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Last-chance discount: should I pay off HECS?

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With the 5% bonus on voluntary HECS-HELP payments of more than \$500 to end at the end of the year, should students pay off their university debt?

The current HECS-HELP payment system allows them to defer their contribution and repay it later through the taxation system.

It was traditionally thought that not paying off the debt early could be a viable option over time but it may now be time to reconsider.

From January 1, 2017, the Australian government will remove the HECS-HELP discount of 10% for eligible students who pay their contributions upfront as well as the voluntary HELP repayment bonus of 5%.

Until December 31, 2016, if you make a voluntary HELP repayment of \$500 or more you get a 5% bonus.

If your HELP debt balance is less than \$500 and you make a voluntary repayment to pay out the debt, you will also get a 5% bonus.

Those with a HELP loan don't have to start paying it off until they can actually afford to.

The loan is indexed annually to inflation.

But if you have savings that you are thinking of putting towards a voluntary repayment, you may want to first consider paying off a debt with higher interest, such as a credit card or car loan.

You may also want to consider any opportunity cost of paying off the debt versus a greater return on your money (although paying off debt has a certainty whereas investments may not).

For those lucky enough to have a parent or someone who is willing to repay the debt early, they may be able to enter into an arrangement to repay the capital over time.

Even if a low level of interest is also repaid, the discount could still ensure a saving over time.

The removal of the upfront discount will affect students who can afford to pay upfront and choose to do so. It will not affect students who fund their university studies through a HECS-HELP deferred loan.

The bonus for voluntary repayments will only affect people who can afford to make voluntary repayments above what are required when annual tax returns are assessed.

If you want to make a voluntary repayment, you need your payment reference number (PRN). If you don't know your PRN, you need to get it by December 23, 2016.

Voluntary repayments are in addition to compulsory repayments and are not refundable.

For more information, visit ato.gov.au.

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