

STUDENT LOAN SCHEME

ANNUAL REPORT 2012/13



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FOREWORD

Tertiary education qualifications provide New Zealanders with skills and knowledge, leading to better employment opportunities and contributing to New Zealand's prosperity.

The Student Loan Scheme has been in place for more than two decades and continues to help improve access to tertiary education by sharing the costs between students and government.

Since its establishment in 1992, 1.16 million people have used the loan scheme. This equates to about 33 percent of the New Zealand population aged 15 and over. The number of people using the scheme to help fund their tertiary education each year has grown from 44,000 in 1992 to more than 200,000 in 2012. More than 374,000 people have repaid their student loans in full since the loan scheme began.

In the 2012 academic year, 73 percent of students eligible to borrow from the loan scheme did so, borrowing a total amount of \$1,472 million. For the financial year ended 30 June 2013, repayments reached over \$1 billion. We can be confident that the scheme is being properly managed and meeting its primary objective – that relevant and high-quality tertiary education is open to all New Zealanders.

The Student Loan Scheme Annual Report provides public accountability information to Government, to Parliament and to New Zealanders. It is based on information held by the Ministry of Social Development, Inland Revenue, Statistics New Zealand and the Ministry of Education. These four agencies have worked together to provide an accurate and relevant picture of the loan scheme as it operated in 2012 and the financial situation in the 2012/13 fiscal year. The report also provides forecasts of future loan participation and expenditure.

I am pleased to present it to you.



Peter Hughes
Secretary for Education

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HIGHLIGHTS

STUDENT LOAN SCHEME PORTFOLIO

As at 30 June 2013:

- The nominal value of loan balances was \$13,562 million. (Page 44)
- The carrying value of the loan scheme – calculated using International Financial Reporting Standards – was \$8,288 million. (Page 44)
- The carrying value ratio decreased from 63.9 percent of the nominal value to 61.1 percent of the nominal value ratio. (Table 26, page 46)
- The fair value of the loan scheme was approximately \$8,298 million. (Table 26, page 46)
- The cost of lending dropped from 39.1 cents in the dollar lent in July to December 2012 to 35.2 cents in the dollar lent in January to June 2013. (Table 30, page 49)
- The cost of lending is forecast to increase to 40 cents per dollar for the period 1 July 2013 to 31 December 2013. It is forecast to increase to 42 cents for each dollar lent by 2016/17. (Table 33, page 50)
- 710,968 people had a student loan with Inland Revenue for collection. (Table 9a, page 31)

Since the loan scheme began:

- Students have borrowed a total of \$18,520 million. (Page 24)
- \$8,125 million has been collected in loan repayments. (Page 34)
- More than 374,000 loans have been fully repaid. (Page 34)

During 2012/13:

- \$1,150.7 million in loan repayments was received by Inland Revenue and the Ministry of Social Development, \$274.2 million more than last year. (Page 57)

OUTCOMES OF THE STUDENT LOAN SCHEME

- Research shows that people with tertiary qualifications have lower unemployment, higher incomes and increased wellbeing. (Page 16)
- The number of domestic students in tertiary education in 2012 was 375,000 compared with 245,000, the number enrolled in 1994. (Figure 1, page 8)
- The participation rate for Māori of all ages was 14.6 percent in 2012, down slightly from 15.1 percent in 2011. The participation rate of all Pasifika students in 2012 was 11.4 percent, down slightly from 11.5 percent in 2011. (Table 1, page 9)
- The total number of qualifications completed in 2012 was 143,000 by 126,000 domestic students, an increase of 2.7 percent from 2011. (Page 9)
- The total number of qualifications completed in the New Zealand tertiary system in 2012 was 162,000. (Page 9)

ABOUT STUDENTS BORROWING FROM THE STUDENT LOAN SCHEME IN 2012

- 201,187 students (73 percent of eligible students) borrowed from the loan scheme. (Page 22)
- Of these, there were 54,836 new borrowers (based on provisional Ministry of Social Development data), representing 27 percent of all borrowers. (Table 6, page 29)
- The average amount borrowed was \$7,822 and the median amount borrowed was \$6,988. (Figure 17, page 24)

OF THOSE WHO ACCESSED THE LOAN SCHEME

Between 1997 and 2012:

- About 57 percent were female. (Table 8, page 31)
- 48 percent were European, 22 percent were Māori, 12 percent were Asian and 9 percent were Pasifika. (Table 8, page 31)
- 47 percent had studied at non-degree level, 35 percent at bachelors level and 9 percent at postgraduate level. (Table 8, page 31)

As at 30 June 2013:

- The average loan held by Inland Revenue was \$19,076 and the median loan balance was \$13,307. (Table 9b, page 31)
- 57 percent of repayments were collected through the PAYE tax system in the 2012/13 tax year. (Page 32)

REPAYMENT TIMES FOR BORROWERS

- The median repayment time for those who finished study in 2003 is expected to be 7.2 years. (Table 17, page 39)
- The median repayment time for those who finished study in 2006 is expected to be 7.5 years. (Table 17, page 39)
- The median repayment time for those who finished study in 2009 is expected to be 7.3 years. (Table 17, page 39)
- The median repayment time for those who left study in 2009 and remained in New Zealand is expected to be 6.7 years. (Table 21, page 41)

For more information about these highlights, refer to the appropriate chapter in the report.

Introduction

The purpose of this annual report is to inform Parliament and the New Zealand public about the performance of the Student Loan Scheme and related trends. Information is also provided about the loan scheme's financial performance from 1 July 2012 to 30 June 2013.

The report describes how the loan scheme operates in the context of the New Zealand tertiary education system and the goals of the Tertiary Education Strategy; the contribution the loan scheme makes to enabling greater access to, and participation in, tertiary education; and developments to the loan scheme and student support policy over time.

The report looks at the outcomes of the loan scheme, provides detailed information about the characteristics of borrowers and associated borrowing and repayment patterns, and includes valuation and forecasting of loan scheme expenditure.

Sources

The information in this report has been developed from data drawn from four principal sources. Each of the three agencies responsible for the loan scheme has supplied data. The information on active borrowers and borrowers in study is largely drawn from the Ministry of Social Development (MSD). Inland Revenue has supplied data on the repayments and loan balances of all borrowers, including those who have left study. Tertiary education data and information on borrowing in the years before 2000 were supplied by the Ministry of Education. Other data has come from Statistics New Zealand's integrated dataset on student loans and allowances (see details below). Data from these sources is complemented by information drawn from the Census, the Household Labour Force Survey and other published data sources. Each table and graph states the source of its data.

The data behind the graphs and tables in this report, as well as additional Ministry of Education research cited, can be found on the Education Counts website, www.educationcounts.govt.nz, and will be available to download later this year.

Where data in the tables and graphs is provisional and subject to minor change at a later stage, this has been noted.

Each agency endeavours to provide accurate and relevant information, and methods of gathering and reporting data are continually being enhanced. When new data is collated, it not only provides information for the most recent year, but is also linked back across historical figures to take advantage of improvements in data quality. Revised data is used in the annual report, and so readers might notice small changes in historical data reported in the 2013 annual report if comparing it with data in previous years' reports.

The integrated dataset

The integrated dataset on student loans and allowances is managed by Statistics New Zealand according to the requirements of the Statistics Act 1975 and follows strict privacy protocols that have been developed with guidance from the Privacy Commissioner. Care has been taken to ensure that privacy concerns are met and that the integrity and accuracy of data are maintained.

The integrated dataset combines:

- information collected by tertiary education providers on students, enrolments and courses
- information collected by the Ministry of Social Development on students' borrowings under the loan scheme and their student allowances payments
- data on student loan balances, repayments, income and tax status from Inland Revenue.

The dataset has most recently been updated with records up to 31 March 2012.

Nominal dollars

In this report, unless otherwise stated, all financial data is expressed in nominal dollars without adjustment for inflation.

Ethnicity

Statistics on ethnicity and ethnic groups are obtained from student declarations on enrolment and loan application forms. It should be borne in mind when using these statistics that declaration of ethnicity is not mandatory and where information is provided students may choose to select more than one ethnicity. Ethnicity data supplied by Statistics New Zealand on Pacific peoples is referred to in this report as Pasifika.

Data series

A variety of different timeframes has been used for the data series presented in this report. Application and borrowing data is reported within calendar years (January to December). Financial data is based on government's financial year (July to June). Some repayment data is reported within tax year (1 April to 31 March).

Terms

Many of the terms used within the Student Loan Scheme and in this report are specific and may not always have the meaning that one would initially attribute to them. Refer to the Glossary of specialised terms and their definitions to help with the accurate interpretation of this report.

CHAPTER ONE

THE STUDENT LOAN SCHEME IN THE TERTIARY EDUCATION SYSTEM



1.0 The Student Loan Scheme

The Tertiary Education Strategy (TES) describes the strategic direction for tertiary education in the next five to ten years, and the government's more immediate priorities for the next three to five years.

