Creating opportunity for all Australians to access higher education: Answers to six questions that confront the Australian Universities Accord panel.

A response to the Australian Universities Accord discussion paper by

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The Australian Universities Accord discussion paper raises many important issues concerning the future of higher education in Australia. This submission provides my views on a subset of the issues raised in the paper, in particular I wish to put forward my views on how the government can best create opportunity for all Australians to access higher education.

The Government needs to improve the adequacy of income support to assist people with living costs while they study. Living costs, particularly for those in rental accommodation, are a major barrier to study. The priority for increases should be the basic rates of allowance for those aged 22 years and over and not living in a parental home and the rate of rent assistance. Income contingent loans (ICLs) should not be used as a substitute for improving the adequacy of income support.

The Government has to adopt a rational and evidence-based approach to the use of ICLs. Government subsidies and ICLs avoid the financial barrier to study created by up-front fees. ICLs are a major source of revenue which reduce the cost to government of funding for higher education. They also focus government tuition subsidies on those with lower lifetime incomes. Annual student contribution rates need to be set to optimize the revenue obtained from those who most benefit from higher education and it appears this is best achieved through a single annual student contribution rate. Repayment arrangements need to be changed to ensure that family circumstances are taken into account in determining a person's annual amount of repayment.

1. What are the most important programs that help create the opportunity for all Australians to access higher education?

Answer: The most important government programs providing the opportunity for all Australians to access higher education are the programs providing income support for students and those providing government subsidies and student loans to meet the tuition costs of student places. Both sets of programs are in need of considerable improvement and should be a priority for any recommendations involving additional expenditure.

The discussion paper notes that "Australia needs a system that delivers equal access to higher education for all, irrespective of location, financial circumstances, cultural background, gender or other factors".

The two most significant ways in which the government promotes equal access are through the provision of:

a) assistance with living costs during periods of higher education study, primarily the system of allowances for students within the income support system; and

b) assistance to meet tuition costs, primarily the system of government subsidies and student loans used to fund higher education student places.

Other important ways in which the government promotes equal access include:

c) ensuring an appropriate geographic distribution of places;

d) fostering pathways from and links to TAFE;

e) supporting enabling and foundation programs; and

f) supporting efforts to ensure students are able to successfully complete their courses.

Other factors which may contribute to the under-representation of various demographic groups, include culture, aspiration and ambition. These are difficult for the government to directly influence.

The Panel will likely make recommendations concerning all of the above. It should pay most attention to the two most significant ways in which the government promotes equal access, that is (a) and (b).

The main programs that provide assistance with living costs during periods of study are the income support payments for students. The main programs that provide assistance to meet tuition costs are the government's subsidies for teaching and its income contingent loan programs (ICLs), such as HECs-HELP.

2. What should the panel recommend to assist students with living costs?

Answer: The Panel should recommend that there be improvements to the adequacy of the system of allowances which provide income support to students during study. The two highest priorities should be:

- to increase the base rate of payment for students aged 22 and over to the same level as for other allowees; and
- to improve the level of rent assistance.

The Panel will receive many proposals for schemes to provide assistance with living costs. In terms of both targeting assistance to, and providing comprehensive coverage of, the most disadvantaged students, none of these will be as effective, as improving current social security arrangements.

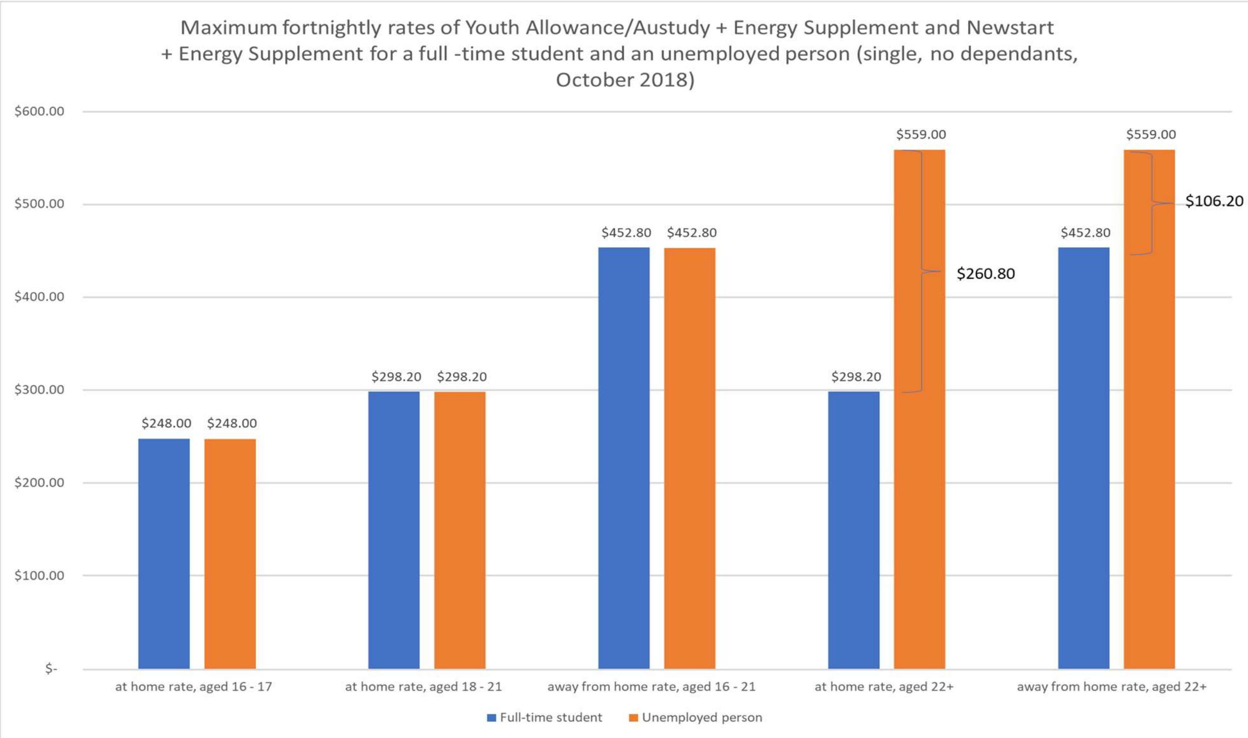
The major problem associated with income support arrangements for students is the adequacy of payments. This is a politically sensitive topic, particularly given that the cost to fix it is very high, but the Panel should not shy away from providing frank advice on the matter. Initiatives that purport to help with study costs that do not improve the adequacy of income support arrangements will be little more than cosmetic palliatives that serve to distract from the fundamental problem.

