

The Government's Radical Changes to Student Income Support

Outline

- 1 Conceptual Issues
- 2 Indexation and the Parental Income Test
- 3 Indexation and the Personal Income arrangements
- 4 Reforming the Independence category
- 5 An option for future reform: HECS as an additional instrument

1 Conceptual Issues

- **Capital market failure for investment in tertiary education.**
 - an uncertain investment
 - banks have no collateral
 - Government assistance is required
 - most OECD governments use grants for student income support
- **Targeting “Put simply...income support should be targeted to those with the most significant financial barriers and away from those with the least significant financial barriers” (anon, 1993)**

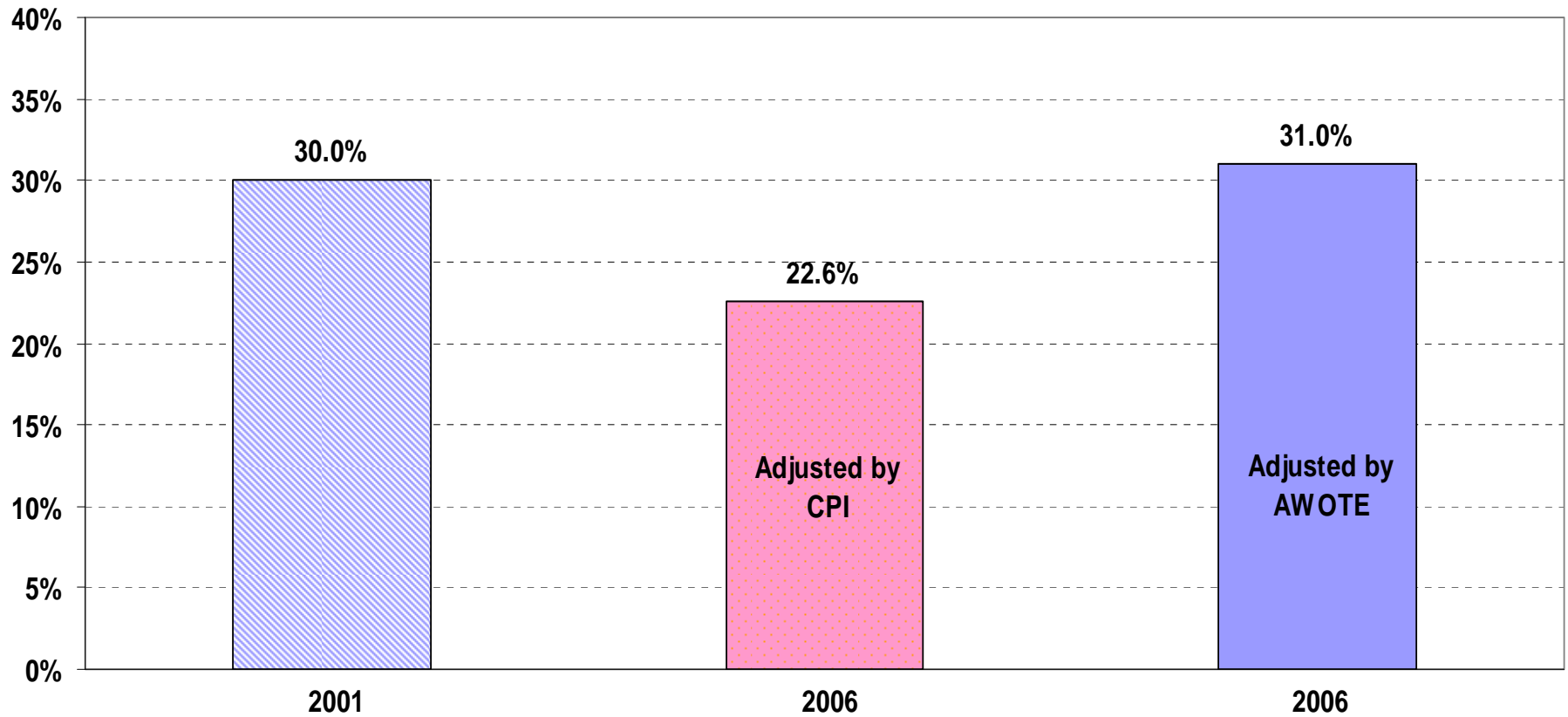
2 Indexation and the Parental Income Test:

(Illustrating the Effect of CPI Indexation on YA Eligibility)

- Fact: Proportions receiving YA declined from 42% in 2001 to 33% in 2006: why – *indexation* is the conjecture
- Method: Hypothetical exercises using HILDA
- Households with full-time undergraduate students age<25 (about 250 per year)
- The real (CPI adjusted) threshold in 2001 and 2006 is \$31,000
- We calculate the proportion of students in household incomes eligible for maximum YA

Proportion of Students in Household Incomes Eligible for Maximum YA, 2001 and 2006

% of total household

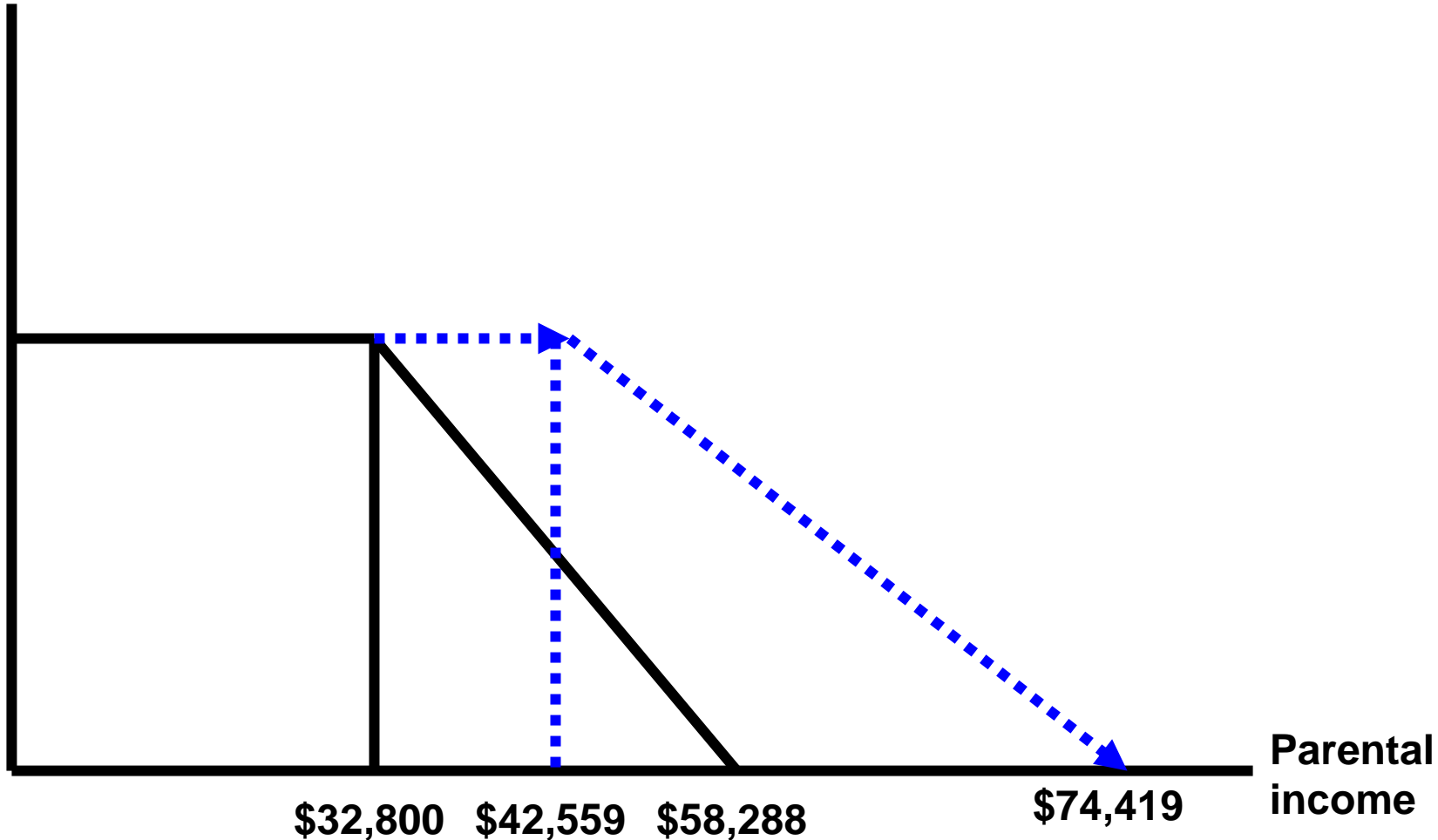


The Budget Reform: Adjustment to the PIT

(\$6,354 at home, age > 18)

