Research

NUS Submission To Senate Community Affairs References Committee Review

Extent of Income Inequality in Australia

Presented by NUS National Welfare Officer, Jack Gracie and NUS President, Deanna Taylor

Prepared by NUS Research Co-ordinator, Graham Hastings

Aug 2014

In the early 1990s NUS campaigned around the slogan: "You can't feed a dog on Austudy". More than twenty years later despite several major overhauls of student income support arrangements this still remains the case for students who are mainly reliant on Youth Allowance, AUSTUDY or ABSTUDY. The base living allowance rates for student income support programs are too low and hard won reforms, such as the start up scholarships are under threat. Increased student debt through tuition fee deregulation and the conversion of student grants into loans will become a major contributor in income inequality with young graduates increasingly locked out of home ownership.

Unfinished Business from the Bradley Review Reforms

When the Tertiary Education Assistance Scheme (TEAS), the forerunner of Youth Allowance and Austudy, was introduced in 1974 it was more generous than current programs. The full payment for a single person living away from home in a share house was 75% of the Henderson Poverty Line (the equivalent figure for current Youth Allowance including rent assistance is 48.8% of the poverty line).

In 2005 NUS launched a long term campaign for income support reform. This included taking part in the project panel for Universities Australia's Survey of Student Finances and working with Opposition parties to get the Senate to conduct an Inquiry into student income. The 2005 Inquiry and 2007 survey provided empirical research to back NUS's reform demands.

The newly elected Rudd Government launched the Bradley Review of Higher Education in 2008. NUS worked closely with the review panel, such as establishing student forums around the country for the panel to consult with (for example the NUS Indigenous Students Conference) and providing historic research on the past problems with student income support that the panel were not aware of.

The major changes unveiled in the 2009 Federal Budget were:

- A phased reduction in the age of independence from 25 to 22;
- Parental Income test Threshold increased from $32,800 to $42,560;
- Exemption for university scholarships being treated as taxable-income by Centre-link;
- Students doing postgraduate coursework degrees would be eligible for student income support.

The above measures widened eligibility to income support. Two further measures helped the bottom-line budget of many low income students:

- Start up scholarships in the form of $1,252 grant paid to students on Centre-link benefits (YA, Austudy, ABSTUDY) at the start of each semester to cover up front course costs such as textbooks, internet connections, course equipment;
- The annual personal income bank increased from $6,000 to $10,400 (ie the amount a student can earn from other sources before their benefit is reduced).

These measures were widely supported by students but they did not address the core issue that living grant was too low.

The funding for these changes came by implementing the Bradley Review's recommendation to abolish of two of the three workplace participation criteria for qualifying for independent rate of Youth Allowance (by working for at least 15 hours a week for 2 years or earning over $18K a year over an 18 month period). The only criteria remaining would be to work for 30 hours a week for 18 months in a two year period. The Bradley review argued that the "gap year" was being used by wealthy families to circumvent means testing.

Many rural students and the National Party were vocal in opposing this measure. Two Senate Inquiries were held on this matter. The ALP did not have the numbers in the Senate so agreed in 2010 to an amendment to retain the gap year eligibility option for students in outer regional and remote areas. The Greens and Senator Xenophon worked with Government to flesh out a $20 million Rural Tertiary Hardship Fund. NUS and other stakeholders served as members on the fund's taskforce to develop the guidelines for the operation of the fund. Later on additional legislation was passed that extended the gap year eligibility option for inner rural students as well.

In order to fund the concessions to rural students the Gillard Government delayed the implementation of some parts of the student income reform package and modestly cut the value of the start up scholarship grants. Later In 2013, as part of its search for budget cuts to fund the Gonski school reforms, the Gillard Government announced that it would be converting the start up scholarships into HECS-style loans. This legislation had not passed the parliament when the government changed in November.

The Abbott Government has wanted to continue with this measure but the ALP is now opposing this measure as it is now no longer tied to long term Gonski funding. The legislation arising from the 2014-15 budget removes the grand-fathering provisions in the original legislation.