The most recent TES was published in December 2009¹ and sets out priorities for the system from 2010 to 2015. The strategy describes the current context for tertiary education. Rising demand for tertiary education has coincided with a period of significant fiscal constraint. The strategy therefore emphasises that tertiary education organisations and students need to use the government's investment in tertiary education efficiently and effectively. This means that funding is gradually being shifted from qualifications with low completion rates and little relevance to the labour market, in favour of high-quality qualifications that benefit students and contribute to economic growth.

In 2012, the Government set a number of targets – the Better Public Services targets – intended to ensure the public sector can respond even more effectively to the needs and expectations of New Zealanders.² One of the 10 targets relates to tertiary education:

increase the proportion of 25–34 year olds with advanced trade qualifications, diplomas and degrees (in 2017, 55 percent of 25–34 year olds will have a qualification at level 4 or above)

Another of the targets will have an important flow-on effect for the tertiary system:

increase the proportion of 18 year olds with NCEA level 2 or equivalent qualification (in 2017, 85 percent of young people will have achieved NCEA Level 2 or an equivalent qualification)

because as more young people gain better qualifications in school, their tertiary education choices will expand.

A third target is central to the way the government agencies manage the loan scheme and their interactions with borrowers:

New Zealanders can complete their transactions with the Government easily in a digital environment.

Information in this chapter sets out how the tertiary funding and student support systems contribute to tertiary education goals by:

- supporting affordable, equitable access to quality, relevant tertiary education through tuition subsidies and through student support, particularly student allowances and student loans
- ensuring that students' own financial contributions through fees are affordable, predictable and fair.

The Student Loan Scheme is an important component of the student support system that provides direct funding to tertiary students. The scheme is currently available to all New Zealanders who are enrolled in approved qualifications³ provided they meet the eligibility criteria and performance conditions. For the eligibility criteria see Appendix 1.

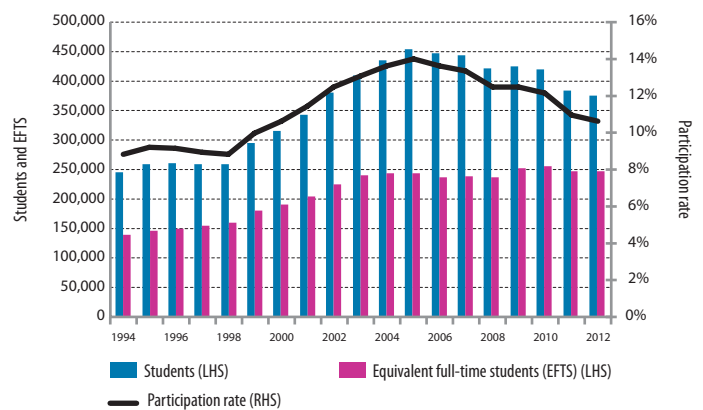
Appendix 1 also explains the operational changes made by the agencies to improve the services they offer to borrowers while managing the costs of loans.

1.1 The Student Loan Scheme – supporting access to and participation in tertiary education

Since the Student Loan Scheme was introduced in 1992, the number of funded student places has more than doubled. The student support system has helped maintain the affordability of tertiary education for students, and helped our tertiary education system to become more diverse, inclusive and accessible.

Figure 1 shows student numbers, equivalent full-time student numbers,⁴ and the rate of participation in tertiary education from 1994 to 2012.

Figure 1 Participation by domestic students in tertiary education



Source: Ministry of Education.

Notes:

1. Data before 1999 excludes private training establishment and 'other tertiary education provider' students.
2. Data relates to domestic students enrolled at any time during the year.
3. The participation rate is the number of enrolments, in a calendar year, as a percentage of Statistics New Zealand's estimate of the population aged 15 and over at 31 December each year.
4. Participation excludes industry training, non-government-funded private training establishments, formal courses of a week or less, and all non-formal learning.

The number of domestic students enrolled in tertiary education increased by 53 percent between 1994 and 2012 (from 245,000 to 375,000). The number of people participating in tertiary education has reduced since 2005. This reduction is mainly due to a decline in enrolments in certificate-level qualifications, largely in response to moves to strengthen the quality and relevance of lower-level qualifications. Figure 1 shows that the fall-off has been much less in the number of equivalent full-time student places, confirming that much of the reduction has been in part-time enrolments. The trends shown in Figure 1 reflect an increased focus in the system on higher-value tertiary education.

Domestic enrolments declined from 2011 to 2012, by 2.2 percent or 8,400 students. The number of equivalent full-time students increased by 380, an increase of 0.2 percent from 2011 numbers.

1 The Tertiary Education Strategy can be found at: www.minedu.govt.nz/NZEducation/EducationPolicies/TertiaryEducation/PolicyAndStrategy. The Government is currently consulting on a new strategy. The finalised new strategy is expected to be published early in 2014.

2 The Better Public Services targets can be found at: www.ssc.govt.nz/better-public-services.

3 This includes industry trainees undertaking courses at tertiary education providers if they meet the appropriate eligibility criteria.

4 The differences between student numbers and equivalent full-time student numbers relate to the proportion of part-time students enrolled and the study load they enrol for.

Table 1 Participation by domestic students in tertiary education

Main statistics on tertiary education participation and funding				
Participation and completion		2010	2011	2012
Participation of domestic students in tertiary education	Number (000)	420	383	375
	Rate (all ages)	12.1%	10.9%	10.6%
	Rate (18-19 years old)	48.4%	47.3%	48.7%
	Rate (20-24 years old)	34.4%	32.7%	32.3%
	Rate – Māori	16.6%	15.1%	14.6%
	Rate – Pasifika	12.1%	11.5%	11.4%
Domestic students completing qualifications	Non-degree (000)	84	84	85
	Bachelors (000)	25	28	30
	Postgraduate (000)	12	13	13
	Total (000)	120	123	126
Government-funded places		2010	2011	2012
Student Achievement Component EFTS	Funded (000)	235	235	235
	Actual (000)	245	236	237
Government expenditure		2010/11	2011/12	2012/13
Expenditure (\$ million)	Student loans (new lending)	\$1,564	\$1,586	\$1,567
	Student allowances	\$620	\$644	\$592
	Tuition subsidies	\$2,266	\$2,241	\$2,278
	Total	\$4,451	\$4,471	\$4,437
	Total as % of GDP	2.2%	2.1%	2.1%
Source: Ministry of Education, the Tertiary Education Commission and the Treasury.				
Notes:				
1. Tuition subsidies includes: Student Achievement Component, Performance-Based Research Fund and Tertiary Education Organisation Component – Capability Fund.				
2. Government expenditure is exclusive of GST.				
3. 2012/13 figures for student allowances and tuition subsidies are estimated actuals.				
4. The participation rates for Māori and Pasifika have been age standardised to enable comparisons to be made over time. These rates have been age standardised based on the structure of the New Zealand population in 2012.				
5. Domestic students completing qualifications total will not add up as students studying at more than one level of qualifications in a year.				

The main trends shown in Table 1 are:

- The overall participation rate in tertiary education was 10.6 percent in 2012, down from 10.9 percent in 2011. However, the participation rate for the 18-19 years age group increased to reach 48.7 percent.
- The number of government-funded equivalent full-time student (EFTS) places was 235,000 in 2012, which was 5.3 percent higher than in 2008.
- The amount provided by the government through student loans was \$1,567 million in 2012/13. This compares with expenditure of \$592 million on student allowances and \$2,278 million on tuition subsidies.
- The total number of qualifications completed in 2012 was 143,000 by 126,000 domestic students, an increase of 2.7 percent from 2011.
- The total number of qualifications completed in the New Zealand tertiary system was 162,000 in 2012.

1.2 Current issues

Government wants the student support system to enable a wide range of people to access tertiary education, gaining knowledge and skills that enhance the economic and social wellbeing of New Zealand.

Student support should:

- ensure that government's investment in tertiary education is financially sustainable and well managed
- ensure that tertiary education is affordable for students and mitigate severe financial hardship during study
- be consistent with the wider social assistance and tax systems, and with other government policy objectives.

New Zealand's tertiary education system continues to face a number of challenges as the economy enters into recovery from the recent economic downturn. Recent tertiary education budgets have focused on identifying low-priority expenditure in the student support system, and reallocating it to priority areas in tertiary education such as engineering and science.

Student allowances changes have reprioritised expenditure by targeting assistance more effectively to those from the lowest socioeconomic backgrounds and to those in their initial years of study (see chapter 1.3 below).

An important focus has been reducing the cost of the Student Loan Scheme and, in particular, its impact on the government's balance sheet. Each dollar lent in the first half of 2013/14 costs the government 40.02 cents (refer to Table 30, page 49).

Recent changes have the restricted eligibility of borrowers who are less likely to repay their student loans or where the economic returns are likely to be low for the borrower and the Government (for example, not re-lending to those in default of their student loans and introducing a performance test). The Government has also put in place policies to speed up repayments from borrowers (for example, increasing the repayment rate for domestic borrowers).