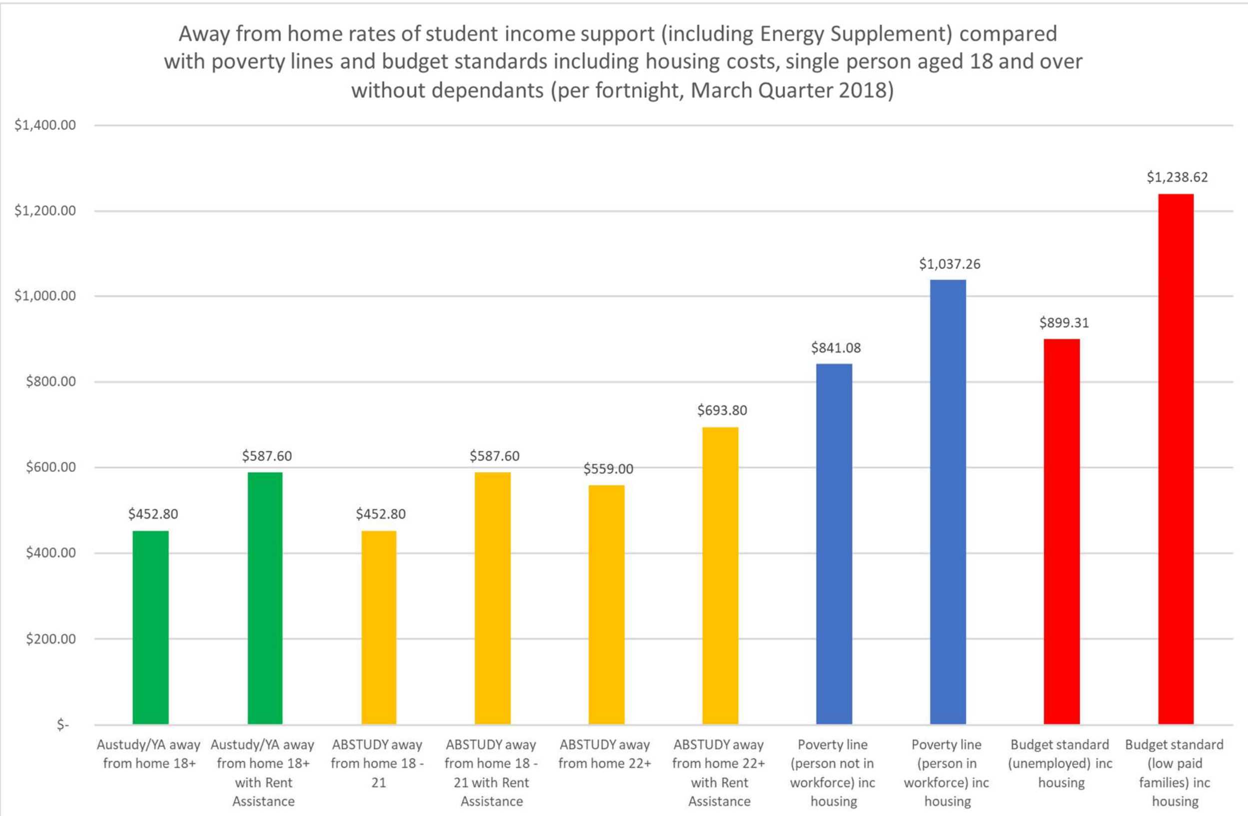
I last examined this issue in 2018 and have included below two charts from that time which highlight basic problems.

- The first chart compared rates of allowance, excluding assistance with housing costs (i.e. excluding rent assistance). It showed that an unemployed person aged 22 years or over received a substantially higher rate of payment than a student aged 22 years or over.
    - It is generally accepted that the rate of allowance for unemployed people is inadequate. The allowance rate for adult students was much lower in 2018. The difference is even greater in 2023.
    - This should concern any government that holds the view life-long learning is to be supported or is critical to Australia's future economic development.
- The second chart compared allowance rates with a number of measures of poverty (one being the poverty line and the other a Budget standard) and included housing costs/assistance. The chart showed that the maximum rate for all types of student income support for single students living away from home was well below all housing cost inclusive benchmarks for single people.
    - The allowance rates included in the second chart were the maximum rates of student income support for single students aged 18 and over, living away from home, without dependants, and with and without Rent Assistance.

The maximum basic rates of income support allowance for students are aligned with those for unemployed people until age 22 years, but this does not apply after that age. Unemployed people aged 22 years and older receive significantly higher rates of income support through Jobseeker payment than students do through Youth Allowance or Austudy.

