places. HECS was one mechanism to assist Government afford the increase in places.

That generation was also the first to experience HECS – and the assumption that every student will contribute something to the costs of education. Many will have experienced, or still have the challenge of, paying off HECS debts. A significant subset went on to pay for postgraduate coursework degrees, seemingly accepting such costs as part of developing a career. Whether that flows through to their children as acceptance of paying for post school education or engenders a reaction I am not sure, but I suspect it is more likely to be the first.

It is this generational change that I think will provide the growth in demand required for universities to expand again later this decade once they have adjusted to the Bradley growth of 2009 to 2012. School completion will be the norm, with a bachelor degree common. Hence the demographic soothsayers miss the point if they emphasise the relative flatness in the number of children in recent and current birth cohorts. The Bradley target is about increasing the proportion going to university.

I expect that the HECS generation parents will look for their children likewise to complete year 12 at a minimum, and look to higher education, or high level vocational education, as something their children should access.

If it happens then universities will continue to grow in the provision of the initial bachelor qualification.

Conor King

22 February 2013.

ⁱ Andrew Norton, *Mapping Australian Higher Education , 2013 version* Grattan Institute, January 2013

ⁱⁱ ABS, National Schools Statistics Collection Australia 1985, CATALOGUE NO. 4221.0, Table 11 and ABS, *Australian Social Trends March 2011*, Year 12 Attainment, ABS catalogue no. 4102.0

Outstanding HELP Debts

Range of loan balances	Jun-06		Jun-08		Jun-10		Jun-12	
	Number of persons	%	Number of persons	%	Number of persons	%	Number of persons	%
\$1,000 and under	55,117	5%	49,108	4%	52,846	4%	53,318	3%
\$1,000.01 to \$2,000	73,238	6%	69,788	5%	73,110	5%	77,143	5%
\$2,000.01 to \$4,000	146,683	12%	142,503	11%	148,693	10%	164,149	10%
\$4,000.01 to \$6,000	144,053	12%	138,895	11%	152,516	10%	170,288	10%
\$6,000.01 to \$8,000	123,537	10%	131,262	10%	123,762	8%	139,749	8%
\$8,000.01 to \$10,000	106,727	9%	103,680	8%	106,949	7%	119,067	7%
\$10,000.01 to \$12,000	110,403	9%	103,151	8%	103,732	7%	117,981	7%
\$12,000.01 to \$14,000	92,038	8%	107,839	8%	99,469	7%	103,094	6%
\$14,000.01 to \$16,000	77,689	7%	96,388	7%	103,442	7%	99,648	6%
\$16,000.01 to \$18,000	74,598	6%	85,208	6%	90,327	6%	94,334	6%
\$18,000.01 to \$20,000	46,466	4%	64,380	5%	74,069	5%	80,624	5%
\$20,000.01 to \$30,000	111,094	9%	166,941	13%	224,071	15%	269,787	16%
\$30,000.01 to \$40,000	21,504	1.8%	39,528	3.0%	71,669	4.9%	114,051	6.8%
\$40,000.01 to \$50,000	4,106	0.3%	10,406	0.8%	21,976	1.5%	42,338	2.5%
Over \$50,000	1,084	0.1%	5,293	0.4%	15,141	1.0%	35,129	2.1%
	1,188,337	100%	1,314,370	100%	1,461,772	100%	1,680,700	100%

Range of loan balances	Jun-06		Jun-08		Jun-10		Jun-12	
	Cumulative number of persons	%	Cumulative number of persons	%	Cumulative number of persons	%	Cumulative number of persons	%
\$1,000 and under	55,117	5%	49,108	4%	52,846	4%	53,318	3%
\$1,000.01 to \$2,000	128,355	11%	118,896	9%	125,956	9%	130,461	8%
\$2,000.01 to \$4,000	275,038	23%	261,399	20%	274,649	19%	294,610	18%
\$4,000.01 to \$6,000	419,091	35%	400,294	30%	427,165	29%	464,898	28%
\$6,000.01 to \$8,000	542,628	46%	531,556	40%	550,927	38%	604,647	36%
\$8,000.01 to \$10,000	649,355	55%	635,236	48%	657,876	45%	723,714	43%
\$10,000.01 to \$12,000	759,758	64%	738,387	56%	761,608	52%	841,695	50%
\$12,000.01 to \$14,000	851,796	72%	846,226	64%	861,077	59%	944,789	56%
\$14,000.01 to \$16,000	929,485	78%	942,614	72%	964,519	66%	1,044,437	62%
\$16,000.01 to \$18,000	1,004,083	84%	1,027,822	78%	1,054,846	72%	1,138,771	68%
\$18,000.01 to \$20,000	1,050,549	88%	1,092,202	83%	1,128,915	77%	1,219,395	73%
\$20,000.01 to \$30,000	1,161,643	98%	1,259,143	96%	1,352,986	93%	1,489,182	89%
\$30,000.01 to \$40,000	1,183,147	99.6%	1,298,671	98.8%	1,424,655	97.5%	1,603,233	95.4%
\$40,000.01 to \$50,000	1,187,253	99.9%	1,309,077	99.6%	1,446,631	99.0%	1,645,571	97.9%
Over \$50,000	1,188,337	100.0%	1,314,370	100.0%	1,461,772	100.0%	1,680,700	100.0%
Estimated average debt	\$ 10,600		\$ 12,200		\$ 13,800		\$ 15,200	

Source: DEEWR Higher Education Reports 2006, 2008, 2010; data from DIIRTE for 2012

Data includes all HELP debts incurred to December of previous year but does not include repayments during most recent financial year