Government agencies are continuing to ensure students and their families have information available so that they:

- are financially prepared for tertiary study and the responsibility that comes along with it
- make well-considered decisions about where and what they study
- can take the most direct path towards their qualification(s) to help minimise the costs of study for themselves and for government.

As part of this focus, the Ministry of Social Development and Inland Revenue administer a web page that brings together all the information people would need to know about taking out a student loan www.studylink.govt.nz/student-loans/index.html.

A significant focus for the Government continues to be improving the collection of student loan repayments from overseas-based borrowers. These borrowers have much lower repayment compliance and slower repayment times than New Zealand-based borrowers (see Table 12, page 33).

To improve repayments from overseas-based borrowers the government aims to:

- increase borrowers' awareness of their repayment obligations by ensuring contact is maintained between borrowers and Inland Revenue by setting up tracing and collection activities through the Overseas-Based Borrower Compliance Initiative (see chapter 3.3, page 36 and establishing information-matching and information-sharing arrangements (see chapter 1.3 below)
- make it easier for overseas-based borrowers to repay their loans by providing several fee-free payment options
- introduce new sanctions for those who have the ability to repay their loans but who refuse to do so (see chapter 1.3 below)
- reduce repayment times for compliant overseas-based borrowers by making adjustments to the overseas-based borrower repayment obligations (see chapter 1.3 below).

1.3 Student support changes in 2013

This section provides an overview of recent strategic and operational policy changes. Some were announced in Budget 2013 and others were announced previously. Certain policy changes are still proposals requiring legislation and will be included in a Student Loan Scheme Amendment Bill, which is scheduled for introduction in late 2013.

Budget 2013 – changes to eligibility for student support

Increasing the student support stand-down period for permanent residents

From 1 January 2014, the student loan and allowance stand-down period for permanent residents and Australian citizens will be extended from two years to three years. This policy will exempt those who hold refugee status or protected people status, or people sponsored by a family member who held refugee status or protected person status when they entered New Zealand. Transition arrangements will be in place for some permanent residents.

Reducing student allowance entitlements for students aged 40 years and over

From 1 January 2014, student allowance limits for those aged 40 and over will be reduced from 200 weeks to 120 weeks, which is around three academic years of support. Transition arrangements will be in place during 2014.

Removing student allowance eligibility for students aged 65 years and over

From 1 January 2014, student allowance eligibility for those aged 65 years and over will be removed. This policy will be linked to the eligibility age for New Zealand Superannuation. Transition arrangements will be in place during 2014.

Restricting student loan eligibility for lower-level fees-free study

Policy changes made in June 2012 restricted access to the Student Loan Scheme for fees-free level 1 and 2 qualifications. Budget 2013 allocated funds to StudyLink for full implementation of this policy by 1 January 2014.

Further details on these initiatives can be found at www.studylink.govt.nz/student-loans/index.html.

Budget 2013 – changes to repayment obligations

Proposed changes to repayment obligations for overseas-based borrowers

Overseas-based borrower repayment obligations would be adjusted by introducing fixed repayment obligations and adding two new repayment thresholds. These proposed changes would take effect from 1 April 2014.

The fixed repayment obligation would be set at no less than the borrower's annual obligation from the time they become overseas-based. If a borrower was overseas, their repayment would remain at the rate they faced at 1 April 2014. This repayment obligation would remain until their loan is repaid.

Two additional steps are being added to the current overseas-based repayment obligations for borrowers with loan balances over \$45,000.

Implementing an ongoing information-sharing agreement between Inland Revenue and the Department of Internal Affairs

An ongoing information-sharing agreement between Inland Revenue and the Department of Internal Affairs would allow contact details from passport applications to be shared. This agreement would apply to overseas-based borrowers who are in default and would be in place by 1 April 2014.

Introducing the ability to arrest non-compliant borrowers who are about to leave New Zealand

The ability to arrest non-compliant borrowers who have knowingly defaulted on an overseas-based borrower repayment obligation and are about to leave the country would be introduced from 1 April 2014.

This proposal is similar to provisions that exist under the Child Support Act. This initiative requires legislation.

Further details on these initiatives can be found in chapter 3.3 of this report on page 35 and 36 and at www.ird.govt.nz.

Budget 2013 – other changes

Changing the way the cost of lending is calculated

The cost of lending calculations for the Student Loan Scheme has shifted from a 'borrower account' basis to a 'year of lending' basis from 1 January 2013. (See chapter 4.1 of this report on page 44.)

1.4 Legislative changes coming into force in 2013

Student Loan Scheme – repayment percentage

The Student Loan Scheme (Repayment Percentage) Regulations 2012 increased the repayment percentage from 10 percent to 12 percent for the purposes of the Student Loan Scheme Act 2011. This increase was announced in Budget 2012 and came into force on 1 April 2013.

Student Loan Scheme – contact person details

From 1 January 2013, the Student Loan Scheme Amendment Act 2012 introduced new section 16A to the Student Loan Scheme Act 2011. New section 16A requires the loan manager (StudyLink) to provide details described below to Inland Revenue to the extent that they are available.

The Student Loan Scheme (Details of Borrower's Contact Person) Regulations 2012 specify two additional pieces of information that the loan manager (StudyLink) must provide to Inland Revenue, to the extent they are available. These are the contact person's:

- date of birth
- tax file number (Inland Revenue number).

CHAPTER TWO

STUDENT LOAN SCHEME OUTCOMES



2.0 Introduction

The student support system aims to enable a wide range of people to access high-quality tertiary education, gaining qualifications, knowledge and skills that enhance the economic and social wellbeing of New Zealand.

The two primary outcomes sought from the scheme are:

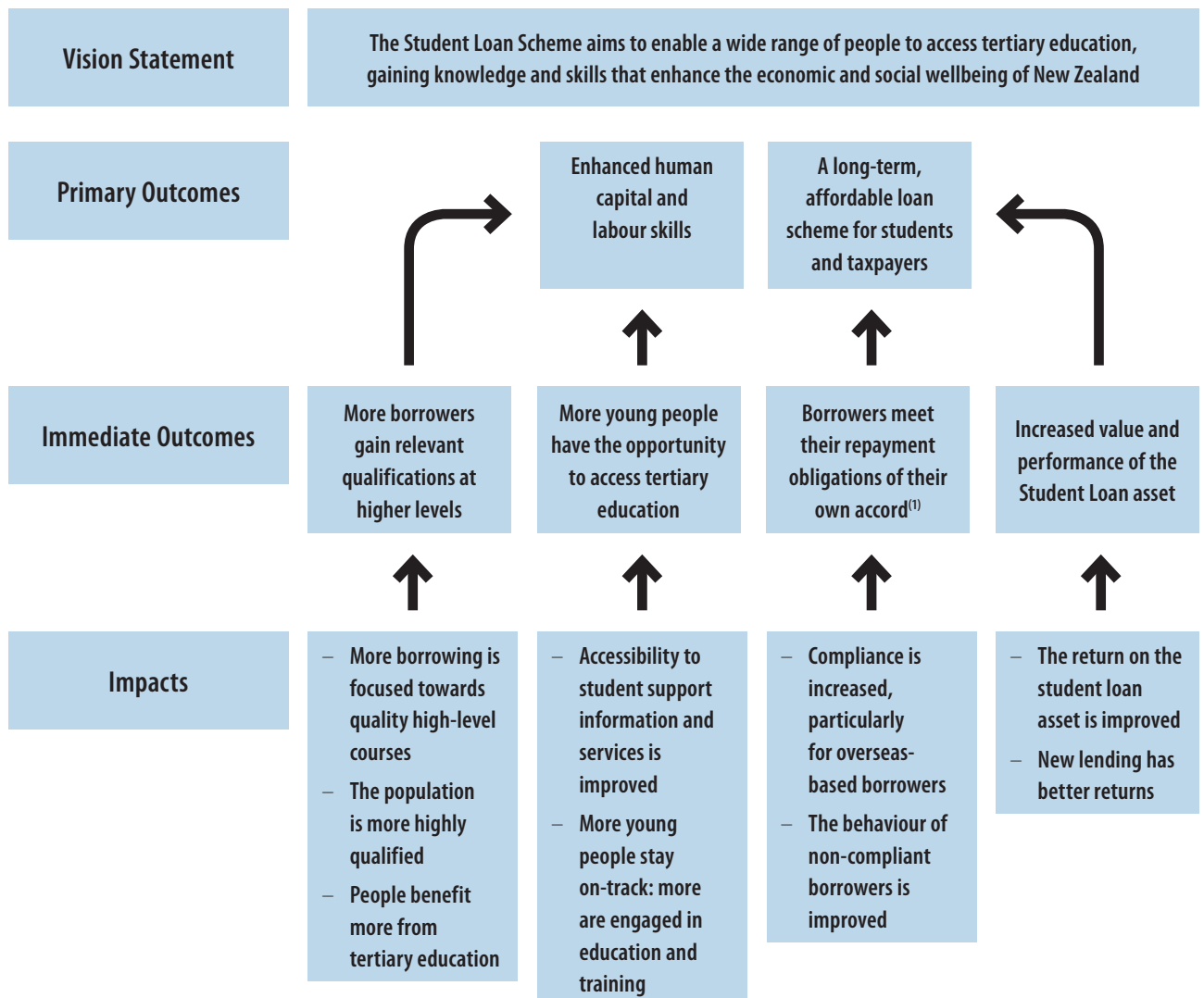
- enhanced human capital and labour skills
- a long-term, affordable loan scheme for borrowers and taxpayers.