- In April 2023, a single unemployed person without dependants who is aged 22 years or over has a basic rate plus energy supplement of $701.90 per fortnight, whether living at home or away from home.
- In contrast, a single full-time student without dependants who is aged 22 years and over has a basic rate plus energy supplement of $569.80 per fortnight or $236.80 if on Youth Allowance and living at home.
- This is a minimum difference of $132.10 per fortnight. The differences do not apply in the case of ABSTUDY which has rates in line with Jobseeker Payment.





The policy rationale for lower Youth Allowance/Austudy maximum rates for students from age 22 years compared to those for unemployed people is unclear.

- Youth Allowance/Austudy have a more generous income test than Jobseeker Payment. This could be, in part, compensation for the lower rate of payment.
- The more generous income test could also be a policy to encourage low-income people to work while studying full-time rather than relying on income support. It is not clear that such a policy is appropriate given that it will potentially reduce the chances of low-income people successfully completing their course.
- Full-time students may earn up to $480 per fortnight before their Youth Allowance or Austudy payment is reduced. For an unemployed person, the corresponding figure is $150 per fortnight.

3. What should the Panel say about the use of income contingent loans?

Answer: The Panel should recommend that the government develop a capacity to model the medium-term annual revenue impacts of changes to ICL schemes and to better understand the impact of repayment arrangements on the beneficiaries of these schemes.

- Any new proposals concerning ICLs should be considered in light of their revenue and distributional impacts. Currently, the capacity for the government to do this is largely absent.
- This is particularly significant when it comes to setting student contribution levels. This is currently done with little consideration for the impact on revenue (see Q5 below).

The Panel could also usefully note that:

- ICLs should be viewed more as additional taxation (a tax surcharge) and less as a 'loan'.
- ICLs should only be used to replace what would otherwise be government subsidy.
    - This allows the government to do more at a lower cost.
    - It means DNER is not additional expenditure and sensible judgements about the appropriate level of DNER for ***new lending*** can be made.
    - The important question becomes who is benefitting from DNER and this is determined largely by the ICL's repayment arrangements.
    - The amount of DNER in the stock of outstanding debt is largely unimportant. It is simply an artifact of more important scheme features. This is not to deny the importance of it being accurately calculated for the purposes of determining the value of outstanding debt to the government.

There is considerable misunderstanding about the nature of income contingent loans (ICLs), how they are best used and their distributional consequences.

The first ICL in Australia was HECS, introduced in 1989 to fund the expansion of higher education in a fair and equitable way. Students who benefited from their education by earning average or higher incomes were expected to contribute some of the cost. Most domestic higher education students now defer their course costs and pay through the taxation system after they complete their qualification.

The use of ICLs has been expanded over the last 35 years and there are now seven schemes. They cover full fee-paying higher education courses, some vocational education and training courses and a variety of relatively minor living and study costs. There is a danger that ICLs are viewed as a sort of panacea to enable governments to 'fix a problem' at very little expense.

It is not possible to over-emphasise that ICLs are not the same as standard bank loans. They are a form of hybrid scheme with some features being like loans and others being like taxation.

The feature that most distinguishes ICLs from loans is that they are income contingent. It is the repayment arrangement, operationalised through the taxation system, that is their most important feature and which should receive the most attention. Unfortunately, this has not been the case over the past 35 years.

Government's have over-emphasised the loan features of these schemes and this has led them into policy error. The two major areas of policy error are:

- Government's have acted as though there was a guarantee that money advanced through these schemes would be recovered. However, unlike standard loans where most of the risk is shifted to the borrower, in the case of ICLs most risk is borne by the lender which is the government.
  - This misunderstanding has led both sides of politics to believe they could use ICLs to create a market in tertiary education. ICLs should not be used for this purpose.
  - At various times, both parties advocated fee deregulation for diplomas & advanced diplomas in the VET sector. This attempt ultimately collapsed and the VET FEE-HELP scheme was abolished, only to be replaced in 2017 by another ICL scheme in which lending was constrained. The cost of this failure was borne by taxpayers through a write down in the value of the HELP asset which appears to have been in the order of $4 billion.
  - At the same time as fee-deregulation in the VET sector was collapsing, the then government was attempting to use ICLs to aid introduction of fee deregulation in the higher education sector. Fortunately, the proposal was not supported by the Parliament.
- Government's have also acted as though all ICL debt must be repaid or that 'debt not expected to be repaid' (DNER) is a problem.
  - On 1 May 2017 on the ABC's Q & A program, the then Deputy Prime Minister, Barnaby Joyce, in discussing student loans declared: "Loans actually have to be paid back". This is factually incorrect and a denial of the most distinctive feature of ICLs, namely their income contingency.
  - Under the HECS-HELP scheme, a former student may not contribute to the cost of their education or may make only a small contribution. Whether they contribute and how much depends on their subsequent income and the scheme's repayment arrangements.
  - This applies to all ICLs. Whether an ICL debt is repaid, and when it is repaid, depends on the pattern of a person's income over their lifetime and the policy choices that governments make about the scheme's repayment arrangements.
  - That some debt might not be repaid is not a bad outcome. ICLs are an extremely useful mechanism for directing government subsidy to people with low lifetime income and away from those with high lifetime income.
  - DNER is in effect government subsidy and it is as legitimate as any other Government grant or payment.

From a government perspective, ICLs should be viewed primarily as a source of revenue to reduce costs that it would otherwise incur. To illustrate this point, let's consider the situation where the government provides an ICL for a particular purpose and it expects on average to recover 80 cents, with the remaining 20 cents remaining unpaid.

- If the government uses this ICL to replace a dollar of subsidy that it would otherwise make, it will save 80 cents on every dollar that it lends.
- If the Government uses this ICL to support activity which it would not otherwise subsidise, it will incur an additional 20 cents expenditure on every dollar that it lends.

