The department extracted the information in accordance with section 17 of the FOI Act and release it to you as follows:

Student Start-up Loan			
Financial Year	**2016-17 $**	**2017-18 $**	**2018-19 $**
Total amount lent for the financial year	110,971,866.50	195,254,048.78	194,647,145.84

Note:

* No estimated fair value of lending is kept by the Department

* As at 30 June 2019, the fair value of Student Start-up Loans held by the Department was $239,400,978.72.

One document was identified that satisfied part of the request for '… the Australian Government Actuary Report on the Student Start-up loan mentioned on page 157 of the DSS Annual Report 2018-19'. I have decided to release it to you in full.

Australian Government
Australian Government Actuary

Ref No.:

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22 March 2019

Emmakate McGuirk
Branch Manager
Work and Study Payments
Department of Social Services
PO Box 7576
CANBERRA MAIL CENTRE ACT 2610

Dear Emmakate

FINANCIAL REPORTING OF STUDENT START-UP LOANS AS AT 30 JUNE 2019

I refer to your request that the Australian Government Actuary (AGA) provide an estimate of the impairment that should be applied to the Student Start-Up Loans (SSL) receivable as at 30 June 2019.

There are two elements of the impairment:

- the debt not expected to be repaid (DNER), which are any amounts that are expected to be outstanding on an individual's death; and
- the deferral adjustment, which reflects the impact of indexing debts at a lower rate than the Government's cost of borrowing.

These estimates are required for inclusion in the financial statements of the Department of Social Services (DSS). This advice has been prepared in accordance with Practice Guideline 1 (General Actuarial Practice) of the Actuaries Institute and should not be used for any other purpose without first checking its suitability with AGA.

Background

SSL is a voluntary loan that is available to full time students in receipt of Youth Allowance, Austudy or ABSTUDY. The scheme commenced on 1 January 2016 with students potentially eligible to take out two loans a year. The loan is only repaid once any HELP debts have been fully extinguished. The current amount of the loan is $1,077 per semester.

Data

Data up until an effective date of 30 June 2018 has been provided by the Australian Taxation Office (ATO) which sets out the value of each individual's SSL debt as at 30 June 2017 and 30 June 2018 along with all relevant cashflows over the year, such as repayments and indexation amounts. This is the first year in which meaningful data has been provided and can be analysed.

We have checked the data against the 30 June 2018 ATO Certificate (issued in July 2018) to verify that all of the relevant information has been provided.

Also included in the data are a significant number of transactions that have been processed between 30 June 2018 and 31 December 2018 which have an effective date prior to 30 June 2018. These transactions appear to relate to debt incurred for Semester 1 of 2018 and amount to $97m. If this debt is included, a more realistic value of the total debt as at 30 June 2018 is about $336m.

SSL Data Summary

Set out below are two tables summarising:

1. SSL debt balance data provided consistent with the 30 June 2018 ATO Certificates, showing separately both the SSL and ABSTUDY SSL transactions, and

2. SSL debtors, showing the number of debtors by debt amount at 30 June 2018. For this table, we have added the approximately $100m of late processed Semester 1 2018 debt to the balances from the 30 June 2018 ATO Certificate.

Table 1: Debt Balance Reconciliation

	SSL	**SSL ABSTUDY**	**Total**
Opening Balance at 30 June 2017	$990,669	$37,376	$1,028,045
Additional Debt Incurred (including back-dated transactions)	$232,045,677	$4,159,365	$236,205,042
Compulsory Repayments	($85,690)	($6,181)	($91,871)
Voluntary Repayments	($269,042)	($3,139)	($272,181)
Indexation	$2,603,296	$47,204	$2,650,500
Closing Balance at 30 June 2018	**$235,284,910**	**$4,234,627**	**$239,519,536**

Table 2: Distribution of SSL Debts (including late processed Semester 1 2018 debt)