The unfinished business in the wake of Bradley Review reforms and subsequent changes is that the combined living allowance/rent assistance rates are too low and force students into the dilemma living at more than 50% below the poverty line or doing large amounts of paid work that compromise their study and the development of general graduate attributes desired by employers.

Student Poverty: the most recent student finance survey data

Universities Australia's 2012 survey of student finances, based on 11,671 responses is widely regarded as the principle reference on student financial arrangements (NUS served on the project steering committee).

Selected findings include:

- 46.3% of non-indigenous full time students receive at least some Youth Allowance or AUSTUDY payment

- In 2012, more than two-thirds of students reported being worried about their financial situation. The level of concern about finances has risen substantially since 2006 – by about twelve percentage points across the board. The highest overall level of concern was expressed by full-time, low SES undergraduates, of whom 76.6 per cent indicated that they were worried about finances.

- An average of about 17 per cent of students reported regularly going without food or other necessities because they were unable to afford them, and there was an increase from 14.7 per cent of full-time domestic undergraduates in 2006 to 18.2 per cent in 2012 who were regularly going without.

- Somewhat fewer domestic, full-time undergraduates were in employment in 2012 (80.6 per cent) than in 2006 (85.5 per cent), yet the average hours worked during semester by all full- time students who were in employment has increased; from 14.8 to 16.0 hours for undergraduates; from 17.0 to 20.1 hours for postgraduate coursework students, and from 8.0 to 10.5 hours for HDR candidates. Overall, around one quarter of employed, full-time undergraduates were working over 20 hours per week during semester.

- Increased hours of work are affecting students' educational experience, with 50.1 per cent of full-time undergraduates reporting that their work adversely affects their performance at university. This is a rise of 10 percentage points over 2006 levels. One in three domestic undergraduates, and one six international undergraduates, reported that they regularly miss classes because of employment obligations.

- Two-thirds of full-time domestic undergraduate students had incomes of less than $20,000 a year; including 21.0 per cent who had annual incomes of less than $10,000

- A higher percentage of employed low SES students (57.6 per cent) indicated that their work commitments adversely affected their performance at university, compared with other employed undergraduates (52.6 per cent).

- Indigenous students reported higher rates of responsibility for family dependents than did non- Indigenous domestic students.

- Almost half (47.0 per cent) of all Indigenous undergraduate students received ABSTUDY benefits, and significant proportions of Indigenous undergraduates also received other government income support (19.2 per cent), and government or university funded scholarship support (29.1 per cent and 21.1 per cent).

Each year NUS also releases a table of maximum student benefits versus the applicable Henderson Poverty Line. The Henderson Poverty Lines are calculated quarterly by Melbourne University's Melbourne Institute of Applied Economic and Social Research. The NUS calculations are outlined in Appendix One. The results in brackets are the figures at the time of the Bradley Review (2008) and show the continued erosion of the level of student allowances as the CPI does not keep up with poverty line indexation applicable to typical students. The CPI for example contains a substantial mortgage component. The current low interest regimes have kept CPI down whereas typical major costs faced by students (rent and food) are increasing more quickly. For example a single student in share housing receiving the full Youth Allowance and rent assistance is 51.2% below the poverty line (the same student would have been 46.6% below the poverty line in 2008).

Research has found that some part time work is beneficial to student development. However, students trying to juggle full time study with more than about 12 hours a week paid work, reported increased difficulties with maintaining study commitments and less opportunities to participate in enriching campus activities outside the class room. The Australian Learning and Teaching Council's research into attributes desired by employers included several that are facilitated by involvement in extra-curricular activities: "*High order skills in interpersonal understanding, teamwork and communication" , "ability to take community leadership", "Team work - productive working relationships and outcomes", "Awareness of ethical, social and cultural issues within a global context and their importance in professional skills".*[1]
For those working more than 20 hours a week the impact is substantial.[2]

Impact of 2014-15 Proposed Changes

There are three proposed changes that will impact directly on the level of aggregate student financial indebtedness: the conversion of student start up scholarships to a HELP loan program, the deregulation of undergraduate tuition fees and the application of market bond rates (rather than CPI) to HELP debts (capped at 6%).