4. Should the panel recommend that ICLs be used to assist students with living costs?

Answer: No. It would be preferable to increase all students share of tuition costs by using an ICL than it would be to supplement income support payments required by financially disadvantaged students.

The clear priority for Government for higher education expenditure should be the cost of adequate income support for low-income and disadvantaged students. If additional revenue is required that cannot be obtained from general taxation, it would be preferable to increase student contributions and reduce tuition subsidises.

ICLs are currently used to assist students with living costs. From 1 July 2017, the former Student Start-up Scholarship was replaced by an ICL, called the Student Start-up Loan. It provides up to $1,201 twice a year to students on Youth Allowance, Austudy and ABSTUDY. There are no specific restrictions on how a student may use this money. It simply provides additional financial assistance and there is little doubt that it is of benefit to the students who use it.

Whether ICLs should be used to provide assistance to students with living costs is a question that should be examined by considering (1) its impact on income distribution and social mobility and (2) priorities for government expenditure.

Let's look at whether an ICL providing assistance with living costs should be provided only to income support recipients or should also be available to other students.

- In the case of people who would not otherwise receive income support, the ICL would generally not be substituting for any Government subsidy or expenditure. The result is that the proposal entails additional government expenditure. This expenditure is the DNER associated with the new scheme.
- In my view, this should be a low priority for expenditure. Improving the adequacy of income support for low-income students should be a higher priority for expenditure than improving the living circumstances of students whose incomes are too high to get income support.

Now let's compare two different types of ICL – one that replaces government expenditure on income support and one that replaces government expenditure on the costs of tuition.

- ICLs allow the Government to do more at a lower cost when they replace government expenditure, but the nature of the replaced expenditure can produce a different impact on the distribution of income and wealth in society. It can also affect the revenue that is returned to Government from the ICL scheme.
- The 2017 Universities Australia Student Finances Survey showed that there is a higher concentration of disadvantage among income support recipients than among students in general. While only a third of students receive student income support, 42 per cent of students from low socioeconomic backgrounds and 45 per cent of regional students receive student income support. Nearly half (49 per cent) of Indigenous students receive student income support.
- Using a loan to replace an income support payment would disproportionately increase the debt levels of students from disadvantaged backgrounds, compared to replacing additional tuition costs for all students in general. Currently students contribute an average of 48 per cent of tuition costs for a Commonwealth supported place.
- Using ICLs to replace income support payments would result in disadvantaged students having higher debt levels and taking longer to repay than students in general. As a result, disadvantaged students over their lifetimes would derive less benefit from higher education than non-disadvantaged students (i.e. people who had sufficient means to support themselves while studying without receiving income support). ICL's replacing income support reduces the level of social mobility associated with higher education, compared to the alternative option of increasing the contribution towards tuition costs of all students in general.
- From the Government's perspective, it is the revenue from ICLs that is important. Achieving a given level of revenue would require more dollars of a person's income support to be a loan than it would require their tuition costs to be loan. This is because only one third of students receive income support. Replacing tuition costs spreads the required level of debt to generate a given revenue stream around a larger pool of people.

- Finally, it is distinctly possible that there would be a higher level of debt not expected to be repaid from focussing additional ICL debt on disadvantaged students compared to all students in general.

5. Should there be a single rate of student contribution for a Commonwealth supported place (CSP)?

Answer: Yes. The panel should recommend a single annual student contribution rate.

There is little evidence that differential contribution rates have a sufficient influence on student behaviour or career choice to justify their continuation.

Attempts to link student contribution rates to future labour market incomes rely on generalisations that are not borne out by evidence. Reducing student contribution rates for different disciplines or courses on the basis of these generalisations undermines the revenue raising efforts of the government and increases its higher education costs. It results in many individuals on good incomes contributing less to the cost of their higher education than other individuals in comparable circumstances.

The labour market is highly dynamic and often unpredictable. People change careers frequently and those able to have long continuous working lives often find well-paying jobs. The reasons others do not are many and varied, and are often unrelated to the courses of study they undertook in the past. The fair treatment of these people is best assured through ICL repayment arrangements.

HECS was introduced to obtain a contribution from students towards the cost of higher education. Originally, the amount of contribution which a student ***might*** make was determined using a ***single annual rate*** that applied irrespective of the discipline being studied. The student's maximum amount of contribution was the number of full-time equivalent years of study multiplied by the number of years of study.

- A student undertaking a greater number of years of full-time study, either due to the length of a course or undertaking multiple courses, would end up with a larger amount of contribution which they ***might*** make when they are earning income (i.e. they have a larger student debt).

It is the HECS repayment arrangement which actually results in these contributions being made and which generates the revenue enabling the government to support greater availability of higher education than would otherwise be the case. The revenue stream has allowed Australia to retain a higher education system without the up-front tuition costs that would be a barrier to study for low-income Australians. The ICL repayment arrangement generates the revenue to help fund higher education student places and, if appropriately structured, ensures students only make repayments when and if they are able to do so.

In the 35 years since HECS was first introduced, the conceptual basis on which the annual rate of contribution should be set has not been agreed. At various times the justification for rates has been that:

- particular disciplines are more or less expensive to provide;
- people who study a particular discipline end up with higher or lower incomes; and
- there is a greater or lesser labour market need for people to study a particular discipline.

The table below provides a brief history of the changes which have been made to annual contribution rates and the rationales for these changes.

The settings put in place under Job Ready Graduates raise important questions:

- Is it reasonable for some students, who are doing less costly courses and will likely have lower future incomes than some other students, to have a higher contribution rate than those other students? For example, is it reasonable that future librarians and social workers have a higher contribute rate than future doctors?
- What impact will this approach to contribution rates have on the annual revenue received by government? Occupations that will have high future demand may be highly remunerated, but if the contributions for study

leading to these occupations is lowered, former students who studied to enter these occupations will repay less than otherwise. Occupations that will have lower future demand may not be as highly remunerated and a larger share of the contributions they are asked to make may remain unpaid.

