

Income Contingent Loans:  
Australian experience, the importance of  
ICL as an insurance instrument,  
repayment burdens and administration  
issues

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# Overview

- The Australian experience, 1989-2016; current arrangements
- The importance of paying when you can: consumption smoothing and default insurance
- Illustrating repayment burdens in the US system
- The importance of administration: for the collector; for the student debtor

# Australian ICL History and current arrangements

- 1989 ICL introduction: 100 per cent coverage, tuition only, price caps
- 2016: average debt about \$(A)30,000
- Repay zero unless earn >\$(A) 54000
- Repay 4-8% of annual incomes when >\$(A)54000
- Rate of interest: CPI adjusted
- Repayment lengths: female nurse 15-17 years; male lawyer 5-7 years; typical teacher 10 years

# The importance of ICL as insurance

Insurance is the key concept

Essence is capacity to pay

No payments if have low incomes

Maximum repayments 8 per cent of annual incomes

Thus consumption smoothing

Thus no defaults due to low incomes

In contrast, MLs have highly variable repayments as a proportion of income

Eg, US Max Annual Repayment Burdens for Teachers (debt = \$30,000)

INCOME QUARTILE	MALE	FEMALE
Q25	.30	.24
Q75	.11	.10

# The importance of administration for: the collector; the debtor

Description: Automatic employer withholding in Australia, the UK and New Zealand;

Collection costs: Builds on existing employer-withholding apparatus: marginal costs extremely small (2-3% of annual revenue in Australia and the UK

For the debtor: no administration, all automatic, no applications needed, accurately reflects current circumstances, zero default recording

# Discussion

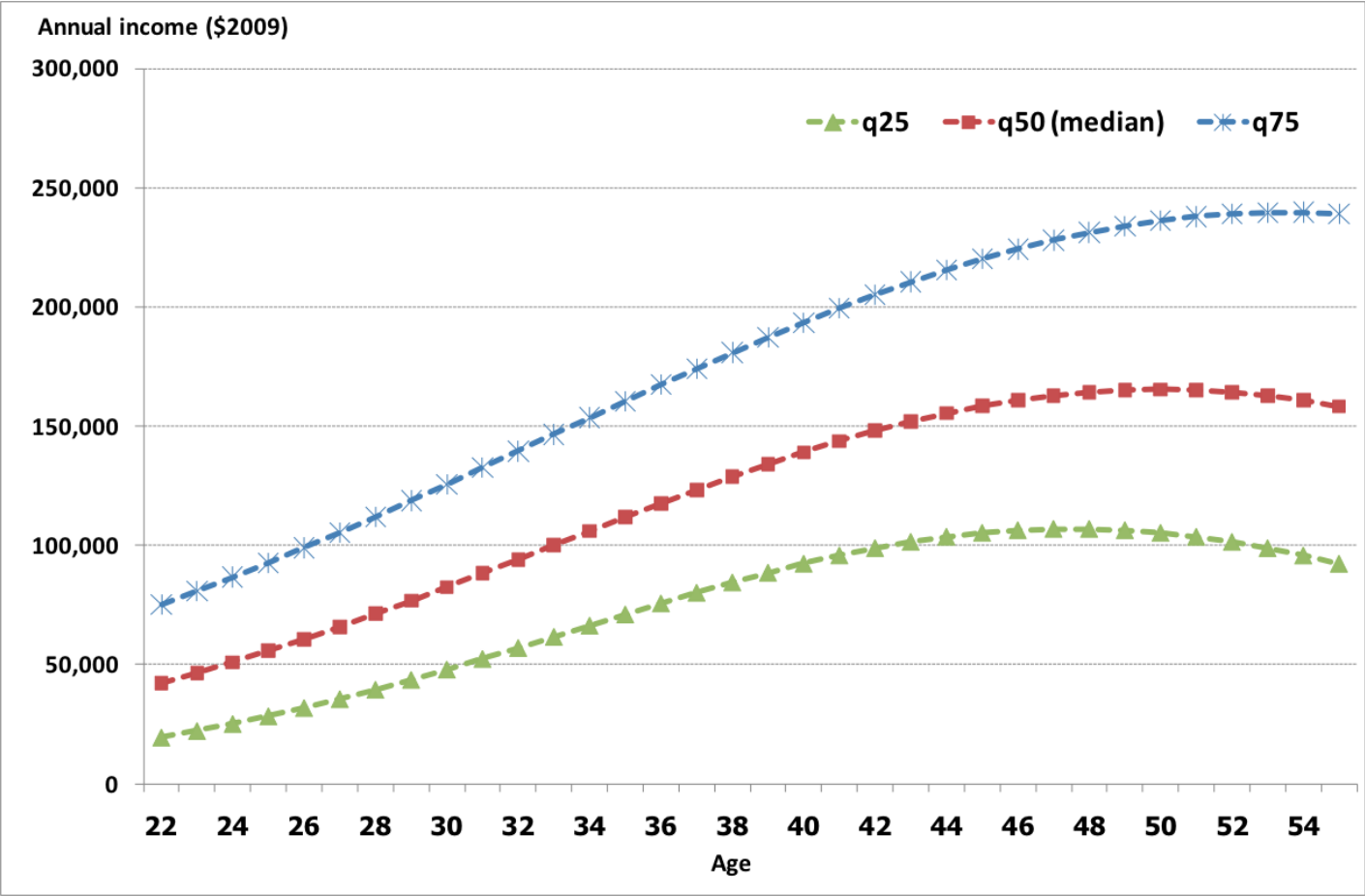
- ICL means based on capacity to pay: CS and DI
- RBs critical: define hardship and lead to default
- US RBs for low income debtors can be very high: influences career choice and lifestyle
- ICL solves repayment burden problem
- Major administrative efficiencies for both collection and repayment behavior