---

1 See for example http://www.gradskills.anu.edu.au/desired-graduate-attributes
2 Applegate C, and Daly A, The Impact of Paid Work on the Academic Performance of Students: a Case Study from the University of Canberra, Discussion Paper, Centre for Labour Market Research, 2005

Plausible modelling of the impact of tuition fee deregulation such as that released by the Director of the Centre for the Study of Higher Education put the tuition fee HELP debts that students will face student debt at completion of the degree will range from $26,000 - $48,000 for Humanities (low cost 3 year course) to $156,000 - $160,000 for Medicine (high cost 5 year program).

In 2012 there were 245,000 students on start up scholarships. The conversion of the start up grants to loans will add around $6,200 (3 year course) to $10,300 (5 year course) of extra debt to students who take out these loans depending on the length of their course.

The third element is the impact of bond market rates on accumulated HELP debt. The average of the applicable 10 year Treasury Bond rate over 1997 – 2013 would have been 5.4% compared to the average CPI of 2.5%. The following table outlines the impact of 3 – 6% interest on unpaid HELP debts.

Impact of Compound Interest on Unpaid HELP Debt

HELP loan for tuition fees	**Unpaid HELP debt compound interest effects over 5 years**				**Unpaid HELP debt compound interest effects over 10 years**			
	At 3%	4%	5%	6%	At 3%	4%	5%	6%
$20,000	23,200	24,300	25,500	26,800	26,900	29,600	32,600	35,800
$30,000	34,800	36,500	38,300	40,100	40,300	44,400	48,900	53,700
$40,000	46,400	48,700	51,000	53,500	53,800	59,200	65,200	71,600
$50,000	58,000	60,800	63,800	66,900	67,200	74,000	81,400	89,500
$60,000	69,600	73,000	76,600	80,300	80,600	88,800	97,700	107,400
$70,000	81,100	85,200	89,300	93,700	94,100	103,600	114,000	125,400
$80,000	92,700	97,300	102,100	107,100	107,500	118,400	130,300	143,300
$90,000	104,300	109,500	114,900	120,100	120,100	133,200	146,600	161,200
$100,000	115,900	121,700	127,600	134,900	134,900	148,000	162,900	179,800

NUS is concerned the large increases in study debt may deter students from low SES, mature age and rural backgrounds from participating in higher education and missing out on opportunities for higher life-time earnings. NUS analysis of the study debt aversion effects of HELP-style loans is available from research@nus.asn.au.