Brief history of major changes to annual contribution rates and their rationales

- In 1996 'differential HECS' was introduced. This created three different rates of student contribution (bands 1 to 3).
  - These rates were broadly based on differences in the cost of courses and expected private returns.
- In 2005, a 'National Priority' band was introduced with a lower rate than Band 1 for teachers and nurses.
  - The rationale in 2005 was that they were 'National Priorities', a funding category which allowed "the Commonwealth to respond to current and emerging national needs, such as shortages in particular areas of the labour market and the education of indigenous students".
- From 2009, the student contributions for commencing maths and science students were included in the National Priority band.
- From 2010, the student contributions for commencing nursing and teaching students were returned to Band 1.
- From 2013, the student contributions for commencing maths and science students were returned to Band 2.
- In 2021, four different rates of student contribution were introduced under the 'Job Ready Graduates' package. The differences in student contribution rates are much larger than has ever previously been the case.
  - 'Job Ready Graduates' explicitly sought to use student contributions to influence student behaviour. Student contribution rates were set to encourage students into "courses that produce higher public returns or which contribute to identified national priorities".
  - It was claimed that it would encourage "study in fields most necessary for the jobs of the future and position Australia to capitalise on opportunities to increase productivity and national prosperity in the decades ahead".

There is not much evidence that any of the fiddling with discipline rates has changed student preferences about what to study or contributed to meeting labour market skills shortages. The expansion of higher education from 2009 to 2014 likely did more to reduce skills shortages than any of the tinkering with contribution rates.

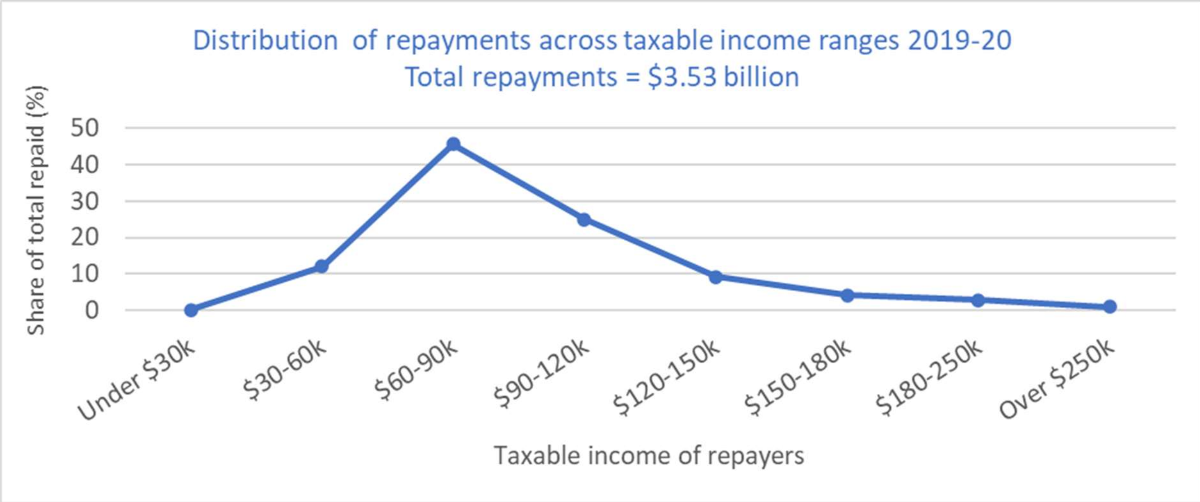
Australia's ICL arrangements are primarily a method of funding higher education, not a mechanism for Government to influence student behaviour or career choice.

Many of the changes outlined above occurred in the context of increasing the average student contribution to the cost of higher education. The differences in rates have been more about the politics of getting agreement to overall contribution increases, than about good policy and program design to ensure the government achieves the revenue it requires to fund higher education.

In general, increasing average student contributions has resulted in increased annual revenue being received by government from former students. HELP revenue is now over $5 billion a year, supporting Government HELP advances of around $7.5 billion a year.

The most plausible alternative to a single annual rate of student contribution across all disciplines is higher contributions from students likely to obtain higher incomes. There are multiple difficulties with this approach.

a) The first difficulty is understanding what income level might be the threshold above which a higher student contribution rate may be justified. The chart below shows the share of repayments that come from people with different incomes. In 2019-20, 70 per cent of all repayments came from people with incomes between $60,000 and $120,000.

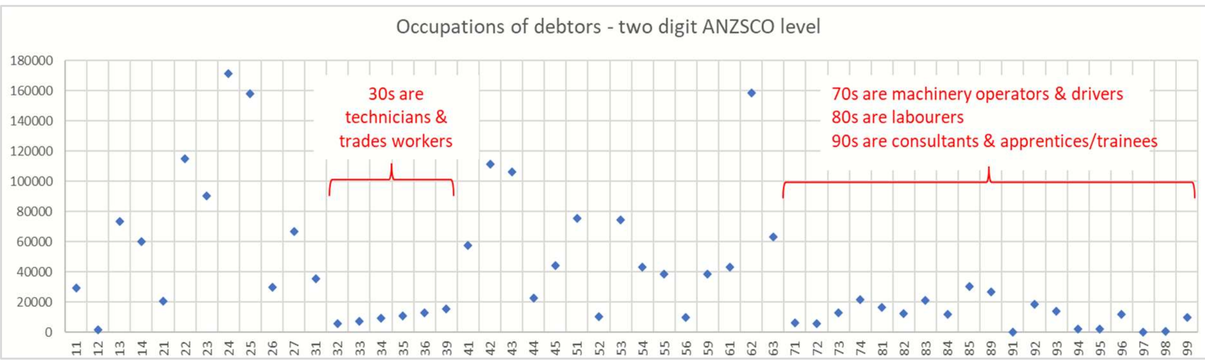


People with income between $60,000 and $90,000 were just over 45 per cent of the people making repayments and they accounted for just over 45 per cent of the total amount repaid in 2019-20. People with income between $90,000 and $120,000 were 13 per cent of those making repayments and contributed 25 per cent of the total amount repaid.