Thank you

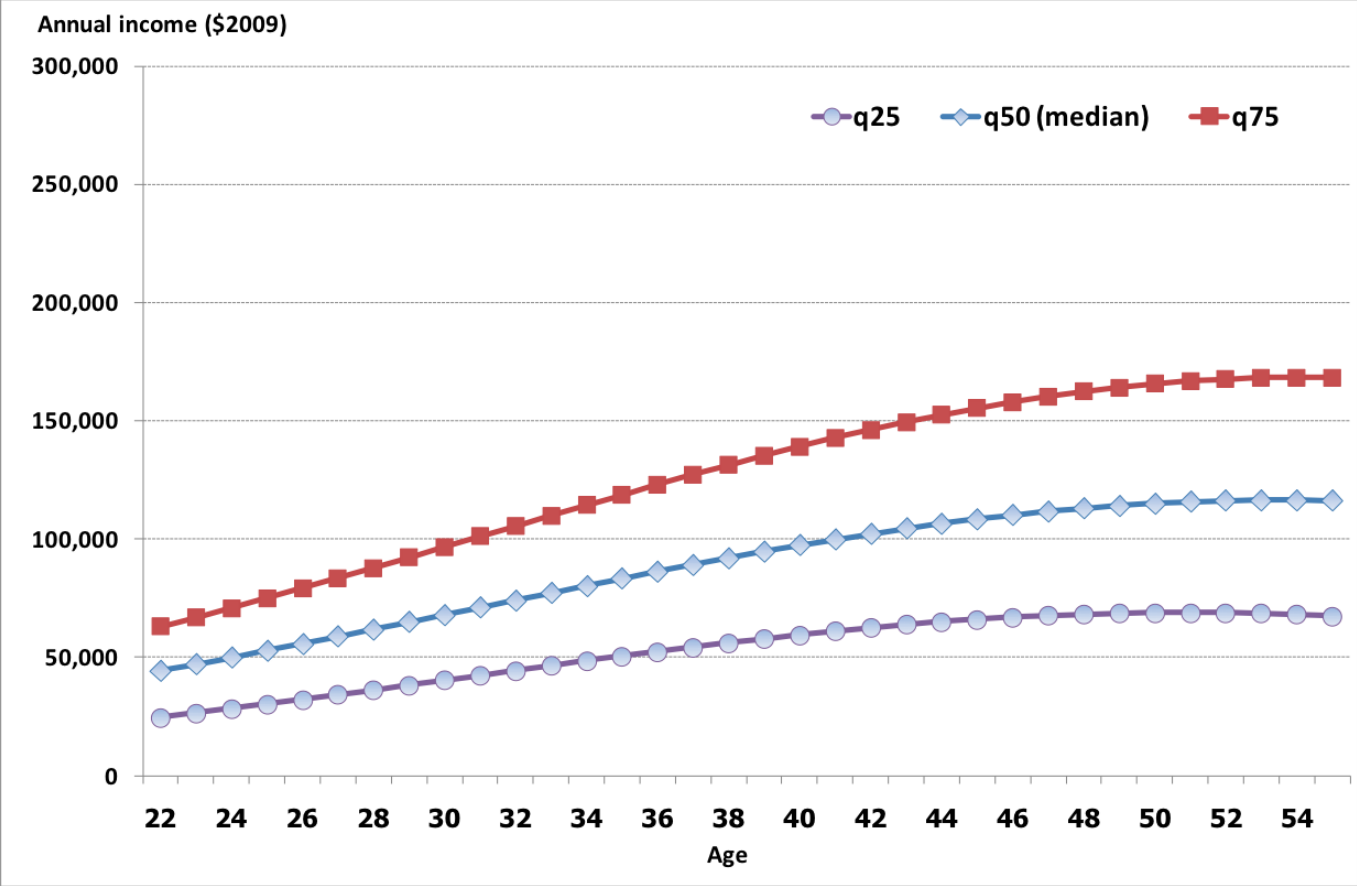




# MALE AVERAGE GRADUATE UNCONDITIONAL QUANTILE AGE-INCOME PROFILES

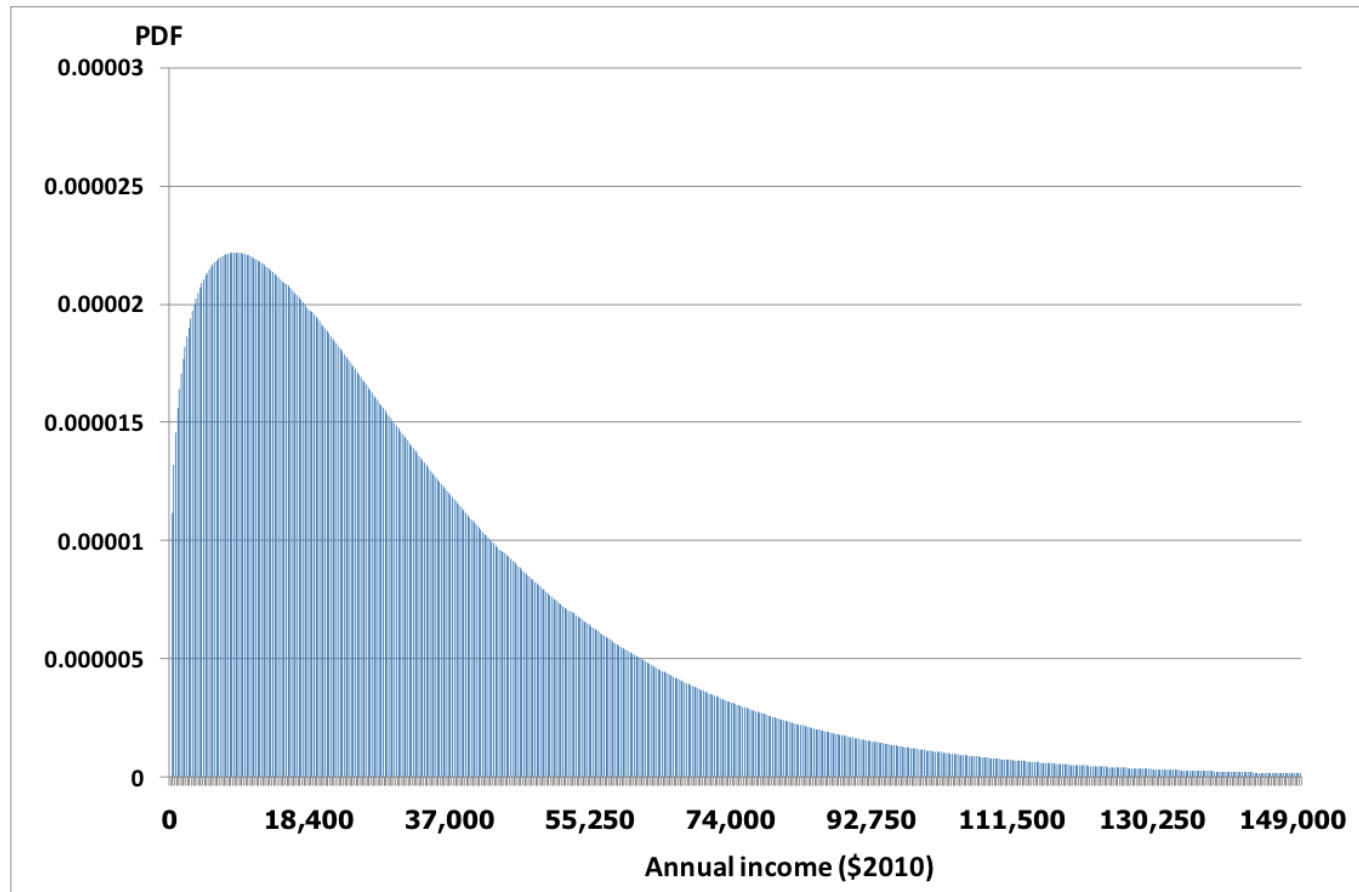


# FEMALE AVERAGE GRADUATE UNCONDITIONAL QUANTILE AGE-INCOME PROFILES



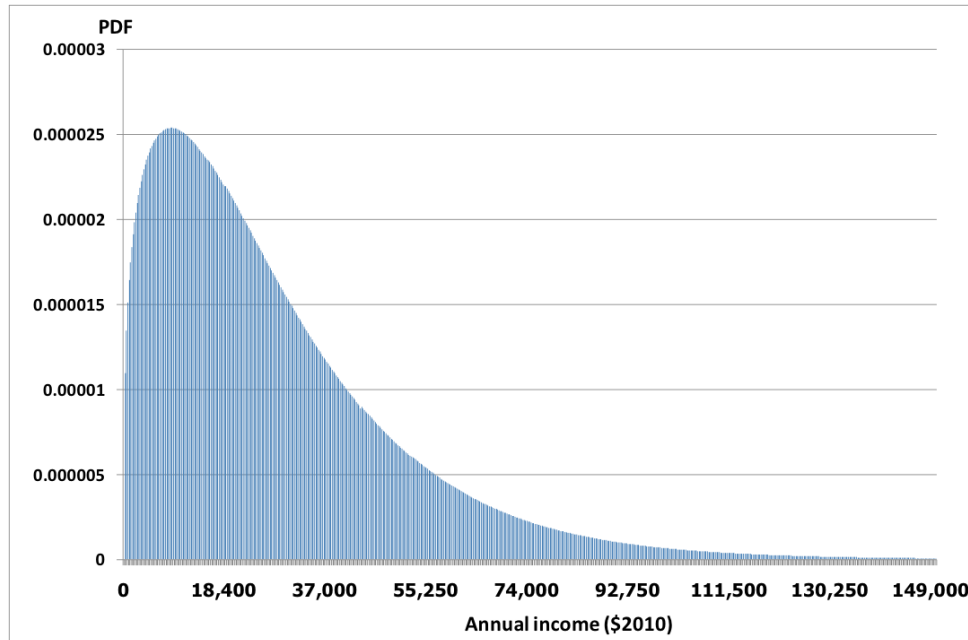
# FIGURE 2. PROBABILITY DISTRIBUTIONS OF MALE AND FEMALE GRADUATE INCOMES (AGE 22-25)

## Panel A: Male



# FIGURE 2. PROBABILITY DISTRIBUTIONS OF MALE AND FEMALE GRADUATE INCOMES (AGE 22-25)

## Panel B: Female



# INCOME DESCRIPTIVE STATISTICS

Variable	Male		Female	
	Mean	S.D.	Mean	S.D.
<b>University graduate (Age 22-60)</b>				
Total annual income (\$)	73,249	64,562	44,575	39,543
Age	40.5	10.2	39.7	10.4
<i>N</i>	8,009		8,986	
<b>Teacher (Age 22-60)</b>				
Total annual income (\$)	42,691	19,707	33,823	21,229
Age	38.6	10.3	39.8	10.7
<i>N</i>	378		1,332	
<b>Law graduate (Age 25-54)</b>				
Total annual income	165,153	132,518	124,771	112,984
Age	40.6	7.9	38.1	7.8
<i>N</i>	755		494	