This chapter looks at the extent to which the loan scheme succeeds in achieving those outcomes. It also explores evidence of any unintended outcomes of the loan scheme. In doing so, we summarise the evidence for the longer-term effects of the scheme and we look at the trends set out in chapter 3 of the report (which looks at borrowing and repayment trends) and chapter 4 (which analyses the costs of the scheme in detail).

The agencies that manage the loan scheme have developed a performance framework to provide a set of indicators that will allow them and the public to monitor the extent to which the scheme is meeting its aim and its primary outcomes.

This framework is shown diagrammatically below.

Figure 2 Outcomes of the Student Loan Scheme



⁽¹⁾ Inland Revenue's full outcome: Revenue is available to fund Government programmes through people meeting their repayment obligations of their own accord.

2.1 Enhancing human capital and labour skills

The tertiary education system contributes to society by helping people gain skills and qualifications that are valued by employers. Research and analysis⁵ have shown that qualifications gained in the New Zealand tertiary education system lead to greater earnings. This obviously benefits the individuals with those qualifications. However, it also indicates that employers value the skills acquired during tertiary study. The premium paid for those with qualifications is an indicator of the acquisition of human capital and therefore the extent to which our student support system and the tertiary education sector contribute to our national economic development.⁶

The Student Loan Scheme contributes to these outcomes by providing access to tertiary education and hence to qualifications. It does this by reducing the barriers that would exist if people had to meet the costs of their study upfront.

Human capital and labour skills

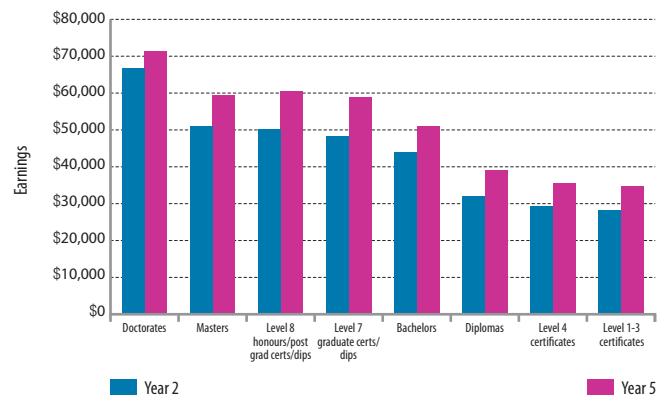
Many economists measure gains in human capital by looking at people's earnings. They reason that what an employer pays is an indicator of how much value the worker creates – because the employer cannot pay a person more than the value created by that employee if the firm is going to remain profitable.

So if a group of people enjoys an earnings premium over another group, we take this as a sign that the first group has greater human capital than the second. In this section we look at research that establishes how employers in New Zealand value people's qualifications.

The Household Labour Force Survey data shows that those who complete a bachelors degree or higher have, on average, a weekly income that is more than 2.5 times the amount that someone without qualifications can expect to receive. Statistics from Statistics New Zealand's Integrated Data Infrastructure dataset show that employers pay a premium to those who have completed qualifications. For instance, on average, young people who complete a bachelors degree and go into the workforce earn more than 50 percent above the national median earnings, five years after graduation.

A study of the premium paid by employers to recent young graduates shows that there is a clear earnings advantage to those with qualifications, that this advantage emerges soon after graduation and that it grows over time. Figure 3 shows the median earnings for young New Zealand graduates two and five years after completing their qualification. The research focused on a subgroup of these leavers whom we have called 'young leavers'.⁷ They represent the students who moved to tertiary education more or less directly after school and who were more likely to be completing their first spell of tertiary education and entering the labour market for the first time. Education is likely to have more of a direct influence on earnings for young leavers than for older students, who perhaps already hold qualifications or have a number of years of work experience.

Figure 3 Median earnings for young New Zealand graduates, two and five years after graduation by qualification level



Source: Statistics New Zealand, Integrated Data Infrastructure dataset. Ministry of Education interpretation and calculations.

Note: Median earnings are for the 2010/11 year.

Figure 3 shows that the higher the qualification, the higher the expected earnings. It shows that, five years after graduation:

- the median earnings of young bachelors degree graduates were 34 percent above those with a diploma and 46 percent above those with a level 1-3 certificate
- the median earnings of young masters degree graduates were 17 percent higher than those who completed a bachelors degree, and 70 percent higher than a young certificate 1-3 completer.

Using the data above and comparing the earnings of young graduates with the national median earnings, we see that, five years after graduation:

- half the young graduates with a bachelors degree have earnings 53 percent above the national median
- half the young people who have completed a level 1-3 certificate have earnings slightly above the national median.

The Government has given greater priority to enrolments by younger people in higher-level qualifications because that is more effective in raising human capital.

A shift to higher-level qualifications

Enrolments of domestic students in 2012 were nearly 246,600 in equivalent full-time student units. This is around 36 percent higher than in 1999, but 3 percent below the peak in domestic enrolments in 2010. There was a decline of 18 percent in the number of New Zealanders enrolling in tertiary education at certificate level between 2005 and 2012, while the numbers enrolled at degree level and above rose by 20 percent, in equivalent full-time student terms. This change reflects a deliberate shift in Government's priorities for the system – towards a higher proportion of enrolments by younger people in higher-level qualifications. The emphasis on enrolments in higher-level qualifications is designed to ensure the government's investment in tertiary education is more effective in raising the levels of skills available in the economy.

5 Mahoney, P, Z Park & R Smyth (2013) *Moving on up: What young people earn after their tertiary education*, Ministry of Education.

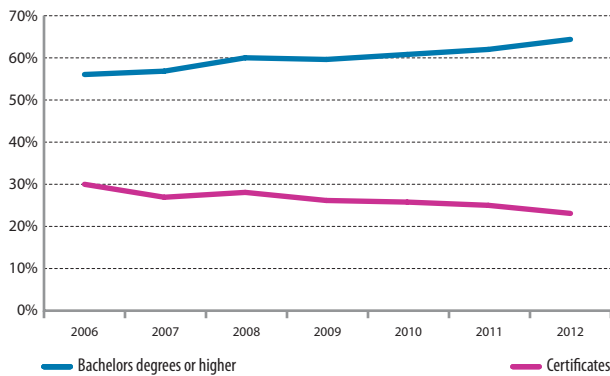
6 Human capital is a way of thinking about the skills people possess. Earnings are one way of measuring differences in human capital between different groups.

7 For the purposes of this study a 'young leaver' was defined as anyone aged 20 years or under who was studying at certificate level, 22 or under at diploma level, 24 or under at degree level (25 or under if this degree was a medical degree), 25 or under for anyone who was enrolled in a one-year post-bachelors qualification, 26 or under for masters, and 28 years or under for doctorate students.

An increasing proportion of students have used the loan scheme as a means of financing their tertiary education, with more than 80 percent of eligible full-time students taking a loan. As enrolments in tertiary education have risen, so has the number of people completing tertiary qualifications. Data from Statistics New Zealand's Household Labour Force Survey shows a steady rise in the number of people in New Zealand holding tertiary qualifications, especially at degree level. In 2012, 52 percent of New Zealanders aged 15 years or older held a tertiary qualification, up from 44 percent in 1999, while the proportion with a bachelors degree or higher qualification rose from 10 percent to 18 percent.

The shift to enrolments in higher-level qualifications is reflected also in the data on student loan uptake. In 2006, 56 percent of borrowers were enrolled in qualifications at bachelors level or higher. By 2012, the proportion had risen to 64 percent. Over the same period, the proportion of borrowers enrolled in certificates had fallen from 30 percent to 23 percent. The trends are illustrated in Figure 4.

Figure 4 Trends in the level of study among Student Loan Scheme borrowers

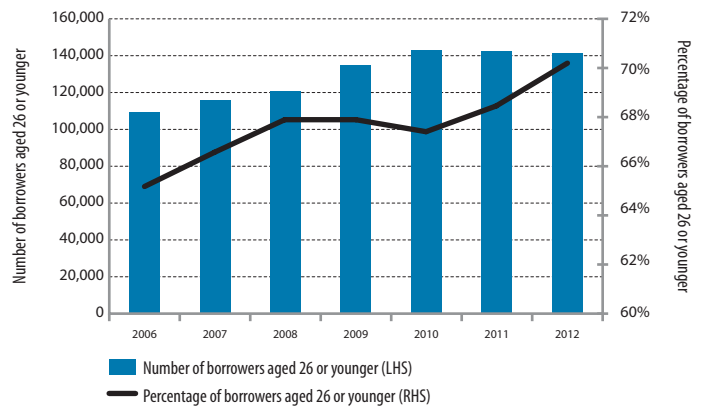


Source: StudyLink. Ministry of Education interpretation and calculations.