People earning $90,000 to $120,000 are on good incomes, but they are not viewed by most people as 'being highly paid'. Highly paid people are usually considered to be those earning over this amount and they constitute only 10 to 15 per cent of the population. Without substantially lowering the overall level of revenue received from former students, these 'highly paid' people are not going to contribute a large share of the revenue obtained from former students.

The government will continue to obtain most revenue from people earning $60,000 to $120,000. There are many more people in these income ranges and their inclusion significantly reduces the amount each has to repay to generate a given level of revenue.

b) A second difficulty is that there is no a simple relationship between a discipline and the future occupation or profession of a person who may have studied it. The chart below shows how HELP debtors were spread across occupations in 2019-20. There is a very wide dispersion of debtors across occupations and lot of this dispersion is not explained by the different courses people undertook.



A large share of students undertake courses that are not designed to lead to a specific occupation or profession. The course may be general in nature (for example the traditional Bachelor of Arts degree) or it may focus on a discipline but prepare people to work in a wide variety of occupations with large variations in remuneration levels (for example bachelor degrees in science, economics, or even law).

Where a particular course has been designed to lead to a specific occupation or profession, many who undertake it may work for only a modest period of time in that occupation or profession, or never enter it. The skills and learning acquired in these courses equip people to undertake many occupations in the same way as more generalist degrees.

Data extracted from the 2021 Census by Andrew Norton indicates that only around 74 per cent of people aged 20-29 years who trained to be nurses were employed as nurses and this declined to around 57 per cent for people aged 50-59 years. For teachers, the comparable figures were 68 per cent declining to 60 per cent.

The above results may be similar to those for all courses leading to particular occupations and professions. It not clear that they are lower than for other courses which may lead to a profession. Law and economics courses provide good examples of courses that may lead to a profession, but also prepare people for a wide variety of occupations many of which would not be regarded as part of 'the profession'.

It is tempting to think that everyone who studied X must now be an Xer, but this is often not the case. While many who studied X might be Xing, a substantial share will not be doing that.

c) A third difficulty is that there is no simple relationship between an occupation or profession and a person's subsequent income. This point is well illustrated through the example of people who become nurses.

Many people hold the view that nurses are not well paid. Like many of the views used to justify different student contribution rates for different disciplines, this is a ridiculously broad generalisation. It is not a sensible basis on which to make decisions about student contributions for people studying a three-year Bachelor of Nursing, the pre-requisite for being a registered nurse. It is even less sensible for people studying a two-year Master of Nursing, which would enable a person to become a nurse practitioner.

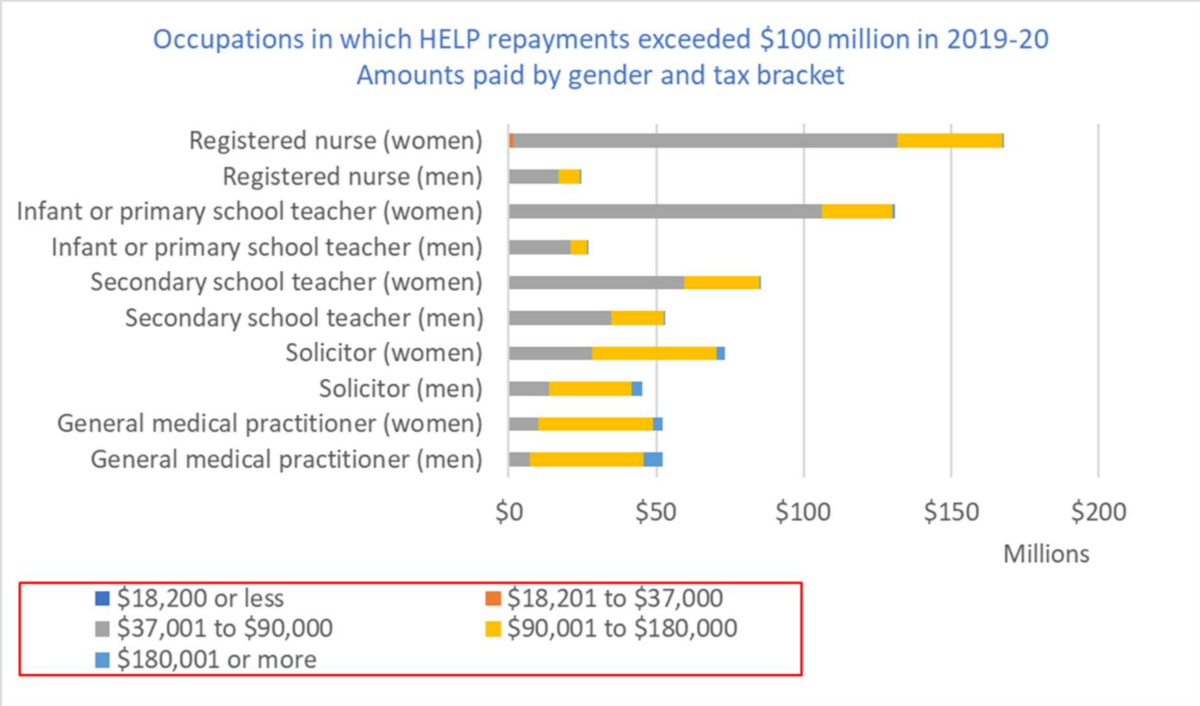
Registered nurses are generally paid higher salaries than enrolled nurses. Registered nurses employed in major public hospitals are generally on higher salaries than those working in aged care facilities. Registered nurses advance up salary scales as they gain years of experience.