# An example of RBs: the US Stafford Loans System

- Extreme example: US law graduates with maximum debt of \$138,500
- RBs calculated for bottom 25% of incomes for female private sector lawyers is 23%
- RBs calculated for bottom 25% of incomes female public sector lawyers is 47%

# AVERAGE AND MEDIAN REPAYMENT BURDENS<sup>a</sup>

Borrowers	Debt level	Male		Female	
		Average	Median	Average	Median
Graduates	\$20,000	0.07	0.04	0.09	0.05
Teachers	\$20,000	0.11	0.06	0.12	0.06
All lawyers (Standard)	\$100,000	0.13	0.12	0.14	0.13
Private sector lawyers (Standard)	\$100,000	0.11	0.10	0.12	0.11
Public sector lawyers (Standard)	\$100,000	0.22**	0.16*	0.29	0.21
All lawyers (Extended)	\$100,000	0.07	0.06	0.07	0.07
Private sector lawyers (Extended)	\$100,000	0.06	0.05	0.06	0.06
Public sector lawyers (Extended)	\$100,000	0.11	0.09	0.15	0.11

<sup>a</sup> We only report the repayment burdens for the first 10 years of the extended repayment plan.

\* Repayment burden exceeds 15 per cent.

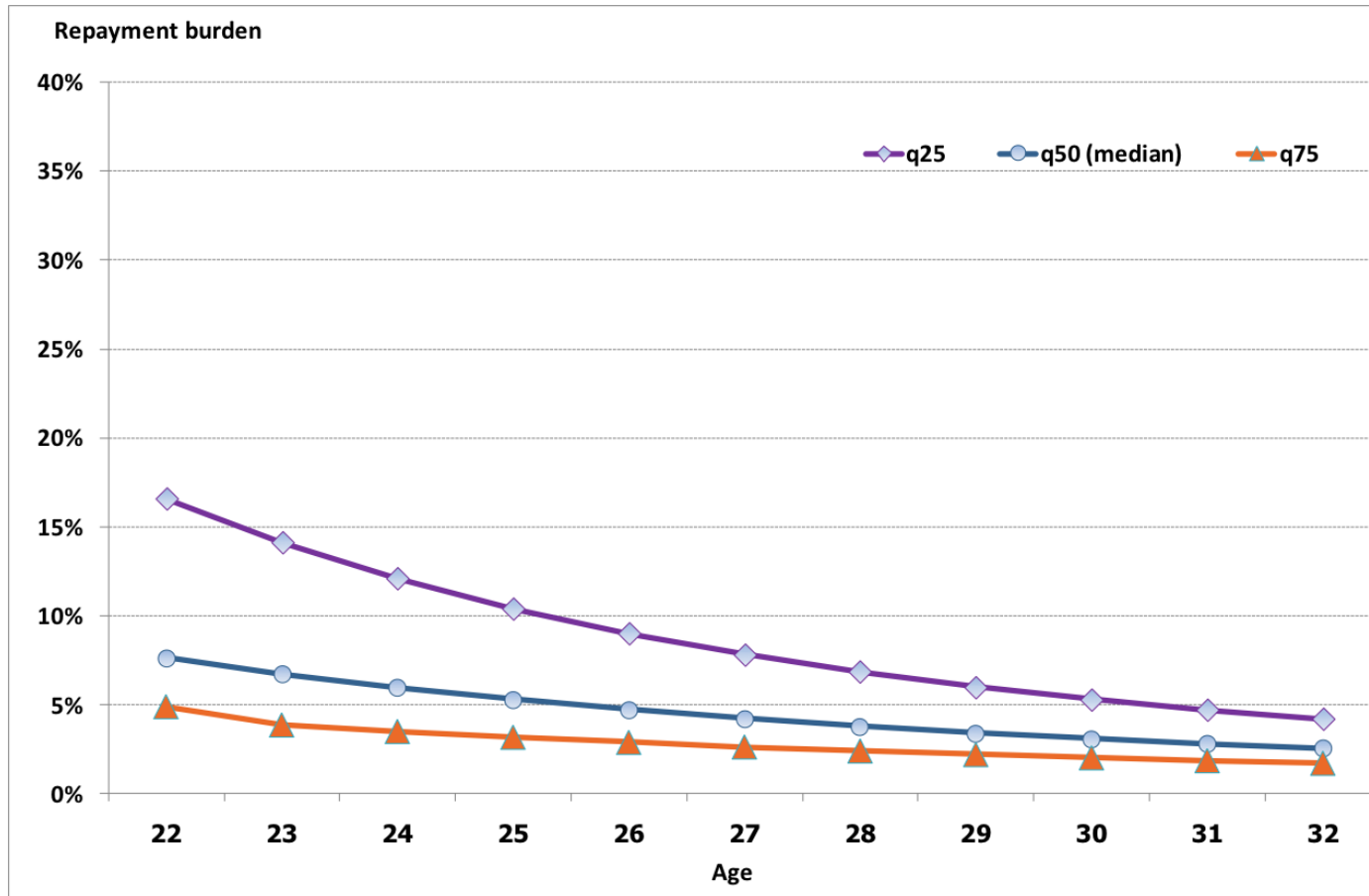
\*\*Repayment burden exceeds 18 per cent