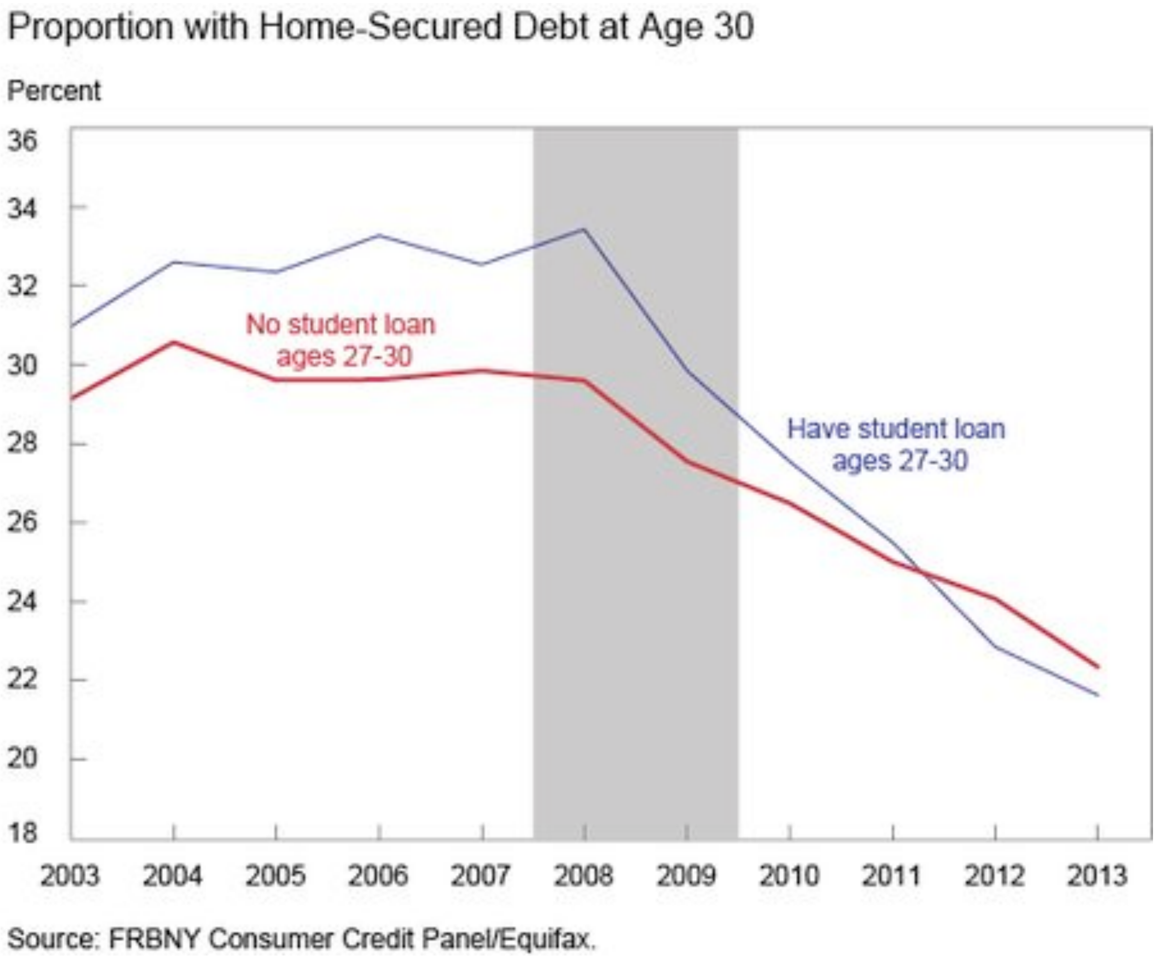
NUS is also concerned about the economic impact of these large debts imposed on new graduates. There has been little research on this outside of models on private rates of return. In the deregulated USA higher education system graduates owe the federal government close to $1.2 trillion in federal loan repayments and tuition fees continue to rise much faster than inflation.

A recent study by researchers at the Federal Reserve Bank of New York [3] has raised concerns about the impact of student loans on graduate home ownership rates in the post-GFC housing recovery. The study using bank credit data examines the relative proportions of 30 year old Americans with mortgage debts over the last decade.

The traditional pre-GFC pattern were for 30 year olds with student loans debts to have higher home ownership rates than those without student loan debts. This can be partly explained by higher income of graduates compared to non-graduates and the easier access to bank credit in years preceding the GFC. Home ownership rates for all young Americans tumbled in the wake of the GFC.

[3] Brown M, Caldwell S and Sutherland S, "Young Student Loan Borrowers Remained on the Sidelines of the Housing Market", *Liberty Street Economics*, Federal Reserve Bank of New York , April2014 (http://libertystreeteconomics.newyorkfed.org)

The disturbing finding arising from the study is that despite a marked recovery in the US housing industry in 2013 (reflected in an 11% increase in average house prices) that the home ownership rates for young Americans continue to tumble. The decline in home ownership of graduates with study debts is more acute than for Americans without study loans. Since 2011 the pre-GFC pattern has reversed such that young Americans with a study debt have lower home ownership rates than those without study debt.