A shift to more enrolments by younger people

The greatest gain in human capital from education comes from the education of younger people. This is partly because younger people have a longer period in the workforce following their education. It also reflects the fact that young people have had less time to acquire learning in the workforce. Alongside the trend towards enrolment in higher-level qualifications has been a trend towards enrolments by younger people. This too is reflected in loan data. Between 2006 and 2012, we have seen a rise of 29 percent in the number of borrowers aged 26 or younger. The proportion of borrowers in that age group has increased from 65 percent to 70 percent.

Figure 5 Trends in the age profile of Student Loan Scheme borrowers



Source: Ministry of Education and StudyLink.

Summary – human capital and skills

The New Zealand tertiary education system is successful in building skills among most of those who participate and succeed in the system. With the increasing shift towards people studying full-time towards higher-level qualifications, the effectiveness of the system in creating human capital is rising. Because more than 70 percent of eligible students take student loans, the scheme is supporting that effort.

2.2 An affordable loan scheme for borrowers and taxpayers

Sharing the costs of tertiary education

The shared benefits of education

Tertiary education has multiple benefits for individuals and for society and the economy. The discussion in the previous section shows that people who gain higher qualifications in the New Zealand tertiary education system have higher earnings on average. That advantage in earnings benefits the individual but also indicates that the individual is making a greater contribution to the economy – in other words, the benefit of the person's education is enjoyed partly by the individual and partly by the public.

In addition to the economic benefits of education, there is also a range of non-economic benefits associated with having a higher qualification. Research shows that success in education is associated with a higher quality of life, better health and other benefits for individuals. It also lifts social cohesion and reduces the proportion of the population who are dependent on support from the public through the health system and other social services. So again, the benefits of the education are shared between the person who gains a qualification and the society at large.

Sharing the costs

Since tertiary education benefits both individuals and society and the economy in many ways, it is appropriate that there is some sharing of the costs. The loan scheme has enabled the government to share the costs of funding tertiary education with students and their families and hence to provide funding for more places in tertiary education organisations. Without shared funding, the government would have to reduce the number of places it funds and many providers would need to limit entry to courses.

Since 2000, the government has shifted the balance between the share of the full cost of tertiary education borne by students and their families and the share paid by government. In 2000, students paid 32 percent of the full cost through their tuition fees. However, as a result of fee stabilisation policies, this figure has fallen since then, reaching 29 percent in 2012.

While the government's share was nominally 71 percent in 2012, in practice it is larger than that. This is because much of the student share is met by borrowing through the Student Loan Scheme to pay compulsory fees. There is an implicit government subsidy in that component of the student's share; discounting for that subsidy, the government's share rises to around 82 percent.

The costs of the loan scheme to students

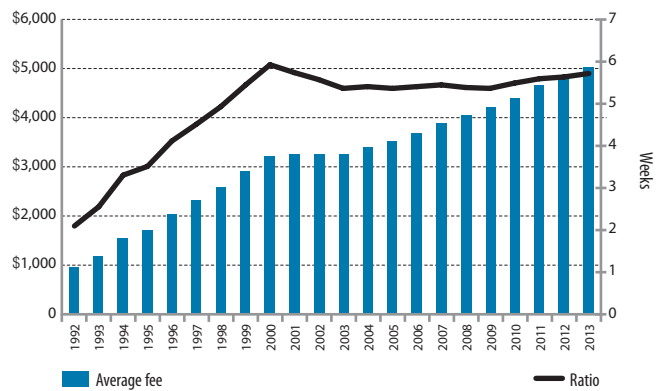
There are four ways of assessing the cost of tertiary education to students:

- the affordability of tertiary education – measured as the level of tertiary education fees compared with the level of earnings in the labour market
- the size of the loans people have when they leave tertiary education
- the amounts people repay on their loans
- the time it takes to repay loans.

The first of these is a measure of the affordability of tertiary education.

As a proxy measure of the level of tuition fees over the 21-year life of the Student Loan Scheme, we use the average fee for a Bachelor of Arts degree at a New Zealand university. Figure 6 traces the trend in the affordability of tertiary education. We calculate how many weeks it takes for a person with an average income to earn the average full-time university Bachelor of Arts fee.

Figure 6 Ratio of the average full-time university Bachelor of Arts fee to the average weekly earnings for employed people



Source: Universities New Zealand and Statistics New Zealand. Ministry of Education interpretation.

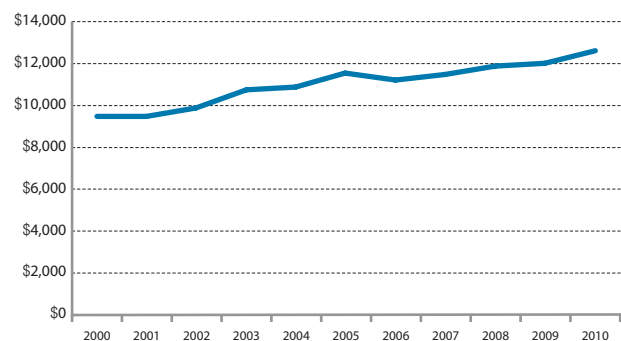
Notes:

1. Excludes fees at Auckland University of Technology and Lincoln University.
2. Average earnings are derived from the June quarter of the Quarterly Employment Survey.

Figure 6 shows that fees rose sharply during the 1990s as the loan scheme was phased in and as the government transferred a greater share of the cost of tertiary education to students and their families. By 2000, it took 5.9 weeks for the average earner to earn a full-time, full-year BA fee. Between 2001 and 2003, fees were frozen while earnings rose, so the number of weeks needed to earn the BA fee fell to 5.3. Under the fee and course costs maxima policy between 2004 and 2009, the real cost of study was stable. Since 2010, fee stabilisation has operated under the annual maximum fee movement (AMFM) policy, while earnings growth has been constrained in response to the tight fiscal environment. These two factors have seen a small, gradual increase in the number of weeks of earnings required to meet the full-time BA fee cost – from 5.3 weeks in 2009 to 5.7 weeks in 2013.

The median size of loans on 30 June 2013 was \$13,307, while 40 percent of borrowers had a loan balance of \$10,000 or less. The median loan size on leaving study (Figure 7) rose by 5.4 percent between 2009 and 2010 and by 33 percent between 2000 and 2010. When we take account of inflation between 2000 and 2010, the change in the size of the leaving loan balance amounts to a reduction of 1.3 percent.

Figure 7 Median loan balance on leaving study



Source: Statistics New Zealand, integrated dataset on student loans and allowances.

Note: This graph shows data only to 2010 as we do not know for sure if someone is likely to have left study until they have had no enrolment for two years.

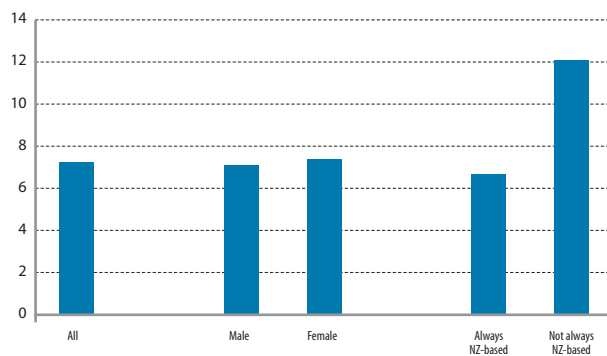
The amount of repayments made by those resident in New Zealand depends on their incomes. The New Zealand Student Loan Scheme is an income-contingent scheme, under which people with low incomes are not required to make any repayments, while for those above the repayment threshold, the repayments required increase as a person's income increases, so that those with the highest incomes make the largest repayments. The repayment threshold has been held at \$19,084 from April 2009 and will remain at that level until March 2015.

As borrowers' incomes have risen, they have paid slightly more of their income to repay their loans. The repayment obligation was raised in 2013 from 10 cents in each dollar of income above the repayment threshold to 12 cents in the dollar. This increase will have the effect of bringing repayments forward.

For those who have loans and who live in New Zealand, the loan is interest-free, meaning that those with loans have the benefit of the 'time value of money'. This is because, as time goes on, the value of the money on loan is gradually eroded so that the value of the repayments being made is less than the value of the money borrowed.

Repayment times are moderate for those who remain in New Zealand after completing study. Figure 8 gives the forecast median repayment times for different groups of borrowers.

Figure 8 Forecast median repayment times in years for those who left study in 2009



Source: Statistics New Zealand, integrated dataset on student loans and allowances and Ministry of Education, Student Loans Integrated Model 2013.

Repayment times for borrowers overseas are much longer than for those based in New Zealand. In part this is because it is harder for Inland Revenue to maintain contact with those overseas and to encourage compliance. In part, the problem relates to the fact that those overseas are not subject to the New Zealand PAYE tax system and therefore do not have the convenience of having their repayment obligation deducted from their weekly earnings with their taxes.