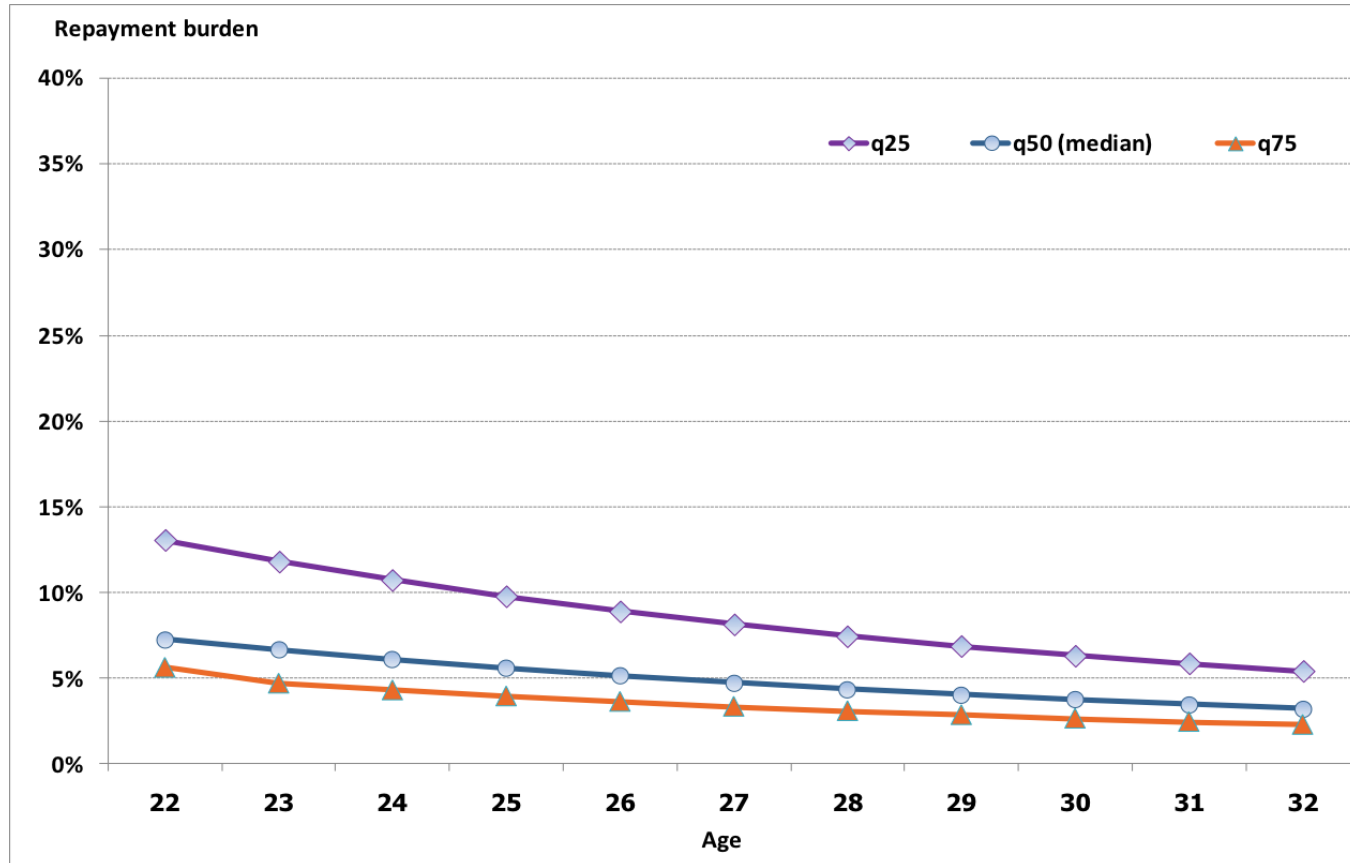
# REPAYMENT BURDENS BY QUANTILE<sup>a</sup>