Annual Youth Allowance

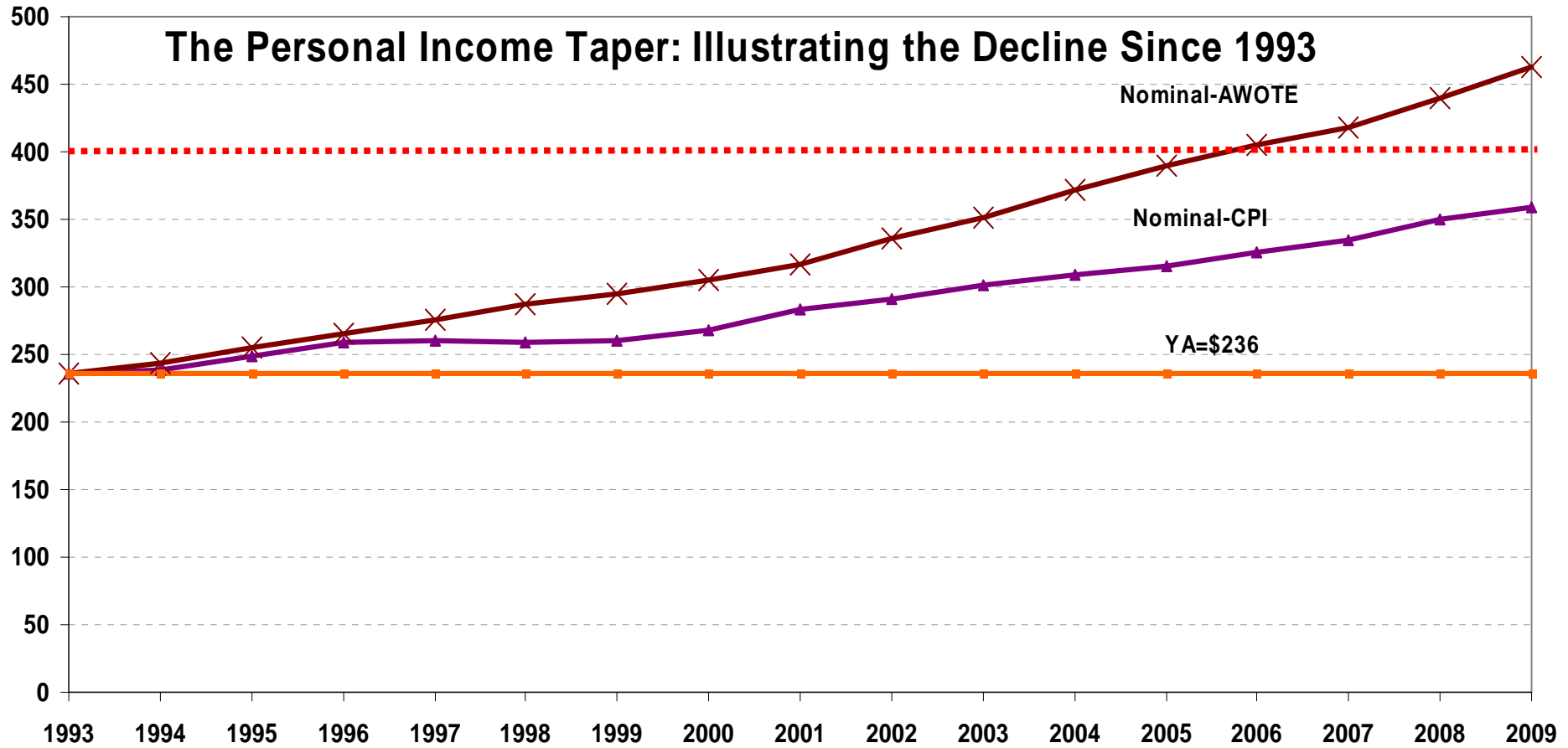
\$6,354.4



3 Indexation and the Personal Income Arrangements

Youth Allowance (\$)