The salaries of nurses are comparable to the incomes of the people who contribute most of the revenue derived by government from the repayment of student contributions.

- In April 2023, the SEEK website stated "The average annual salary for Registered Nurse jobs in Australia ranges from $80,000 to $85,000."
- Queensland Health has 2023 annual salaries of registered nurses on its website. The 're-entry' pay point is $76,755. Pay-points 1 to 7 range from $80,342 to $103,053. A nurse practitioner is paid from $145,000 to $151,000.
- By way of comparison, a resident medical officer at the PGY2 level (i.e. a doctor in their second year of work), who has been required to study for 5 years and completed a year of work, was paid a base salary between $73,000 and $86,000 in 2019, depending on their State.

The chart below shows the incomes of people making student contribution repayments for those occupations where more than $100 million was received by Government in 2019-20. It is broken down by gender.

- It shows that over $36 million was received from female nurses earning over $90,000. We saw above that this group are in the top half of earners making repayments.
- The amount received is more than obtained from male solicitors earning over $90,000, which is only a bit over $31 million. Female solicitors earning over $90,000 paid a bit over $45 million
- Male medical practitioners earning over $90k paid around $45 million and female medical practitioners around $42 million.



The situation with teachers is quite similar. Generalisations about teacher's salaries are not a useful basis on which to decide student contribution levels. There are major differences between the salary rates of pre-school teachers, primary and secondary school teachers and university lecturers, yet all of these have likely undertaken study in the discipline of teaching. Many would also have studied other disciplines, in particular the discipline that they specialise in teaching.

The final point to note in this section is that there can be a big difference between a person's salary rate and the amount of income received by a person. The salaries received by someone working full-time in a profession may be good, but many do not work full-time. Many work part-time, particularly women and others with caring responsibilities.

There is no simple relationship between the discipline of a unit of study and the future income of a person who undertakes it.

Over the years, the setting of different student contributions rates for different disciplines or courses has added considerable complexity to the funding system for universities, students and government.

- Discipline rates usually apply at the unit of study level and not at the course level. A student studying a particular course may undertake units of study in many different disciplines. A person studying to be a teacher may have the lowest rate of student contribution for units of study that concern how to teach and the highest rate of student contribution for units of study that are about their teaching specialty, for example history or economics.
- In some cases, special funding rates have been applied only where units of study are undertaken as part of a course leading to particular occupations. In these cases, rates have become unrelated to the normal discipline classification of a unit of study. For example, a behavioural science unit of study would normally have the highest level of student contribution, but this will not be the case if:
    - they contribute to courses of study accredited for the purposes of professional registration by the Australian Health Practitioner Regulation Agency (AHPRA). In this case they will have the lowest student contribution rate; or
    - the course of study represents a pathway to professional registration as a psychologist. In this case, they will have the second lowest rate of student contribution.

The Panel should accept that annual student contribution rates are primarily a method of determining the maximum that a person may be asked to contribute towards the cost of their higher education. They do not affect how much a person pays in any particular year. That amount is determined by the person's income. If the Panel is concerned about people in low-income professions, it should examine repayment arrangements in detail and make appropriate recommendations to ensure that low-income people are not required to make a repayment when they have limited capacity to do so.

6. Should ICL repayment arrangements be changed and how?

Answer: Yes. The panel should recommend that ICL repayment amounts be calculated using a single marginal rate applied only to a debtor's income above a threshold which would vary according to their family circumstances. These family circumstances should include whether the person has dependant children or a dependant partner and if they have a dependant partner, the partner's income. A model for further consideration is in the table below.

Family type	Repayment arrangement
Single, no kids	20 cents for each dollar of taxable income over $60,000.
Couple, no kids	If partner's income is over $20,000, 20 cents for each dollar of taxable income over $60,000. Otherwise, 20 cents for each dollar of taxable income over $80,000 minus partner's income.
Single or couple, 1 or 2 kids	If partner's income is over $60,000, 20 cents for each dollar of taxable income over $60,000. Otherwise, 20 cents for each dollar of taxable income over $120,000 minus partner's income.
Couple, 3 or more kids	If partner's income is over $70,000, 20 cents for each dollar of taxable income over $60,000. Otherwise, 20 cents for each dollar of taxable income over $130,000 minus partner's income.

The repayment arrangements for current ICL schemes interact with the taxation system and a range of other social programs. While the interactions are complicated, this is not an acceptable reason for ignoring them. They are quite real for people who are required to make repayments. When the HELP repayment arrangements were recently tightened, there was no inquiry to examine whether the proposed new arrangements were fair and reasonable for those who would be affected.

Australia's social welfare system aims to ensure that adults and children do not live in poverty and they do this through provision of a system of means-tested benefits. These means-tested benefits are withdrawn over income ranges in which people are also required to repay HELP debts. At the same time, people are paying standard tax rates and the Medicare levy, and various tax offsets are being phased out.

The combined result is that over some income ranges people obtain only a slight increase in disposable income from undertaking additional work or obtaining a higher paying job. The table below shows average effective tax rates over two income ranges for people with HELP debts in a variety of family circumstances. In the cases highlighted in the table, average tax rates are punitive. They exceed 70 per cent and in one case they exceed 100 per cent.