Borrowers	Income quantile	Male		Female	
		Maximum <sup>b</sup>	Average <sup>c</sup>	Maximum <sup>b</sup>	Average <sup>c</sup>
Graduates	25 <sup>th</sup>	0.16*	0.09	0.13	0.08
	50 <sup>th</sup>	0.07	0.04	0.07	0.05
	75 <sup>th</sup>	0.04	0.03	0.05	0.03
Teachers	25 <sup>th</sup>	0.20**	0.11	0.16*	0.11
	50 <sup>th</sup>	0.09	0.06	0.07	0.06
	75 <sup>th</sup>	0.07	0.05	0.06	0.04
All lawyers (Standard)	25 <sup>th</sup>	0.43**	0.22**	0.39**	0.23**
	50 <sup>th</sup>	0.18**	0.12	0.19**	0.13
	75 <sup>th</sup>	0.11	0.07	0.10	0.07
Private sector lawyers (Standard)	25 <sup>th</sup>	0.43**	0.21**	0.32**	0.19**
	50 <sup>th</sup>	0.16*	0.10	0.16*	0.11
	75 <sup>th</sup>	0.11	0.07	0.11	0.07

# MALE GRADUATES REPAYMENT BURDENS



# FEMALE GRADUATES REPAYMENT BURDENS



# REPAYMENT BURDENS BY QUANTILE

Borrowers	Income quantile	Male		Female	
		Maximum <sup>b</sup>	Average <sup>c</sup>	Maximum <sup>b</sup>	Average <sup>c</sup>
All lawyers (Extended)	25 <sup>th</sup>	0.26**	0.13	0.23**	0.14
	50 <sup>th</sup>	0.11	0.07	0.11	0.06
	75 <sup>th</sup>	0.07	0.04	0.08	0.04
Private sector lawyers (Extended)	25 <sup>th</sup>	0.25**	0.12	0.19**	0.12
	50 <sup>th</sup>	0.10	0.06	0.09	0.07
	75 <sup>th</sup>	0.07	0.04	0.07	0.04
Public sector lawyers (Extended)	25 <sup>th</sup>	0.38**	0.19**	0.46**	0.23**
	50 <sup>th</sup>	0.16*	0.10	0.21**	0.13
	75 <sup>th</sup>	0.10	0.07	0.13	0.08

<sup>a</sup> Debt level is \$20,000 for typical graduates and teachers; \$100,000 for lawyers.

<sup>b</sup> Refers to the highest repayment burdens in any one year after graduation.

<sup>c</sup> We only report the average repayment burdens for the first 10 years of the extended repayment plan.

\* Repayment burden exceeds 15 per cent.

\*\* Repayment burden exceeds 18 per cent.

# REPAYMENT BURDENS OF LOW INCOME LAWYERS WITH MAXIMUM DEBT

Borrowers	Repayment plan	Male		Female	
		Maximum <sup>a</sup>	Average <sup>b</sup>	Maximum <sup>a</sup>	Average <sup>b</sup>
All lawyers	Standard	0.52**	0.26**	0.47**	0.27**
Private sector lawyers	Standard	0.49**	0.25**	0.38**	0.23**
Public sector lawyers	Standard	0.76**	0.38**	0.93**	0.47**
All lawyers	Extended	0.31**	0.16*	0.28**	0.16*
Private sector lawyers	Extended	0.29**	0.15	0.23**	0.14
Public sector lawyers	Extended	0.46**	0.23**	0.56**	0.28**

<sup>a</sup> Refers to the highest repayment burdens in any one year after graduation for the maximum debt of \$138,5000.

<sup>b</sup> We only report the average repayment burdens for the first 10 years of the extended repayment plan.

\* Repayment burden exceeds 15 per cent.

\*\* Repayment burden exceeds 18 per cent.