The cost of the loan scheme to the government

The Student Loan Scheme is a significant financial asset. The cost of the scheme depends on the amount of money lent and on the cost of lending each dollar. These in turn depend on a range of factors.

The volume of lending

The demand for tertiary education and the policies that the government uses to manage that demand have an influence on the number of students and therefore the amount of borrowing.

In addition, the policies that govern the tertiary education system and those that regulate the loan scheme affect the amount of money on loan. For instance, the government's approach to tuition fees has a bearing on the amount of money each borrower draws from the scheme: the regulation of fees through the AMFM policy and new policies on fees for foundation-level qualifications constrain the amount of lending.

The government also sets policies that limit access to borrowing – such as the academic performance requirements that must be met if a student is to retain the right to borrow and the 'stand-down' period, during which new permanent residents may not borrow – and also constrain the amount of money lent.

The cost of each dollar lent

Lending policies affect the cost of lending. The loan scheme's rules include provisions such as the repayment threshold and the fact that the level of an individual's repayments depends on his or her income. Loans are written off if a borrower dies or is declared bankrupt and loans are interest-free to those who remain in New Zealand. These policies have a significant effect on costs.

A further group of factors that affect the scheme's value (and hence the cost of each dollar lent) is the country's macroeconomic situation. If incomes are rising and/or unemployment is dropping, repayments increase, but in a period of high unemployment or low earnings growth more people will have incomes below the repayment threshold and will not be obliged to make repayments.

The prevailing rate of interest affects the government's cost of borrowing to finance the loan scheme, so the discount rate that applies to the loan scheme value changes as interest rates change.

The cost of lending is also affected by borrower behaviour: the slower the repayment rate, the greater the loss in value and hence the higher the cost to government. If many borrowers choose to go overseas once they finish their studies, this affects the value of the scheme because it is more difficult to collect repayments, meaning repayments are slower and therefore the cost to government is higher. The low compliance of overseas borrowers is one of the major drains on the cost of the loan scheme and provides the rationale for the extra effort the government is putting into this aspect through its Overseas-Based Borrower Compliance Initiative, described in chapter 3.

The government has placed a high priority on lowering the costs of the loan scheme. Measures taken since 2010 include:

- policy changes aimed at reducing repayment times – and in particular:
 - freezing the repayment threshold (in Budgets 2010 and 2011)
 - increasing the repayment obligation from 10 cents per dollar to 12 cents per dollar of income over the repayment threshold (Budget 2012)
- improving the efficiency of collections and compliance by New Zealand-based borrowers
- initiating a programme of collection of loans from overseas-based borrowers.

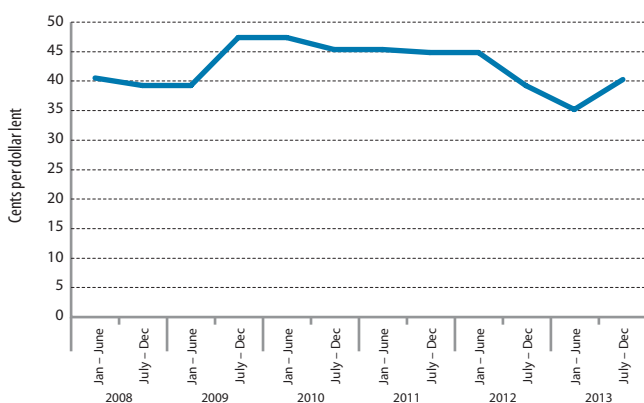
The cost of lending a dollar via the Student Loan Scheme varies a lot over time, driven by shifts in interest rates and by factors that affect the value of the loan scheme – such as the forecast rate of repayment.

The cost per dollar lent was 45.25 cents in 2010/11 and 44.69 cents in 2011/12. The cost of lending fell to 39.09 cents for the period July to December 2012, with a further fall to 35.19 cents per dollar lent in the first six months of the 2013 calendar year. The fall between January 2012 and January 2013 amounted to a drop of 21 percent. The three main reasons for that fall were the increase in the repayment obligation, the forecast that interest rates would remain low and a technical change in the approach to the calculation of the cost.⁸

Over the six months July to December 2013, the cost of lending moves to 40.02 cents per dollar lent, with an expected movement to 39.53 cents per dollar in the first half of the 2014 calendar year.

Figure 9 shows the trend in the cost to the government of lending under the Student Loan Scheme.

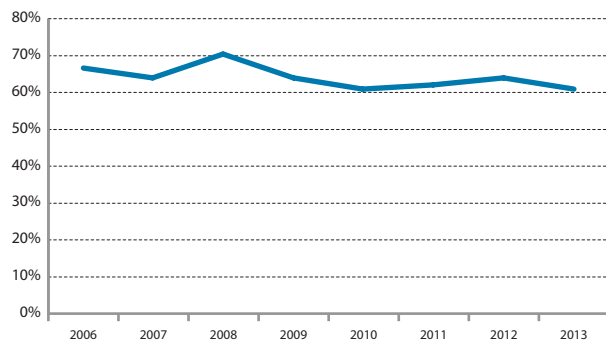
Figure 9 Cost of lending – cents per dollar lent



Source: Valuation of the Student Loan Scheme.

One key measure of the financial performance of the loan scheme is the ratio of the carrying value of the asset to the nominal value. The value of the scheme in the Crown's accounts on 30 June 2013 was 61.3 percent of the total amount of money on loan or nominal value. This is down from 63.8 percent in 2012 but close to the 61.8 percent in 2011. This is shown in Figure 10 below.

Figure 10 Ratio of carrying value of the Student Loan Scheme to nominal value at 30 June



Source: Ministry of Education, Student Loans Integrated Model.

Summary – the affordability of the loan scheme

The data presented in this section shows that succeeding in tertiary education has multiple benefits for individuals as well as for society and the economy. So it is appropriate that there is a measure of sharing of the costs. The cost of tertiary education has increased over time as the system has grown and as unit costs have increased. The interest-free student loans policy shifted a greater share of the cost to the government from 2006, while the fee policy since then has seen a slow but measurable increase in the student share. The share paid by students and their families is currently around 29 percent – but that figure does not take into account that many students rely on student loans to meet their share and those loans are subsidised, with each dollar loaned currently costing 40 cents. Adjusting for this factor, the share of the full cost paid by the government is around 82 percent.

The cost of lending for the government varies over time. The cost of lending increased by 14 percent in the second half of 2013 as a result of the valuation of the loan scheme asset, but the cost in July 2013 sits at 16 percent lower than its peak four years earlier.

The affordability of tertiary education for students has been reasonably stable over the last decade, largely as a result of fee stabilisation. The loans of those who leave study have reduced very slightly over the last decade once we adjust for inflation. These facts suggest that the costs of tertiary education for domestic students are stable.

2.3 Unintended outcomes

The Student Loan Scheme is a targeted scheme with income-contingent repayments, as it was understood that there would be some people who might not be able to repay for a variety of reasons – for example, they leave the labour force, because of illness or disability or because they devote themselves to unpaid work. However, it is desirable that most borrowers are able to repay their loans within a reasonable timeframe. The interest-free student loans policy provided an incentive to return to New Zealand, while changes in the rules for borrowers overseas, and improved collection performance by Inland Revenue, are also expected to help reduce the numbers who never repay.

⁸ The change in the calculation of the cost of lending was made to improve the accuracy of the calculation. It switched from using a discount rate reflecting conditions that applied when each borrower first started using the loan scheme to a discount rate that reflects each year's borrowing.

Are borrowers left with large debts for many years?

The introduction of the interest-free student loans policy in 2006 and the changes made to the rules governing repayment by borrowers overseas have led to two changes in repayment behaviour. Firstly, it is less likely that people get into 'negative repayment' – a situation where the loan balance increases once borrowing has finished. In the past, those who took time out from the workforce or went overseas would often see their nominal loan balance increase as base interest was added to their account, while their repayments had stopped. Secondly, there was a fall-off in voluntary additional repayments after the introduction of interest-free loans.

Borrowers who remain in New Zealand have shorter repayment times than is often thought. Half of those who left study in 2009 and are staying in New Zealand until repayment manage to settle their loan in less than seven years, while three-quarters repay in a little over 11 years. But borrowers who spend time outside of the country have much longer repayment times. Looking at the 2009 leavers, the median repayment time for those who are overseas based for some of the time is 12.1 years.

Other unintended outcomes

Some surveys have concluded that students may be encouraged to go overseas after their studies and their student loans deter them from returning. It has also been claimed their loans may discourage home ownership or cause them to delay having children.⁹

Around 40 percent of families comprising partners aged 18–24 have student loan debt. This falls to 30 percent among those aged 25–34 and to 10 percent at ages 35–44. The corresponding figures for mortgage debt are: 50 percent, 70 percent and 75 percent.¹⁰

The effects of loans on trends in child bearing, overseas travel and home ownership are difficult to trace. However, there is no statistical evidence that the presence of loans causes adverse effects in these areas.