The Personal Income Taper: Illustrating the Decline Since 1993



4 Reforming the Independence category

- Unusual eligibility criteria for (young) independence status (eg, can be eligible by earning around \$20,000 in an 18 month period)
- Question: are those in this category from/in relatively poor households?
- No easily available data for this exercise, so we use HILDA again

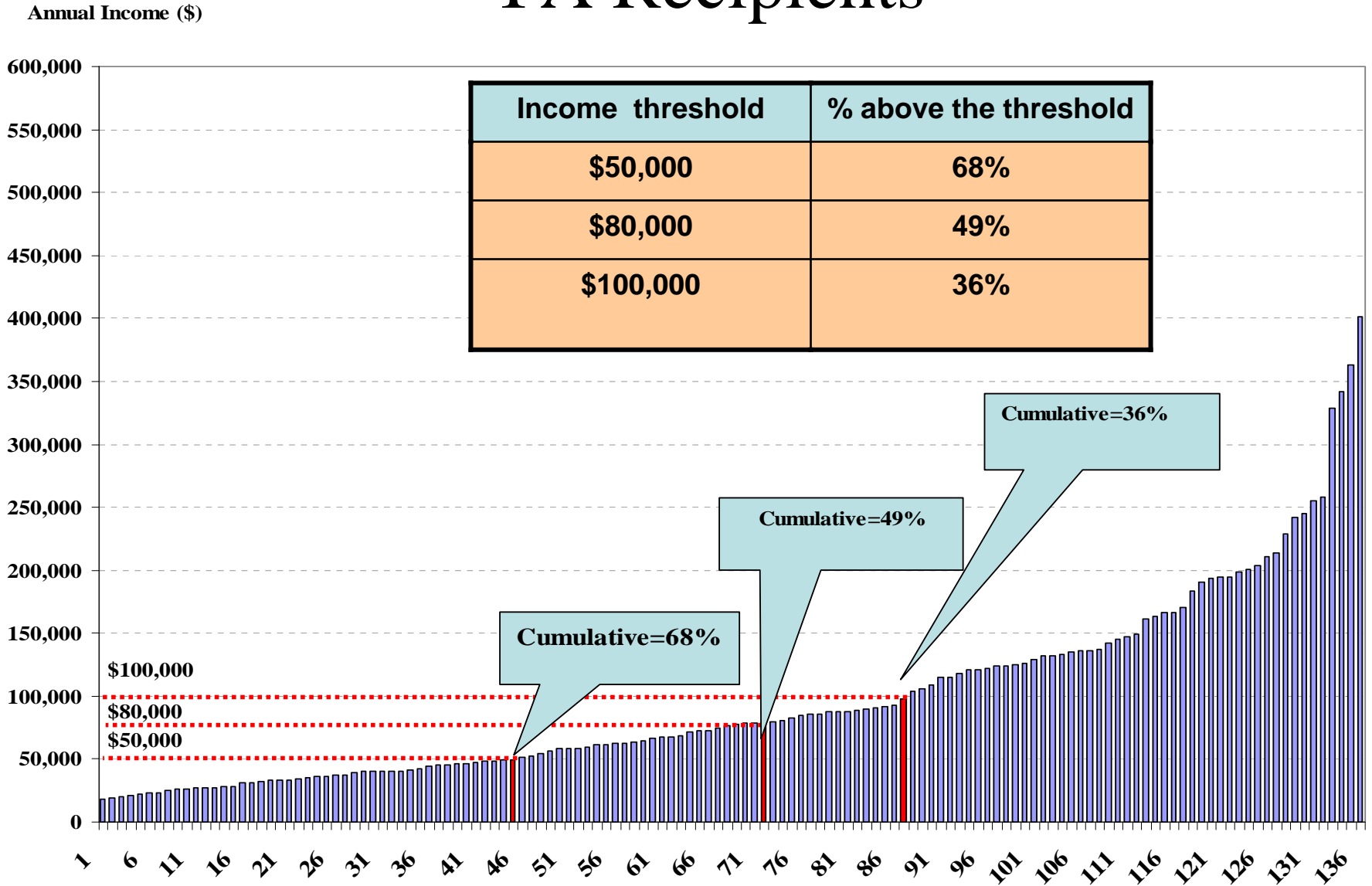
Establishing Household Incomes for IAH YA Recipients

Method and Data:

HILDA 1-6 surveys

- University student (16-24)
 - Full-time
 - YA recipients
 - Living at home
- Adjusted household incomes by wage inflation to obtain \$2008 values.