	SSL	SSL ABSTUDY	Total
< $1,000	887 (1%)	46 (2%)	933 (1%)
$1,000 to $1,999	63,240 (41%)	1,358 (45%)	64,598 (41%)
$2,000 to $2,999	44,204 (29%)	857 (28%)	45,061 (29%)
$3,000 to $3,999	26,119 (17%)	481 (16%)	26,600 (17%)
$4,000 to $4,999	9,991 (7%)	163 (5%)	10,154 (7%)
> $5,000	8,893 (6%)	114 (4%)	9,007 (6%)
Total	**153,334**	**3,019**	**156,353**

The distribution of SSL debt amounts is broadly consistent with our expectations based on the commencement of the scheme from 1 January 2016 and debt amounts of a little over $1,000 per semester.

HELP Debt Summary

As compulsory repayment of SSL debt is not required until all of a debtors HELP debt is repaid, it is important to understand how many SSL debtors have also incurred a HELP debt and the amount of that debt. As the AGA is also provided with data by the ATO in relation to HELP debtors as part of an agreement with the Department of Education and Training (DET), we have included below a summary of the relevant information available to us.

	SSL	SSL ABSTUDY	Total
Percentage with a HELP Debt	96.1%	90.6%	96.0%
HELP Debt at 30 June 2018	$4,199,530,252	$68,047,300	$4,267,577,552
Average HELP Debt at 30 June 2018	$28,492	$24,880	$28,426

The above table confirms our previous expectations that, given that those accessing SSL are on income support, it is very unlikely that they would have the capacity to meet their course fees without taking out a HELP loan.

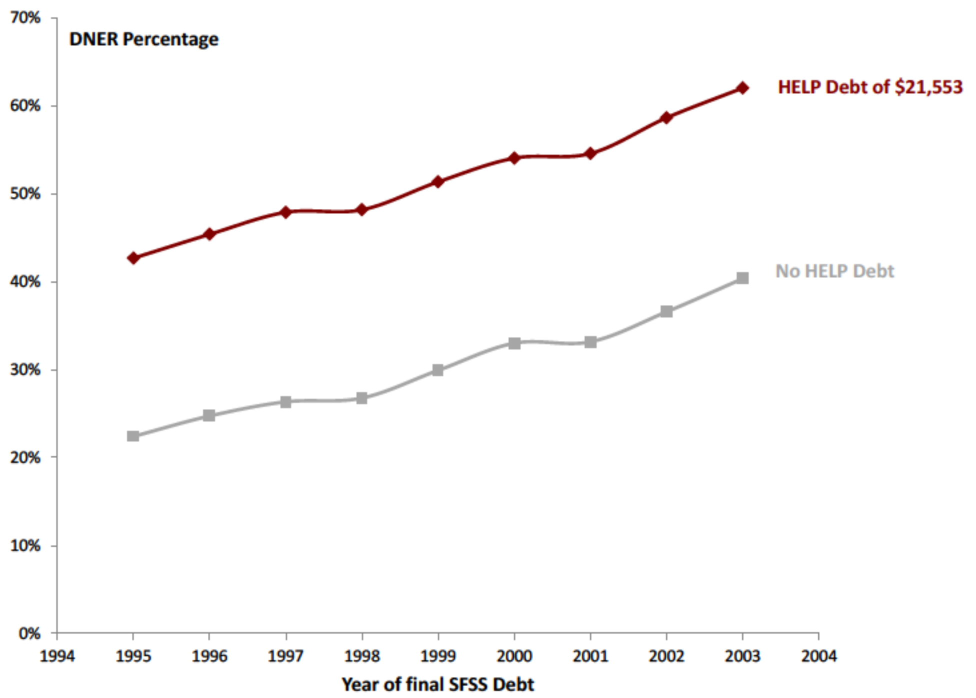
For the purpose of this analysis, we have not subdivided the HELP debtors between those with a HELP debt only, those with a VET-FEE-HELP or VSL debt only and those with both forms of debt.

