

Information Note Advice to Minister

Date: April 24, 2015

Cliff #: 99605

Issue: Australian government income-contingent student loan scheme

Key Elements:

- Federally administered income-contingent loan model.
- Repayment is only required once an individual's income reaches a standard threshold, currently set at approximately AUD\$53,000 (approx. CAD \$50,350).
- Designed to eliminate defaults by integrating repayment with income tax.
- Costs to government include subsidization of loan interest rates¹ and loans that are never repaid (estimated cost AUD\$6 billion [approx. CAD \$5.7 billion] for current outstanding debt).

Background / Facts:

- Australia offers several income-contingent loan programs. Separate loan programs cover tuition, non-academic student fees² and costs associated with overseas exchanges.
- Loans cannot be used for additional costs such as accommodation or text books.
- Only students attending Australian institutions are eligible, and the loans mainly apply to students enrolled in government subsidized spaces.³ In some cases, assistance may be provided to help with tuition for full fee paying students.
- Living expenses for students with demonstrated need are addressed through non-refundable allowances from the federal Department of Human Services.⁴ There are also specific non-refundable assistance programs for Aboriginal students.
- Most post-secondary institutions also offer loan programs to help with living expenses, as well as scholarship and bursary programs. Many students also get private loans (no data available on numbers of students with private loans).
- Repayment is administered through the income tax system.
- No repayment is required if an individual's income is less than the threshold.
- In 2013/14, loan program expenditures for this program were almost AUD\$1.5 billion.⁵ (approximately \$1.4 billion Cdn)
- Other countries have adopted income-contingent loan repayment approaches.⁶

¹ There is no real interest charged on loan debt; rather, it is indexed each year to reflect changes in the Consumer Price Index (CPI). The cost to government would be the difference between the Australian CPI rate (≈1.7%) government's borrowing rate (not available) multiplied by the dollar value of the loans.

² Fees charged by institutions for student services and amenities of a non-academic nature, such as sporting and recreational activities, employment and career advice, child care, financial advice and food services.

³ In Australia, students have the option to apply for a limited number of government subsidized seats. Full fee seats are also available. The level of tuition fees for subsidized seats is based on anticipated income on graduation (e.g., law students pay more than arts).

⁴ <http://www.humanservices.gov.au/customer/themes/students-and-trainees?from=theme-bar>.

⁵ <https://education.gov.au/portfolio-budget-statements-2014-15>.

⁶ In addition to Australia, New Zealand, the Netherlands, the United Kingdom, the United States, Chile, Hungary, South Africa, Sweden and South Korea have or have had some form of income-contingent student loan model.

Analysis:

- Current and former students owe the Australian government AUD\$30 billion (approx. CAD\$28.5 billion) in student loan debt.⁷
- It is estimated that 20 percent of this debt will not be repaid due to graduates not reaching the repayment threshold.
- Individuals are expected to make payments until their loan is paid off, which takes on average 8.6 years.⁸ Some individuals continue to repay their loans over the course of their entire career and beyond (for as long as they are paying income tax).
- An individual's loan payments cease if they move abroad permanently and are no longer part of the income tax system, resulting in additional costs to Government through unpaid debt.
- Risk and cost to government increase when the economy weakens because repayment is linked to graduate earnings and which can be influenced by economic conditions. The risks also increase if the repayment threshold is set too high because more individuals will fall below the threshold.
- s.13
- A move to an income-contingent loan approach in Canada would require agreement between both levels of government.
- s.13,s.16

Canada/British Columbia (B.C.) Student Financial Assistance:

- B.C., Saskatchewan, Ontario, Nova Scotia and Newfoundland have an integrated student loan model with the Canada Student Loans Program.
- Systemic changes would be required to link student loan repayment to the federal income tax system.
- The federal and provincial governments examined income-contingent loan repayment systems in the mid 2000's and instead jointly developed the Repayment Assistance Program (RAP) which has elements of an income-contingent loan scheme.
- RAP was implemented federally in 2009. B.C. implemented RAP in 2011 as part of integration.
- RAP is a two-stage program designed to help borrowers make student loan payments they can afford based on a debt-to-income ratio and family size. The first stage provides zero payment or reduced monthly payments, and interest-relief for up to ten years; the second stage provides for the gradual write-down of the loan until it is paid off in full (up to five years).
- The Canadian Federation of Students has expressed opposition to the income-contingent loan model, describing it as a "lifelong debt sentence".⁹
- See Appendix A for a high level comparison of the Australian and Canadian student loan systems.

Attachment: Appendix A: Australia/Canada Student Loan Program Comparison

Contact: Claire Avison, Assistant Deputy Minister Bobbi Plecas, Assistant Deputy Minister
250-217-9059 250-952-0698

⁷ Group of Eight Australia, [HELP Primer: Understanding Australia's System of Income-Contingent Student Loans](#).

⁸ 2013-14 Revised Budget, Australian Government, Department of Education and Training.

⁹ Canadian Federation of Students, [The facts about post-secondary education](#), winter 2007.

Appendix A: Australia/Canada Student Loan Program Comparison

| | Australia | Canada |
|-----------------------------------|--|--|
| Administration | Federal | Federal and Provincial (Some integrated provinces) |
| Loan Scheme | Income-contingent | Government guaranteed |
| Eligible Costs | Tuition, non-academic student fees, overseas exchange costs | Includes living expenses, tuition and compulsory fees, return transportation, child care, books and supplies, exceptional education costs |
| Loan Program(s) | Five separate income-contingent loan programs / applications ¹⁰ | Two loan programs – federal and provincial; single application |
| Number of Loans/Borrowers | Over 1 million loans issued in 2013/14 ¹¹ | Over 490,000 individual borrows (Canada total) in 2013/14 ¹² <ul style="list-style-type: none"> • 64,000 B.C. borrowers |
| Value of Loan Portfolio | AUD\$30 billion (approx. CAD\$28.5 billion) | \$16 billion (Forecast – Canada Total) ¹³ <ul style="list-style-type: none"> • \$1.1 billion B.C. student loans¹⁴ |
| Annual Loan Disbursements | AUD\$1.5 billion (2013/14) (approx. CAD\$1.4 billion) | \$2.72 billion (2013/14) (Canada Total) <ul style="list-style-type: none"> • \$218 million B.C. Student Loans (2013/14)¹⁵ • \$338 million Canada Student Loans – B.C. students (2013/14)¹⁴ |
| Repayment Administration | Australian Taxation Office | National Student Loans Service Centre (contracted service provider) |
| Loan Remission/Forgiveness | None | Interest and debt relief available Other grant / loan forgiveness programs – varies by jurisdiction |
| Interest Rate | Equal to CPI | Prime plus 2.5% (floating) or prime plus 5% (fixed) Rate varies by jurisdiction. This is the Canada Student Loan and B.C. rate |
| Loan Amortization | Indefinite | Standard Mortgage Amortization Schedule (6-month grace plus 9.5 years). Can be extended to maximum of 14.5 years |

¹⁰ Separate programs for tuition, student fees and overseas exchange costs. Also separate programs/applications for university versus vocational programs and subsidized spaces versus full fee spaces.

¹¹ 2013-14 Revised Budget, Australian Government, Department of Education and Training. Students may hold more than one type of loan, so number of borrowers is less than number of loans.

¹² National Student Loans Service Centre.

¹³ Government of Canada, Actuarial Report on the Canada Students Loan Program 2011.

¹⁴ Ministry of Finance.

¹⁵ Ministry of Advanced Education.