The researchers postulate various factors behind this trend:

"*(T)he failure of young consumers, and particularly the comparatively skilled young consumers of our student loan group, to re-enter the housing market remains a puzzle. Many factors could be contributing to this phenomenon, including growing student debt balances, limited access to credit, lowered expectations for future earnings, and perhaps even a cultural shift by which young people—whether they went to college or not—are deferring home purchases. Whatever the cause of student borrowers' reticence, the housing market rebound of 2013 appears to have proceeded without the help of this skilled set of young buyers.* "

In 2013 the US Consumer Financial Protection Bureau held a public inquiry into the affordability of student loans. It received 28,000 submissions and comments. The National Association of Home Builders submitted that the higher student debts "i*mpair the ability of recent college graduates to qualify for a loan*". In particular they cited impact of the loans on the debt-to-income ratio metrics used to assess eligibility. The National Association of Realtors also pointed out the first-time homebuyers typically rely on savings to fund down payments. They argued that: "*For many borrowers, unmanageable student debt can make it difficult to accumulate any savings."* They produced data showing that in 2013 the first time home-buyers share of the US housing market had fallen to 30% from its historic 40% level.

While there are some important differences between the US system and the arrangements proposed to come in here (such as the wider availability of income contingent repayments, and that the US federal loans are capped at a much lower level) the differences actually make it easier for Australian graduates to accumulate large study debts and for universities to keep inflating their prices above inflation. NUS expects that the longer time frames involved with paying off the study debts will increase the extent that graduates delay taking on a mortgage, or decide that by the time they finish paying off the loan it will be too late to take on a 25 year mortgage. Women who take time out of their career to raise children will be suffer significant additional financial disadvantage as their HELP debts be increasing at the bond market rate while they are below the income repayment threshold.

<u>Newstart Changes Impact on Graduates</u>

Finally we should mention to the inquiry that we hear from many students on Youth Allowance, Abstudy, and Austudy under the age of 30 who are nearing the completion of their degrees and are profoundly anxious and confused about what will happen to them once their study-related income support payments finish.

We note that the proposal excludes people who return to university study from the six month initial waiting period. However, NUS is concerned that proposal then seems to go on and restrict income support to six months in a 12 month period:

"In recognition of the importance of education and training in preventing future unemployment, young people who return to school or take up full-time vocational education or university study will not be subject to the six-month waiting period. Following the waiting period, income support will be available for six months in a 12-month period, dependent on the recipient participating in Work for the Dole for at least 25 hours per week."[4]

Furthermore it is unclear whether the exemption applies to new graduates or is it some ill conceived requirement that new graduates do additional study or training on top of the their just completed degree and (possible) work for the dole obligations in order to get six months income support. The only beneficiaries for this would seem to be training/education providers. Also are the young people engaged in full time study in this period exempt form the 25 hours per week work for the dole? NUS notes the lack of clarity in the proposed changes.

The soon to be graduates are also concerned that if they do not quickly find employment that they will not be eligible for Youth Allowance/Newstart unemployment benefits unless they are prepared to relocate anywhere in Australia (including living an itinerant life chasing short term low skill seasonal work like fruit picking in areas where there are few professional employment opportunities). While fruit-picking in the Riverland/Riverina is a common summer job for students it is not going to help graduates (outside of the agriculture/rural support services) to break into the profession careers they have spent years training for.

Students who have qualified for means tested student income support, as their family either has meagre financial resources or through demonstrated personal circumstances is unwilling or incapable of providing financial support. Justifiably these students are concerned about how they will pay their rent or buy necessities like food once they have no income if they want to stay in areas of higher professional employment opportunities. Similarly, how will they survive during periods when they are denied income support? Extreme poverty and charity handouts should not become the norm for the transition from higher education to paid full time professional employment.

[4] DSS, 2014 Budget: Working Age payment, Fact Sheet, May 2014

Recommendations

1: That the combined base living allowance and rent assistance rate for Youth Allowance, Austudy and Abstudy should be increased to al least 100% of the Henderson Poverty Line;

2: That Student Start Up Scholarships be retained as grant rather than a HELP loan;

3. That research is conducted into the broader impact of large study debts on graduate economic activity, the research should go beyond narrow private: social rates of return arguments and draw on applicable international evidence;

4. That the government re-consider and clarify the proposed social security arrangements for graduates during their transition to the workforce;

5. That regressive changes to Newstart/Youth Allowance that lead to extreme poverty or diminished opportunities for graduates to find professional employment be abandoned.