Previous Advice

Our recent advice on an appropriate SSL impairment has been based on advice from Ms Susan Antcliff dated 13 July 2017 which drew on the experience of the Student Financial Supplement Scheme (SFSS) that operated between 1993 and 2003 in order to inform a suitable impairment assumption to apply to SSL loans for financial statement purposes.

In her advice Ms Antcliff considered separately the experience of two modelled scenarios – one where the debtor has a HELP debt of around $22,000 and one where there is no HELP debt. In practice, given that those accessing SSL are on income support, it is very unlikely that they would have the capacity to meet their course fees without taking out a HELP loan.

The following chart shows the resulting estimate of DNER for SSL under the two scenarios based on SFSS incomes.



The chart also shows that there was a worsening of repayment prospects over the period that the scheme operated, reflecting different employment prospects for graduates over different economic environments.

The impairment allowance also includes a deferral adjustment which takes into account the relevant yield curve to discount projected repayments. The deferral adjustment at 30 June 2017 was relatively small, of the order of about 3%.

The previous analysis shows that there are a wide range of assumptions that could be considered reasonable, with a likely DNER percentage of between 50-70%, and a recommended impairment allowance of 60%.

Based on this analysis, we retained the recommended impairment allowance of 60% as at 30 June 2018 recognising that:

1. Commonwealth Government bond yields remain very low by historic standards. Because of this, the deferral adjustment remains minimal, especially in the context of the overall uncertainty associated with this exercise.

2. We held no data in relation to student loans.

3. There were no legislated changes to the basis for SSL repayment thresholds at the time financial statements were prepared, being the thresholds prescribed by the 2016 *Budget Savings (Omnibus)* Act and noting that these are the arrangements under which our existing impairment estimates have been modelled.

Recommendation as at 30 June 2019

While the level of Commonwealth Government bond yields continue to be historically low (suggesting that the deferral adjustment remains minimal), there have been changes in relation to the other two points raised above.

1. We now have detailed SSL debtor data and are able to access relevant HELP debt data for those debtors which confirms our earlier view that the vast majority of SSL debtors also hold a HELP debt. We note that the average HELP debt as at 30 June 2018 is about $28,000, higher than the average HELP debt of about $22,000 adopted in the 2017 analysis (adjusted for indexation).

2. Changes to the repayment thresholds have been legislated to take effect from 1 July 2019 which involve a wider range of repayment rates commencing at 1% of income at an income threshold of $45,880, up to 10% of income at a threshold of $134,573. At the same time income thresholds will be indexed each year by changes in the CPI rather than with average wage growth. Both of these changes to the operation of the thresholds could be expected to reduce the overall impairment allowance.

3. Also with effect from 1 July 2019, changes have been made to the order in which student debts are repaid. Currently, SSL debts are repaid after each of HELP, VET-FEE-HELP, VSL and SFSS debts are fully repaid. SFSS debts are paid concurrently with HELP debts. From 1 July 2019, SFSS debts will not have to be repaid until HELP debts are discharged, potentially deferring their repayment. If a SSL debtor also has a SFSS debt, this will also defer the potential repayment of SSL debt. However, this is unlikely given that SFSS ceased in 2004.

Despite these three changes, it is difficult in the time available to produce a more accurate impairment allowance as at 30 June 2019. While changes to the repayment thresholds should reduce the impairment allowance, there remains considerable uncertainty as to what an appropriate allowance should be, noting that a wide range of 50-70% has been suggested in the past and that this was based on SFSS debtor analysis from some years ago.

The observation that the average HELP debt is higher than that allowed for in our earlier advice may suggest that the impairment allowance should increase, although it is also feasible that a higher HELP debt merely defers the repayment of the SSL debt rather than leads to a higher rate of non-payment.

