Entrust

HECS-HELP loan

There are a number of loans available from the Australian Government to help people complete further training and study. A HECS-HELP loan can pay for study when attending university or an approved higher education provider. On 1 June 2023, existing loans were indexed at a rate of 7.10%. We outline some considerations within the below.

Commonly referred to simply as 'HECS', a HECS-HELP loan does not cover costs for text books or accommodation – but is used to pay the contribution amount when enrolled in a Commonwealth supported place. The loan amount to pay for study is tracked by the Australian Tax Office (ATO) and can be viewed online. Individuals can make both compulsory and voluntary repayments once they begin earning a wage. Mandatory student loan repayments are calculated based on how much you earn, not how much debt you have. Hence, the amount you're required to pay is based on a 'repayment threshold'.

Repayment Summary 2023-24

Supported loans are linked to the income tax system. The compulsory repayment threshold for the 2023-24 income year is $51,550. If you don't earn above this amount, you will not have to make a repayment against the debt. The percentage of income that has to be allocated to a student loan is indicated below.

Repayment Income	Repayment Rate	Repayment Income	Repayment Rate
$51,550 - $59,518	1.0%	$94,866 - $100,557	6.0%
$59,519 - $63,089	2.0%	$100,558 - $106,590	6.5%
$63,090 - $66,875	2.5%	$106,591 - $112,985	7.0%
$66,876 - $70,888	3.0%	$112,986 - $119,764	7.5%
$70,889 - $75,140	3.5%	$119,765 - $126,950	8.0%
$75,141 - $79,649	4.0%	$126,951 - $134,568	8.5%
$79,650 - $84,429	4.5%	$134,569 - $142,642	9.0%
$84,430 - $89,494	5.0%	$142,643 - $151,200	9.5%
$89,495 - $94,865	5.5%	$151,201 and above	10%

It is important to note that the repayment income is not based on raw salary; but takes into account investment losses, reportable fringe benefits amounts, reportable super contributions and exempt foreign employment income.

Indexation with the Consumer Price Index (CPI)

HECS was designed to exclude traditional interest adjustments. However, to ensure that individuals are returning the value of the loan to the Federal Government, indexation is applied every year on 1 June. Some of the historical indexation rates are shown below.

Year	Percentage	Year	Percentage
2016	1.5%	2020	1.8%
2017	1.5%	2021	0.6%
2018	1.9%	2022	3.9%
2019	1.8%	2023	7.1%

Based on the elevated annual indexation rate of 7.1% applied in 2023, anyone holding the average student debt amount is set to have approximately ~$1,700 added to their amount owing.

The impact of the indexation can be substantial given that average salaries have not kept up with underlying CPI. In addition, inflation rates over coming years may remain high as the battle to bring down CPI continues.

Should Extra Payments be Considered?

This depends on the entire financial picture and may need to be regularly reassessed in light of other factors.

A graduate that lands on a high income can somewhat negate the effect of the annual CPI indexation. In addition, older family members may be able to assist the younger generations get ahead by making voluntary contributions against the debt.

There's no ability to redraw an extra debt payment, it simply provides a guaranteed return based on the CPI rate. For example, this equates to an effective after-tax return of 7.1% at present.

This said, a HECS-HELP liability is somewhat flexible in nature – other loans such as car loans, credit cards and mortgages still require payment if income levels decrease.

Disclaimer

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