Appendix One: NUS Research Calculations of Current (2014) Maximum Benefits per Fortnight Accessed By Single University Students As A Percentage of the Henderson Poverty Line

All Centrelink figures are those from the period of first quarter of 2014, the Henderson poverty line figures are for the Sept 2013 quarter (released in Jan 2014). Thus the calculations slightly understate the poverty rate by one quarter's indexation. Single person rate, head in workforce (i.e, includes allowance recipients as they are subject to work/study activity tests), start up scholarships not included as they are a one off payment per semester to cover costs of textbooks, computers and course materials rather than living costs. % in brackets are 2008 pre-Bradley review using same methodology

Payment Type	Base Rate per fortnight	Maximum rate of Rent Assistance	Relocation Scholarship	Maximum Total Payment per fortnight	Henderson Poverty line	Total Benefit as a % of poverty line
Youth Allowance, single at home	272.20	Not Eligible	Not Eligible	272.20	1008.76	**27.0%** *(31.3% in 2008)*
Youth Allowance, single, away from home	414.40	124.00 (living alone or with partner)	Not Eligible	538.40	1008.76	**53.4%** *(61.8% in 2008)*
	414.40	82.67 (in share housing)	Not Eligible	492.07	1008.76	**48.8%** *(57.1% in 2008)*
First Year Youth Allowance recipients also receiving Full Relocation Scholarship	414.40	124.00 (living alone or with partner)	159.42	697.82	1008.76	**69.2%**
	414.40	82.67 (in share housing)	159.42	656.49	1008.76	**65.1%**
Second and Third Year Youth Allowance recipients also receiving reduced Relocation Scholarship	414.40	124.00 (living alone or with partner)	79.73	618.13	1008.76	**61.3%**
	414.40	82.67 (in share housing)	79.73	576.80	1008.76	**57.2%**
Austudy, over 25, single or partnered with no children	414.40	124.00 (living alone or with partner)	Not Eligible	538.40	1008.76	**53.4%** *(61.8% in 2008)*
	414.40	82.67 (in share housing)	Not Eligible	492.07	1008.76	**48.8%** *(57.1% in 2008)*
Payment Type	**Base Rate**	**Maximum rate**	**Relocation**	**Maximum**	**Henderson**	**Total**

	per fortnight	of Rent Assistance	Scholarship	Total Payment per fortnight	Poverty line	Benefit as a % of poverty line
Abstudy, singe at home, 18-21	272.20	Not Eligible	Not Eligible	272.20	1008.76	**27.0%**
Abstudy, Single, Away From Home, 18-21	414.40	124.00 (living alone or with partner)	Not Eligible	538.40	1008.76	**53.4%**
	414.40	82.67 (in share housing)	Not Eligible	492.07	1008.76	**48.8%**
Abstudy, Single, Away From Home, 18-21, first year receiving Full Relocation Scholarship	414.40	124.00 (living alone or with partner)	159.42	697.82	1008.76	**69.2%**
	414.40	82.67 (in share housing)	159.42	656.49	1008.76	**65.1%**
Abstudy, Single, Away From Home, 18-21, second or third year receiving partial Relocation Scholarship	414.40	124.00 (living alone or with partner)	79.73	618.13	1008.76	**61.3%**
	414.40	82.67 (in share housing)	79.73	576.80	1008.76	**57.2%**
Abstudy, Single, Away From Home, over 22, first year receiving full Relocation Scholarship	501.00	124.00 (living alone or with partner)	159.42	784.42	1008.76	**77.8%**
	501.00	82.67 (in share housing)	159.42	743.09	1008.76	**73.7%**
Abstudy, Single, Away From Home, over 22, second or third year receiving partial Relocation Scholarship	501.00	124.00 (living alone or with partner)	79.73	704.73	1008.76	**69.9%**
	501.00	82.67 (in share housing)	79.73	663.40	1008.76	**65.8%**