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Tackling the Education Debt Crisis in Malaysia

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Introduction

In recent years, education debt has emerged as a pressing issue in Malaysia, capturing the attention of policymakers and the general public. The rising cost of higher education, coupled with stagnant wages[1] and a competitive job market, has led to an increasing number of students and graduates struggling under the weight of student loans. This situation not only affects borrowers but also has broader implications for the economy and society simultaneously. This article explores the challenges posed by education debt in Malaysia and suggests potential pathways to alleviate the burden on future generations.

[1] Nithiyanathan, Jarud Romadan and Mohd Amirul Rafiq (2023)

"If the language we use to talk about universities represents them as being principally institutions that provide narrowly vocational training for employment and the application of technology to promoting economic growth, and if the language we use about students represents them as being consumers who shop in the educational supermarket purely for what provides the most remunerative future job at the lowest cost, then those are the kinds of universities and the kind of education we shall end up with. It is therefore very important that we should try to articulate a different and more adequate conception of what universities are 'for' because otherwise we risk damaging, or even in some cases destroying, the defining characteristics of universities and what has made them so valuable to humanity in its search for fuller and deeper understanding."

Stefan Collini (2018)

The expansion of higher education, particularly through private institutions, has led to an increasing reliance on loans to finance education. This shift reflects the government's gradual retreat from a model that relied heavily on public funding and subsidies to increase access. While private institutions have broadened access, the drawback is a growing dependency on education loans.This partially stems from the National Higher Education Fund Corporation (PTPTN), which has become the primary source of financing for students. Initially established to reduce reliance on state funding while democratising access to education, the PTPTN has catalysed the growth of private education in Malaysia. This has made higher education more accessible, as the previous model of state-led higher education considerably limited access to maintain sustainability, unintentionally limiting higher education to higher income households more capable of meeting stringent entry requirements. However, this has come at a cost where a growing number of graduates are unable to meet their loan obligations[2].

A key factor contributing to the education debt crisis is the high cost of education relative to household income. As tuition fees continue to rise, more students are forced to take out loans to cover the costs of their education. This has led to a situation where it is reported that 53,000 youths below the age of 30 experience debts that summed up to RM1.9 billion[3]. For many, this burden extends well beyond their years in university, delaying other financial milestones such as purchasing a home or starting a family.

The consequences of this debt are far-reaching. Graduates who are unable to repay their loans may face financial penalties, including higher interest rates, reduced credit scores, and even legal action. This not only affects their financial stability but also has a broader impact on the economy, as high levels of debt can limit consumer spending and economic growth.

[2] KRI (2024b)
[3] AKPK (2018)

Why Education Debt Matters?

Education debt is more than just a personal financial burden; it has broader implications for social mobility and economic equality[4,5]. Higher education is often seen as a pathway to better employment opportunities and higher earnings. However, when the cost of education outweighs the benefits, it can instead create a cycle of debt that is difficult to escape.

For many students, especially those from lower-income backgrounds, the decision to take on debt is not a choice but a necessity. Around 55% of graduates from B40 households rely on PTPTN loans[6], hoping that their degree will secure a job that pays well enough that not only covers their debt but also provides financial stability for a decent standard of living. Unfortunately, this ideal outcome is not guaranteed. While graduates with tertiary education qualification generally earn higher incomes (RM3,890) compared to their peers with only primary (RM1,493) or secondary (RM1,873) education[7], the tertiary wage premium for graduates has been sluggish in recent years where it has decreased by between 7 to 10.5% during the 1995-2019 period[8]. This stagnation in wage structure in Malaysia created a gap between earnings and the rising cost of loan repayments, causing significant financial strain on young graduates.

This burden of education debt extends beyond individual finances, as it affects long-term social mobility. Students from wealthier families are more likely to afford higher education without taking on significant debt, giving them a head start in building wealth and achieving financial independence. By contrast, students from lower-income households may spend years, if not decades, repaying education loans, and thus limiting their ability to save, invest, or improve their economic standing[9]. This disparity can perpetuate income inequality and hinder opportunities for upward mobility, further entrenching socio-economic divides.

The concept of financialization helps us understand the education debt phenomenon by illustrating how individuals, especially those from low-income households, navigate complex financial systems. Just as pension plans and mortgages have expanded financial engagement, higher education financing drives students into debt, with significant consequences. Just as pension plans and mortgages have expanded financial engagement, higher education financing drives students into debt, with significant consequences. For many, this debt delays major life decisions, such as purchasing a home, starting a family, or investing in their careers. Additionally, the burden of student loans can impact mental health, limit financial flexibility, and hinder long-term wealth accumulation, creating a cycle that affects not only individual graduates but the economy at large. Shiller (2013) highlights the risks of such financial entanglements, where education debt can increase household debt and strain financial well-being. Fresh graduate salaries have barely improved over the past decade, with 59.6% earning RM2,000 or less in

4 Dwyer and DeMarco (2024)
5 de Gayaradon et al. (2018)
6 KRI (2024b)
7 DOS (2023), using 2022 data.
8 Nithiyananthan Muthusamy, Mohd Amirul Rafiq Abu Rahim and Jarud Romadan Khalidi (2023)
9 Looney (2022)

2021—almost unchanged from 60.8% in 2010[10]. At the same time, the growth of tertiary-educated individuals has outpaced the growth of skilled employment, leading to overqualification and underemployment[11].