To ensure consistency with the advice provided last year, and recognising that the impact of the lower repayment thresholds on the impairment allowance for HELP debt was to reduce the impairment for new HELP debt by around 4 - 8% for different debt types, I recommend the adoption of an impairment allowance of 55% as at 30 June 2019.

However, I would again reiterate the considerable and unavoidable uncertainty around this estimate and that there exist a wide range of outcomes which could be considered reasonable.

Recommendation for 30 June 2020

The availability of individual SSL debtor data and the ability to link this data with associated HELP debts provides us with an opportunity to perform a much more detailed analysis of the likely impairment allowance in future. This opportunity recognises two main factors:

- 96% of SSL debtors also have a HELP debt, and
- as part of our work for DET, we perform a detailed modelling exercise each year which generates projected incomes for all HELP debtors over the next 45 years.

This means that we will be in a position to access this projected income information and build it into a SSL debt repayment model which would also need to take into account other factors such as:

- growth in future HELP debt,
- recognition of voluntary repayment behaviour, and
- estimation of future incomes for SSL debtors without a HELP debt.

A further advantage of detailed modelling is that it would provide projected annual repayments which would allow us to factor in a specific deferral adjustment. The associated accounting disclosures (similar to those adopted for our SFSS advice) could then be incorporated. This would avoid the requirement for DSS to convert our impairment allowance into an associated receivable for accounting purposes.

One area that will need to be agreed in relation to the more detailed modelling relates to the timing. Access to the income projections for HELP debtors would not normally be available until around June each year. Incorporating this information into a new SSL model would meant that advice would most likely be delayed until around mid-July.

An alternative, recognising the relatively small current value of the likely receivable and the time that it would take to develop the first version of this model, is that we could use the HELP debtor income projections based on information at 30 June 2018 that will be available in June this year. While these projections will not be the most accurately available as at 30 June 2020 for next year's advice, they should produce a significantly more accurate and reliable estimate than is currently possible. This would mean that advice could still be provided in March – April next year.

It is my recommendation that this "early access" approach be adopted for next year's exercise.

A further area which will need to be confirmed is our ability to use the income projections for HELP debtors (generated as part of an agreement with DET) for DSS reporting purposes.

SSL Debt Balance at 30 June 2019

As indicated above, there was a significant amount of unprocessed debt that was not reflected in the 30 June 2017 ATO Certificate, but has now been processed and appears on the 30 June 2018 ATO Certificate. We estimate that a further $100m of debt in relation to Semester 1 2018 has not been reflected in the 30 June 2018 ATO Certificate.

This means that when DSS are looking to apply our recommended impairment percentage to the 30 June 2019 debt balance, care should be taken to ensure that any unprocessed Semester 1 2019 debt is taken into account, rather than relying on the 30 June 2019 ATO Certificate balance.

We receive advice from DET in relation to this unprocessed debt for our advice in respect of the HELP receivable. We recommend that DSS investigate an appropriate source in relation to the equivalent SSL unprocessed debt.

AASB9

We understand that with effect from the 2018-19 financial reporting year, the reporting by the Department of financial assets and liabilities must be in accordance with Australian Accounting Standards Board (AASB) 9 – Financial Instruments. The objective of AASB9 is to ensure that the reporting of financial assets and liabilities takes into account an assessment of the amount, timing and uncertainty of the associated future cash flows.

We confirm that our recommendation in relation to the impairment allowance recognises both the likely timing (based on the discounted value of associated cash flows) and uncertainty of future SSL repayments (based on the likelihood that debtor incomes will reach the required levels and that any HELP debt balances will be repaid). We understand that the Department will apply this impairment allowance to determine an appropriate fair value of SSL outstanding debt as at 30 June 2019.

Please feel free to ring me on 6263 4160 if you have any questions on this matter.

Yours sincerely

s22 [redacted]

Stuart Mules
Actuary
Australian Government Actuary

cc Stephen Sheehan, Branch Manager, Financial Accounting Branch