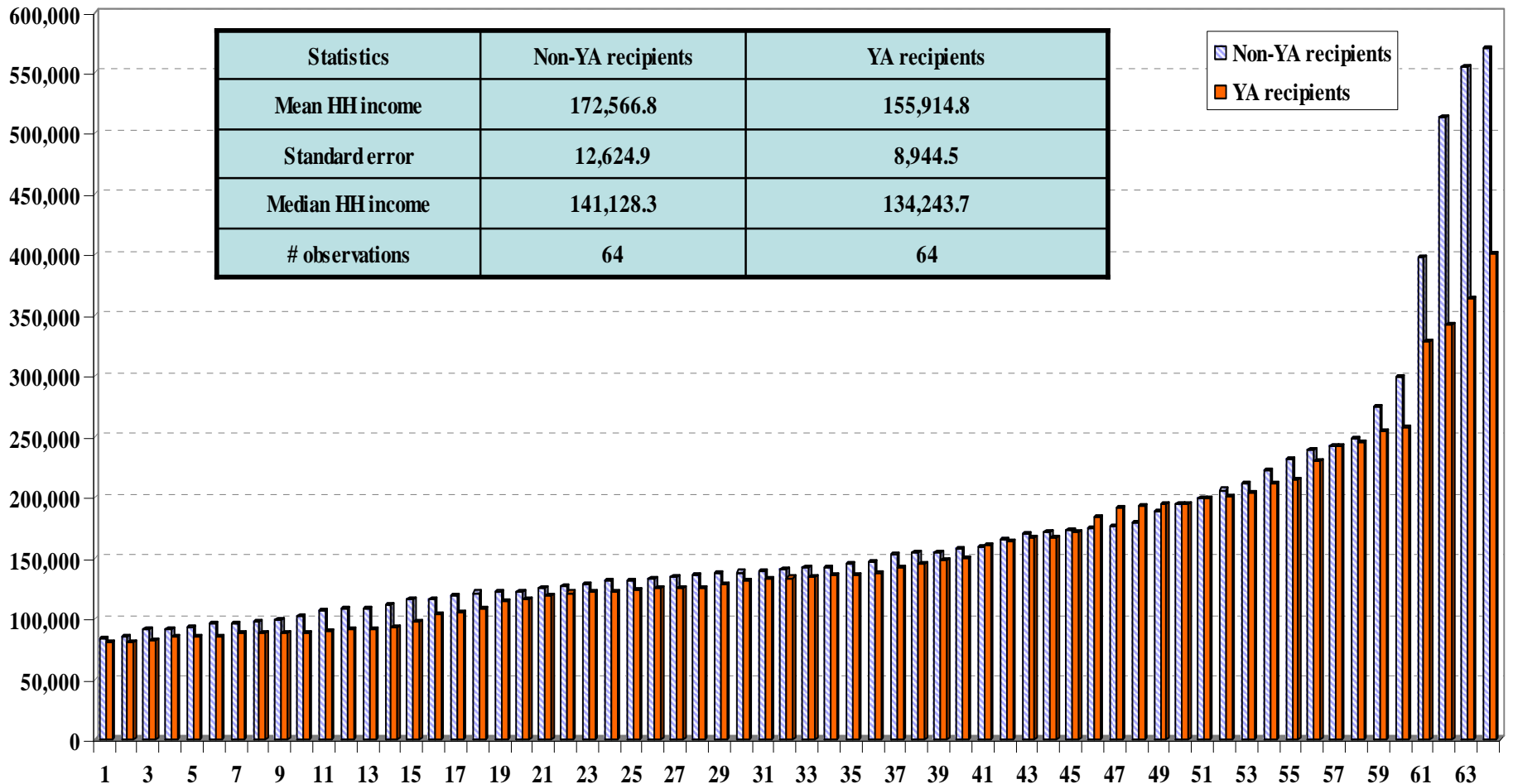
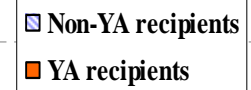
Distribution of Household Income: YA Recipients