A study by AKPK[12] in 2018 also indicates that nearly one-fifth of the working population in Malaysia struggles to save, with high debt commitments being a significant factor. Additionally, education loans represent the second largest portion of debt among individuals aged 20-29, making up over 40% of their debt burden, which compounds the financial challenges as they progress through life stages.

Our recent work have proven that poor initial employment outcomes—such as underemployment or low starting pay—can negatively affect career trajectories, even a decade after graduation[13]. In fact, the impression that graduates should be able to repay their loans without much struggle as most of them are PTPTN borrowers charged only 1% interest per annum, isn't that accurate. About 50% of education loan borrowers study in private universities and colleges, where tuition fees could be three to four times higher than those at public universities. Even with a low interest rate, this can still result in a relatively substantial repayment sum.

In light of these challenges, three critical questions warrant policy attention. First, how can innovative strategies and interventions be developed to alleviate the burden of educational debt, particularly for lower-income groups? Second, how can we balance reducing educational debt while ensuring continued access to higher education? Finally, what policy frameworks can support this balance and promote both social mobility and financial stability for graduates?

In our recent report, The Financialization of Our Lives, further discusses the policy implications surrounding these questions. It explores several features and ideas that prompt further thought and analysis for future policy development. The report delves into financial easing strategies for those already burdened with debt, proposing precautionary measures against deeper financialization through the implementation of saving schemes. These recommendations provide a framework for rethinking how to manage education debt while fostering economic resilience and long-term financial security for graduates.

Conclusion and policy implications

While we fully agree that repaying education loans is a matter of moral responsibility[14], it is equally crucial to look beyond individual accountability. We must address the root causes of the education debt crisis by examining the broader landscape of graduate labour market outcomes. The mismatch between educational qualifications and the realities of the job market—such as stagnant wages and underemployment—must be factored into policy discussions. Several

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[10] KRI (2024a)
[11] Ibid.
[12] AKPK (2018)
[13] Ibid.
[14] Datuk Seri Dr Zambry Kadir stated that repaying PTPTN loans is a moral responsibility as the repaid money helps fund future generations' education. Source: NST (2024)

targeted policy interventions are crucial to alleviate this burden and ensure a sustainable higher education financing system.

i. **Promote Education Savings**: While various education savings options exist across various institutions in Malaysia, Skim Simpanan Pendidikan Nasional (SSPN) stands out for its affordability and offers decent protection measures for depositors. Designed by PTPTN, SSPN offers a secure and structured platform for families to accumulate funds specifically allocated for educational purposes. This scheme not only facilitates disciplined savings but also provides tax relief benefits under the income tax act. With its emphasis on accessibility, affordability, and depositor protection, SSPN serves as a reliable tool for parents seeking to ensure their children's educational aspirations are met without financial constraints.

ii. **Strengthen Financial Literacy Programs:** Enhancing financial literacy is essential to equip students and families with the knowledge needed to make informed decisions about education financing. Integrating financial literacy into school curricula and offering resources on student loans will empower students to make better financial choices.

iii. **Revise Loan Repayment Structures:** From a bigger picture, there are some low-hanging fruits for the government to improve the overall situation. The government can consider reintroducing the income contingent loan (ICL) with a better version, particularly by looking further into the borrowers' income threshold. The government should also get timely updates on their incomes so that their threshold and repayment amount can be revised regularly and appropriately. Integrating a more contextually relevant reference, such as the *Belanjawanku*[15] framework, into discussions and policy formulation around ICL would enhance the accuracy of evaluating borrowers' financial standing. This method supports the determination of repayment thresholds that genuinely reflect the cost of living, thereby providing a more comprehensive approach. Furthermore, attention must be given to respecting borrowers' individual financial comfort and discretion, making an opt-in mechanism essential.

iv. **Encourage Alternative Education Pathways:** It is equally important to expose students to educational pathways that offer better returns for their future, rather than relying on incomplete or biased information. The goal is not to push students away from their academic passions, but to encourage critical self-reflection on internal biases and societal stigma surrounding non-traditional education options, such as TVET. By doing so, students can make more informed decisions, especially when financial factors play a significant role in choosing their educational path. Recognising these alternative routes as legitimate options can provide students with more opportunities for success.

[15] Norma Mansor, and Nik Noor Ainoon Nik Osman (2022)

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