

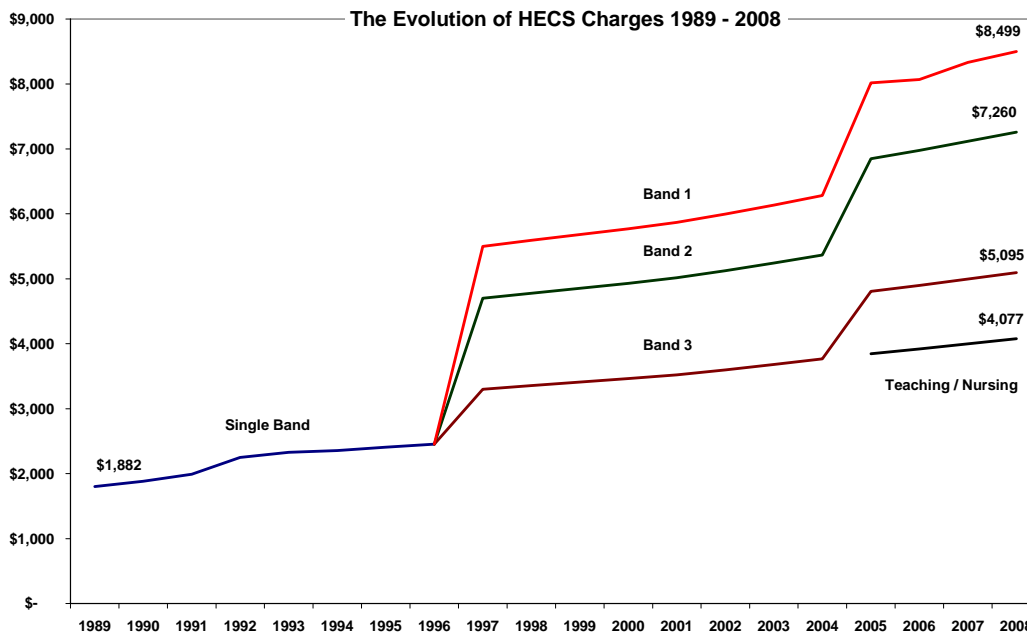
## Income Contingent Loans – 1

### Lessons from the University Sector

*(Excerpt from NTEU – Victorian Division – response to the Victorian Government’s Discussion Paper on Skills Reform: “Securing Our Future Economic Prosperity”, pp.4-6)*

The motivation for introducing the new funding mechanism for the Victorian VET sector sounds similar to that used by the Hawke-Keating Government when the Higher Education Contribution Scheme (HECS) was introduced in the higher education sector in 1989. At the time there was a recognition of a need to rapidly expand the number of participants in higher education and given the constraints on public funding available to achieve the required growth, it was argued that because students gained a private benefit from this education it was not unreasonable to expect them to make a nominal contribution. To minimize the upfront financial impact on students, the notion of income contingent loans was born.

Under HECS (now called FEE-HELP), students enrolling in a government-supported university place are required to make a contribution toward the cost of their university education. Initially the HECS fee was set at \$1,800 per annum for a full-time student place, regardless of the degree program a student was enrolled in. The initial fee was calculated to be 20% of the average cost of educating a student. Under HECS, students have the option of paying their HECS fees up-front, for which they receive a discount, or taking an income contingent loan and repaying their HECS debt to the Commonwealth via the income tax system. Students are required to commence repaying their HECS debt once their income reaches a pre-determined threshold level. While HECS debts do not attract interest payments, both the value of the outstanding debt and the income threshold levels are adjusted on an annual basis for rate of inflation as measured by the Consumer Price Index (CPI).



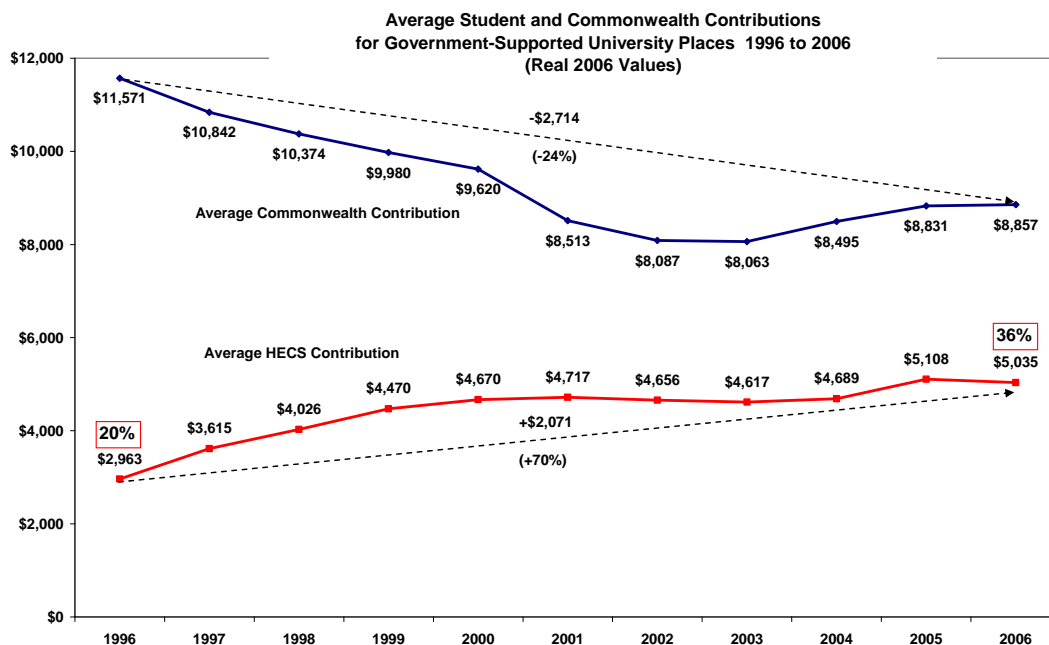
As the data in Chart 1 shows, HECS rates have increased substantially since first introduced in 1989. There were major changes in 1997 and again in 2005. In 1997 the Howard Government introduced a three-tier HECS system and the student contributions (HECS fees) increased between 33% and 122% between 1996 and 2007 (see Table 1). The other major change in 2005 allowed universities to increase HECS fees by 25% except for national priority students in education and nursing.

**Table 1. 3-Tier HECS System**

	1996 HECS Fee	1997 HECS Fee	% Increase
<b>Tier 1</b> Arts, Humanities, Social Studies/Behavioural Science, Education Visual/Performing Arts, Legal Studies and Nursing	\$2,478	\$3,300	33.2%
<b>Tier 2</b> Mathematics, Computing, Other Health, Agriculture, Animal Husbandry, Sciences, Built Environment, Admin, Business & Economics, and Engineering		\$4,700	89.7%
<b>Tier 3</b> Law, Medicine, Dentistry and Veterinary Science		\$5,500	122.0%

Source: Karmel, T (June 1999) *Financing Higher Education in Australia*, DEST Occasional Paper D-99 Table 3, page 14

As the data in Chart 2 below show the contribution government supported students have made to cost of their university education has also increased substantially since the introduction of and changes to HECS. Between 1996 and 2005, student contributions in real (inflation adjusted terms) increased from 20% (the original predetermined contribution) to 37%.



The lesson to be learnt from the introduction of HECS is that governments will always find it easier to increase resources to education by increasing the student contributions rather than government contributions.