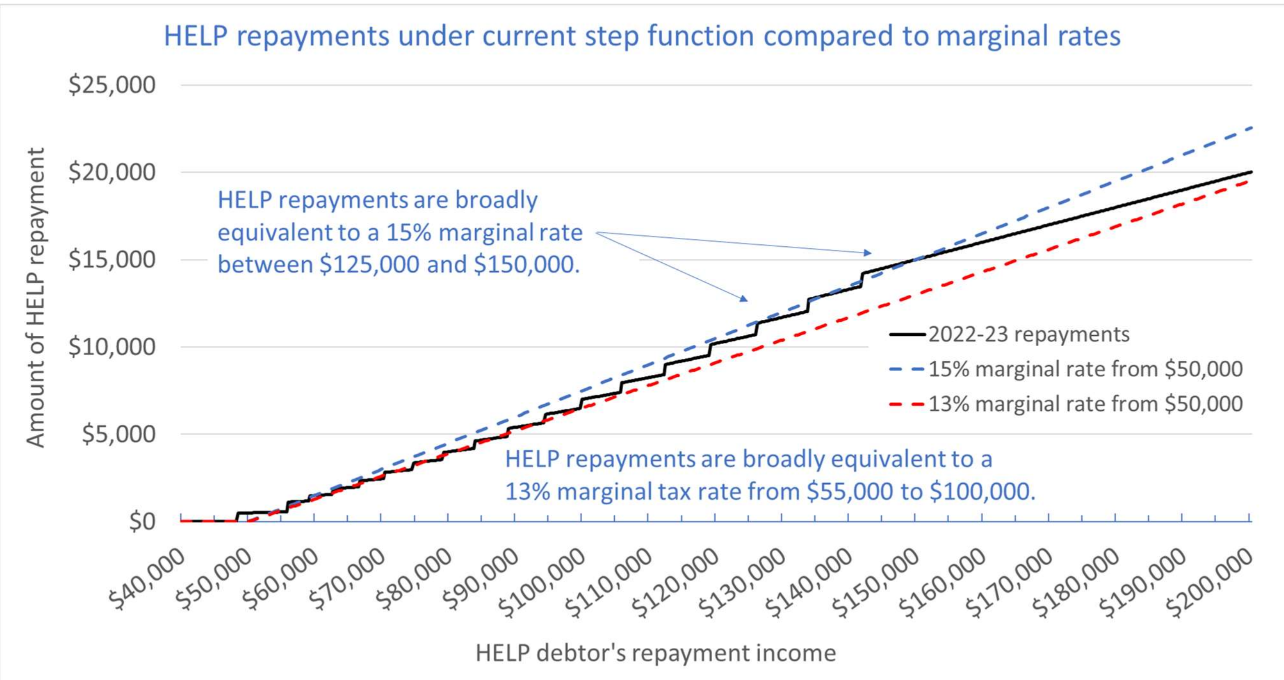
These problems arise because of the design of the repayment arrangements.

Average effective tax rates over two income ranges for various family types[1]

As on 1 July 2022 Family type	Average effective tax rate from $48,000 to $60,000	Average effective tax rate from $60,000 to $100,000
Single, no kids	49%	51%
Single, 2 kids (4 & 7 years)	77%	77%
Single, 2 kids (10 & 13 years)	63%	73%
Couple, no kids (one earner)[2]	109%	51%
Couple, 2 kids (one earner)[2]	94%	73%
Couple, 0 kids (two earners, one at AWE)	49%	49%
Couple, 2 kids (two earners, one on AWE)	79%	52%
Couple, 2 kids (two earners, one on $100,000)	48%	54%

1. Average effective tax rates based on change in disposable income of the family due to change in HELP debtor's income. All scenarios assume people are renting privately with the level of rent able to attract maximum rent assistance; no-one has private health insurance; everyone is under 60 years of age and no-one is a single principal carer granted an exemption from mutual obligation requirements. These results have been derived from output of EMTR models maintained by David Plunkett.
2. In one earner couple families, the HELP debtor's partner is assumed to be eligible for a means tested income support payment.

Once the first HELP repayment threshold is reached, the repayment amount is calculated as a percentage of a person's total income and no allowance is made for family circumstances. The result is that in 2022-23 when a person's income increases by $1 to $48,361, they must repay $483.61 of their HELP debt. This 'step up' in the amount of HELP debt repayment occurs at 18 different income levels. At each of these levels, earning one more dollar results in an additional HELP repayment of several hundred dollars. This step function is the black line in the chart below.



This approach differs from the standard taxation arrangement which applies a tax rate to each extra dollar over a threshold, referred to as a marginal rate approach. The chart shows that the current repayment arrangement usually results in a HELP debt repayment amount that falls between what would be repayable based on marginal rates of 13 and 15 per cent of income above $50,000.

There does not appear to be a good reason to specify the amount of repayment as a percentage of total income. However, there are good reasons not to specify the repayment amount as a percentage of total income.

It is inequitable for a start. The chart shows that the current repayment arrangement is harsher for people with incomes of less than $50,000 than a marginal rate approach with the same threshold. It also shows that the arrangement is more generous for people earning over $200,000, despite these people having a greater capacity to make repayments.

The repayment arrangement contributes to excessive average effective tax rates. It also makes it more difficult to design policy to prevent the work disincentives and poverty traps identified in the table above.

The ability to improve the equity of repayment arrangements, to increase the incentive to work and to remove poverty traps are good reasons to change to a marginal rate approach. A single rate of repayment applied to income above a threshold would be simpler and more rational than the current HELP repayment arrangements. It would allow the threshold to be varied according to a person's family circumstances, ensuring that former students only make repayments when they have the capacity to do so.

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