An Australian study, published in the *Journal of Population Research*,¹¹ looked at whether Australia's Higher Education Contribution Scheme or HECS – which has many similarities with student loans in New Zealand – has affected the birth rate in that country. The research compared university-educated women with and without HECS debts yet similar in other significant ways. It found that falling fertility rates are not related to HECS. Further, evidence from countries that have no loans and very low tertiary tuition fees – such as France – shows that birth rates among women with tertiary qualifications have fallen. These two findings suggest that the factors that drive birth rates and the age of child bearing among women with tertiary qualifications are complex but that the presence of student loans is not a key factor.

Two Ministry of Education studies have examined the relationship between the size of a student loan and the likelihood of being overseas. The first was a statistical analysis¹² of the relationship between student loans and going overseas. This study concluded that those who have larger loans are more likely to go overseas. But while the effect is statistically significant, it is very slight. A more recent study by the Ministry of Education¹³ on the relationship between the size of a student loan and the likelihood of going overseas concluded that borrowers who were overseas had left study with larger loans than borrowers who remained in New Zealand. However, the extent of the difference is reduced when the level of study is controlled for. The study also examined the characteristics of those who returned from overseas compared with those who remained overseas. The authors found little difference in the demographic and study-related characteristics of these two groups. A recent statistical study by the Ministry of Business, Innovation and Employment¹⁴ found a similar relationship between loans and going overseas.

A recent statistical study by researchers from the Universities of Canterbury and Otago, using a longitudinal dataset, found that the presence of a student loan 'had little observable effect' on the subjects' mental health or residence in New Zealand.¹⁵

Conclusion

The loan scheme is supporting the improvement of New Zealand's human capital. It is allowing more people to access tertiary education and earn a premium as graduates in the labour market. To maximise the benefit of the loan scheme, priority is being given to younger people in higher-level qualifications.

The affordability of the scheme, expressed as a cost per dollar lent, has been steady at about 40 cents per dollar over the past five years. The loan repayment system is effective for borrowers in New Zealand, but there is concern about the low compliance level of overseas-based borrowers, especially those ending a period on a repayment holiday.

In addition to managing the cost per dollar lent, policy measures have increased the targeting of lending to make sure that loans give the best outcome for borrowers and the government.

9 O'Connell, K (2005) *Doctors and debt – the effect of student debt on New Zealand's doctors*, New Zealand Union of Students' Associations, New Zealand Medical Students' Association and New Zealand Medical Association.

10 Legge, J & A Heynes (2009) *Beyond reasonable debt: A background report on the indebtedness of New Zealand families*, *Social Policy Journal of New Zealand*, 35.

11 Yu, P, R Kippen & B Chapman (2007) *Births, debts and mirages: The impact of the Higher Education Contribution Scheme (HECS) and other factors on Australian fertility expectations*, *Journal of Population Research*, 24(1) 73–90.

12 Smart, W (2006) *Do student loans drive people overseas – what is the evidence?* Ministry of Education, Wellington.

13 Smyth, R & D Spackman (2012) *Going abroad*, Ministry of Education, Wellington.

14 Papadopoulos, T (2012) *Who left, who returned and who was still away? Migration patterns of 2003 graduates, 2004–2010*, Ministry of Business, Innovation and Employment, Wellington.

15 Kemp, S, J Horward & D Fergusson (2006) *Student loan debt in a New Zealand cohort study*, *New Zealand Journal of Educational Studies* 41(2): 273–291. This paper reports on a statistical analysis of the student loan characteristics of people in the Christchurch Health and Development Survey dataset. This is a longitudinal dataset with extensive family and academic information on people born in Christchurch in 1977. The study related the subjects' loan characteristics to their family and demographic characteristics.

CHAPTER **THREE**

THE STATE OF PLAY – HOW THE STUDENT
LOAN SCHEME IS WORKING



3.0 The Student Loan Scheme – borrowing and repayments

This chapter has information about:

- borrowing by students in 2012
- borrowers and their loan balances
- repayment rates and factors influencing repayments and collection
- forecast repayment times for different groups of borrowers.

Note that information about students borrowing in 2012 refers to the academic year, whereas the remainder of the chapter has information based on the financial year from July 2012 to June 2013.

In 2012, the following key trends can be seen in the borrowing and repayment data set out in this chapter:

- There is a continuing decrease in the number of borrowers and the amount borrowed.
- While there was a slight increase in uptake by full-time students, there was a marked decline in loan uptake by part-time students.
- The number of borrowers enrolled in bachelors-level study increased slightly, while the uptake of those at other qualification levels shows no change or a fall.
- There was a large increase in repayments because borrowers took advantage of the end of the voluntary repayment bonus scheme in March 2013.

A number of inter-related factors contributed to the loan borrowing and repayment trends in 2012, some of which will continue to be seen in the data in future years. These factors are identified in the following sections and include:

- changes in the type of tertiary study undertaken (for example, enrolments by level and study load)
- eligibility and repayment policy changes (for example, removing course-related costs for part-time, part-year study, replacing the three-year repayment holiday for overseas-based borrowers with a one-year application-based repayment holiday)
- the gradual recovery of the labour market following the recession of 2008
- changing demographic patterns (that is, the progression of the birth bubble through the tertiary education system).

The following terms are used in the chapter:

- ‘Active borrowers’ distinguishes between those who are currently borrowing from the scheme and those who are not (that is, they have completed their studies). Active borrowers will be either studying for the first time in 2012 or continuing with their study.
- ‘Active repayers’ distinguishes borrowers who have made at least one repayment in the financial year from borrowers who have not made any repayments.

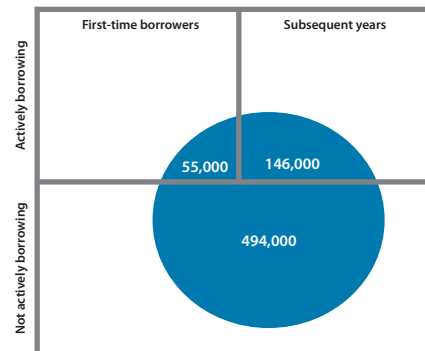
Chapter 3.3 provides more detail on these definitions. This change in terminology reflects the improvements that have been made in the flow of information between StudyLink and Inland Revenue.

3.1 Borrowing in 2012

Borrowing profile

Figure 11 sets out the borrowing profile for the 695,000 borrowers in the scheme in the 2012 calendar year. It shows that in 2012 there were 55,000 first-time active borrowers, 146,000 other active borrowers and 494,000 borrowers who had completed their studies.

Figure 11 Number of borrowers in 2012



Source: Inland Revenue.

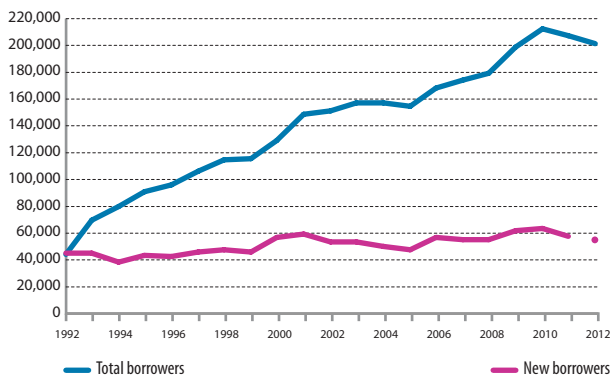
Note: This figure includes actual data on borrowers who were borrowing in the 2012 calendar year. The estimate of the number of inactive borrowers was based on the total number of loan accounts at 31 December 2012.

Uptake and uptake rates in 2012

Since the scheme began, about 1,157,000 people have taken out a student loan. This represents about 33 percent of the New Zealand population aged 15 years or over. In 2012, 201,187 students borrowed under the loan scheme. This was a decrease of 3 percent on the 207,330 borrowers in 2011.

The reduction in the number of people participating in tertiary education in 2012, as the labour market gradually strengthened and in response to the movement of the ‘birth bubble’ through the youth population, has led to a drop in the numbers borrowing. Policy changes in Budgets 2009 and 2010 – especially the introduction of an academic performance requirement on borrowers, changes to eligibility rules for New Zealand permanent residents, and changes to the entitlements for part-time students – will have had a smaller impact on borrower numbers eligibility. Student loan borrowers in 2012 represented about 6 percent of the estimated population living in New Zealand aged 15 and over. Figure 12 shows the growth in active borrower numbers and in the number of new active borrowers since 1992.

Figure 12 Number of active borrowers and new active borrowers in each academic year



Source: Ministry of Social Development — Statistics New Zealand, integrated dataset

Note: 2012 data on new active borrowers was provided by the Ministry of Social Development and is provisional. A dot is used to distinguish this data from data provided by Statistics New Zealand from the integrated dataset, which does not yet include 2012 data. The two sets of data are derived from different datasets and therefore are not directly comparable.

Figure 13 Student loan uptake rates



Source: Ministry of Social Development and Ministry of Education.