Household Income Distribution: YA vs Non-YA

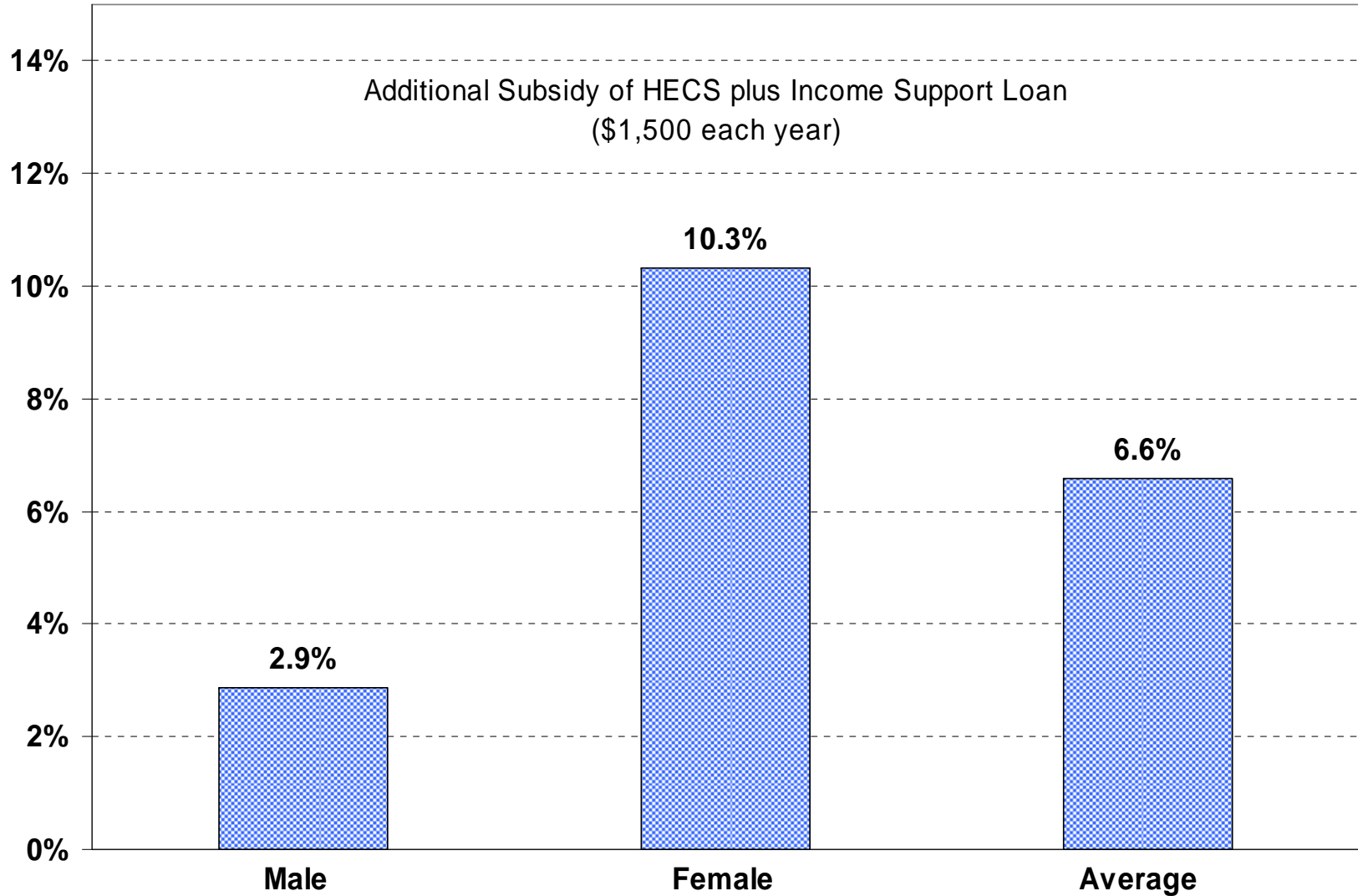
Annual income (\$)

Statistics	Non-YA recipients	YA recipients
Mean HH income	172,566.8	155,914.8
Standard error	12,624.9	8,944.5
Median HH income	141,128.3	134,243.7
# observations	64	64



5 An option for future reform: HECS as an additional instrument

Implicit Subsidy



6 Conclusion

- Radical changes to YA
- Two forms: improved levels for means-tested category, more closely targeted
- Use of data to determine validity of reforms
- Additional instruments for more flexibility exist