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The Lifecycle Impact of Alternative Higher Education Finance Systems in Ireland

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Synopsis

This research investigates the possible impact of introducing alternative higher education finance systems in Ireland. With increasing numbers of young people participating in higher education in Ireland and the heavy reliance of higher education institutions on state funding, the introduction of an alternative finance system for Ireland has been muted over the past number of years. In this research we use microsimulation techniques to simulate the impact of both an income contingent loan (ICL) system and a graduate tax system from a fiscal and redistributional viewpoint and to analyse the repayment length under the former system. Our results suggest that an ICL system could be more equitable while the graduate tax system could be a better alternative from a fiscal viewpoint. The results also illustrate the fact that both systems require no up-front cost to the student, unlike the current student registration fee system.

Introduction and Background

Ireland has experienced rapid growth in higher education participation over the past 15 years: student numbers increased from 86,624 to 155,000 in the period 1994 to 2010 and are expected to grow to 204,000 by 2018. Within Ireland, the vast majority of third-level funding is provided by the state. Given the current difficult fiscal situation in Ireland, alternative forms of higher education financing have been muted. International evidence has shown that since the mid-1990s, there has been a general move by developed nations to shift the burden of higher education costs onto the student and away from the state. The main exception is Ireland, where the public share has risen from 70% to 85% since the introduction in 1996 of free tuition fees for undergraduates. In addition, meeting the objective of increasing the percentage of Irish workers who hold a third-level qualification will require significant extra resources.

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A full copy of the paper can be obtained from the author at Flannery, D. and O'Donoghue, C. (2011) "The Lifecycle Impact of Alternative Higher Education Finance Systems in Ireland", The Economic and Social Review, Volume 42 Issue 3, 237-270. Full copy of the paper available at: http://www.esr.ie/vol42_3/ESRTOC42_3.htm

A graduate tax scheme and an income contingent loan system (ICL) have both been suggested in the recent *National Strategy for Higher Education to 2030* as possible alternatives to the current free fees scheme. To date, no study has been conducted that attempts to analyse the implications of an alternative higher education finance structure in an Irish context.

Issues and Questions Considered

With the possible policy shift towards alternative higher education financing structures, the impact such change will have from various viewpoints remains unclear. This research attempts to address this issue by examining the impact of the introduction of either a graduate tax scheme or an ICL system. These alternative systems are considered with respect to their redistributional and fiscal implications.

Methodology

The research uses microsimulation techniques to age a sample of the Irish population, based on the Living in Ireland survey data (1994-2001) up to 2050. We identify within this sample those who had completed upper second-level and tertiary education by the end of their 22nd year. We then track these individuals throughout their lifecycle until the point of retirement. We assume that these graduates pay nothing when they enter higher education but have a student debt of €10,000 at graduation. Under the ICL system, only those who work and earn above a certain limit in a given year contribute towards repaying the debt in that year. As an individual's employment and income status vary over their lifetime, so too do their repayment obligations on the debt. An individual stops repayments once their debt is cleared, but graduates who do not have their debt repaid by the time they retire simply have the debt cancelled. In an alternative scenario, we assume that the student pays no up-front fees entering higher education and leaves with no debt. However, they must pay a special graduate tax, which takes the form of an extra 1% in PRSI-related charges, for the rest of their working lives.

Outcome and Findings

The results of simulating two alternative higher education finance systems for Ireland are analysed in terms of repayment patterns and redistributional issues and from a fiscal viewpoint. Under the ICL system, the results of the research indicate that with an assumption of a zero real interest rate on student loans, 82% of graduates pay back their debt in full, taking an average of 15 years to do so. The results also show a substantial gender difference in terms of repaying the debt in full: 89% of male graduates do so compared to 74% of female graduates. Males who do pay off their debt in full do so over 14 years on average, while females take 16 years on average.
With respect to policy applications, the average full repayment period of 15 years represents a considerable length of time for the government/university to wait for the full benefits of debt repayment to be fulfilled. Such a finding may be undesirable from a policy perspective. However, the ICL system does seem to be fair from an equity viewpoint because those with lower incomes across their lifetimes repay the lowest amount of their student debt and may not have to repay their debt in full at all.
With regard to the graduate tax system, this also holds some qualities of fairness in that those who earn more over their lifetime will pay more than those who earn less. However, the research also indicates that substantially more revenue is generated under this system than under the ICL system. With the graduate tax system, the graduate continues to pay the tax even after the cost of his/her education has been met, whereas with the ICL system, repayments stop once the graduate's debt is cleared. This means that the graduate tax system may be more desirable from a fiscal viewpoint. In current circumstances, with growing demand for higher education combined with a tightening fiscal situation, this research may help to inform policy in relation to the manner in which higher education is financed in Ireland.

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