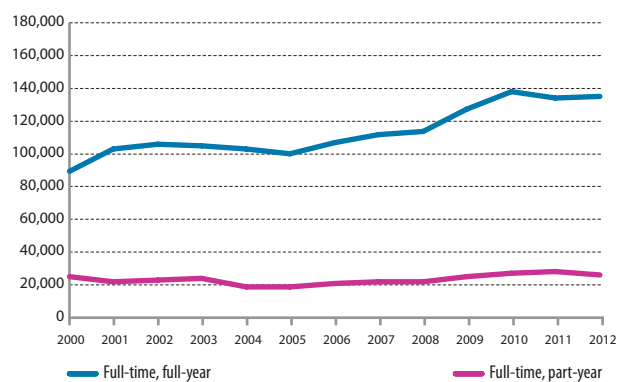
Note: Overall uptake rates reflect the mix of full-time and part-time borrowers.

Figure 13 presents the proportion of students eligible to borrow who do so. In 2012, the overall uptake rate was 73 percent of eligible students. This is a decrease on the 74 percent uptake in 2011. In 2007, the overall uptake was 66 percent, compared with 65 percent in 2006. Rises in uptake rates are partly a consequence of changes to loan policy, but also reflect economic conditions. There was an increase in uptake in 2000 and 2001 after the introduction of no interest while studying. Further increases from 2006 onwards were a result of the interest-free loan policy, with additional rises as the economy went into recession in 2008, causing increases in tertiary education enrolments.

While the rate of full-time eligible students accessing the loan scheme rose from 74 percent in 2007 to 82 percent in 2012, there has been a decrease since 2011 in the uptake rates of part-time students (from 50 percent in 2011 to 43 percent in 2012). A factor contributing to this is the policy introduced from 1 January 2012 that meant part-time, full-year students could no longer borrow for course-related costs. This appears to have discouraged some part-time students from borrowing.

Figures 14 and 15 present the number of active borrowers by study status from 2000 to 2012. Figure 14 shows that full-time, part-year active borrowers remained comparatively stable from 2000 to 2011. In 2012, full-time, part-year active borrowers decreased by 9 percent or nearly 2,500 active borrowers. Full-time, full-year active borrowers numbers steadily increased from 2005 to 2008. This is likely a result of the introduction of the interest-free student loan policy in 2006. In 2009 and 2010, there was a sharp rise in borrowing by full-time, full-year active borrowers. While this rise is a result of the continued impact of the interest-free student loan policy, it can also be attributed to an overall increase in enrolments – especially in full-time enrolments – leading to greater demand for loans. In 2011, there was a reversal of this trend, with fewer full-time, full-year borrowers, while full-time, part-year borrowers continued to increase. This reflects fewer students entering study post-recession, as people are returning to the workforce. In 2012, there was a slight increase in full-time, full-year active borrowers – 0.2 percent or 215 active borrowers.

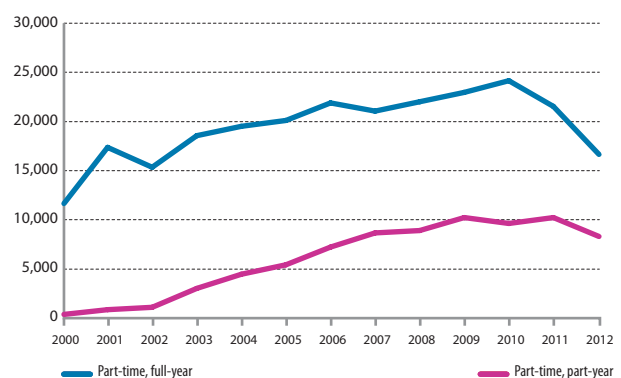
Figure 14 Number of active borrowers with full-time study status



Source: Ministry of Social Development.

Figure 15 indicates that there was a steady rise in part-time, full-year borrowers, with a 58 percent increase between 2002 and 2010. In 2012, however, there was a significant drop (of 23 percent) to the levels seen in 2005 to 2007. This reflects a move away from part-time enrolments and may also reflect part-time borrowers returning to the workforce as the labour market begins to recover. The number of part-time, part-year borrowers has shown a steady increase over the decade, except in 2012, when it decreased by 19 percent or 1,969 borrowers. In Budget 2011, the Government announced that it would remove the eligibility of part-time students for course-related costs from 1 January 2012.

Figure 15 Number of active borrowers with part-time study status



Source: Ministry of Social Development.

Amounts borrowed

Total borrowing

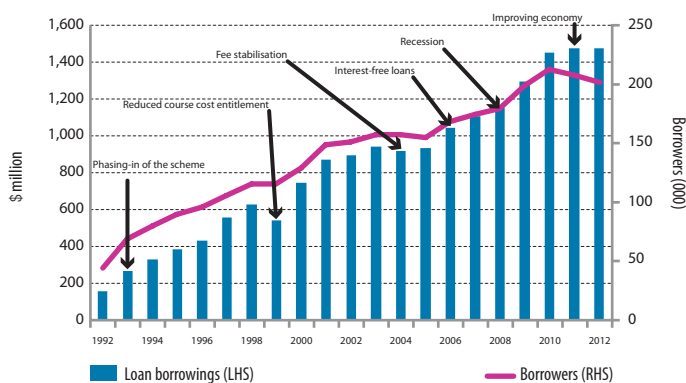
Since 1992, students have borrowed a total of \$18,520 million.¹⁶ The total amount borrowed and the number of borrowers each year are shown in Figure 16. As the loan scheme developed and enrolments in tertiary education increased during the 1990s, the total amount borrowed per year grew significantly. This increase in the amount borrowed was also a consequence of the steady rise in fee levels over that period. In 1999, the amount that could be borrowed for course-related costs was reduced, leading to a fall in total borrowing that year. The following year, that reduction was reversed, which contributed to a rise in total borrowing by 39 percent between 1999 and 2000 (from \$537 million to \$744 million).

From 2001 to 2005, the aggregate amount borrowed was relatively stable. There are three main reasons for this:

- The controls on fees since 2001 meant that fees, the largest component of borrowing, stabilised.
- Enrolment growth began to slow.
- Although there was an increase in enrolments by part-time students, they have smaller entitlements and are therefore more likely to finance their studies privately.

In 2006, the introduction of interest-free student loans for New Zealand-based borrowers contributed to an increase in the number of active borrowers. From 2005 to 2006, the number of borrowers increased by 8.4 percent and the amount borrowed by 12 percent. Increased levels of enrolment in tertiary education in 2009 resulted in a significant rise in the number of students borrowing. The total number of active borrowers increased from 198,738 in 2009 to 212,485 in 2010, an increase of 7 percent. In 2011, the number of borrowers in the scheme fell for the first time since 2005; 207,330 students borrowed a total of \$1,471 million from the loan scheme, reflecting a reduction in tertiary education enrolments. In 2012, the number of active borrowers fell again by 3 percent; 201,187 students borrowed a total of \$1,472 million from the loan scheme.

Figure 16 Total loan borrowings by year



Source: Ministry of Social Development and Ministry of Education.

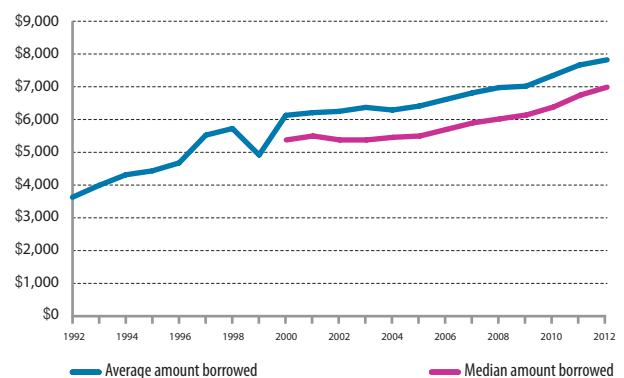
Average and median borrowing

Figure 17 illustrates the average amount borrowed from 1992 to 2012 and the median amount borrowed from 2000 to 2012. In 2012, the average amount borrowed was \$7,822, an increase of 2.5 percent (\$189) on the previous year. This compares with an increase of 4.6 percent (\$335) from 2010 to 2011 and 4.4 percent (\$307) from 2009 to 2010. The median amount borrowed in 2012 was \$6,988, an increase of 4.2 percent (\$279) from 2011, which was driven mainly by fee increases.

The average amount borrowed showed a steady increase between 1992 and 1998, in part reflecting increases in student fees. As a result of a decrease in the maximum course-related costs entitlement from \$1,000 in 1998 to \$500 in 1999, and of other changes that restricted the purposes for which finance from the loan scheme could be used, there was a decrease in average borrowing in 1999. Average borrowing increased again in 2000, when some of the changes made in 1999 were rescinded (notably the reduction in course-related costs entitlement and the removal of the right to borrow compulsory student services levies and students' association fees).

The fee stabilisation policy¹⁷ implemented in 2001 meant that tuition fees charged by most tertiary education providers remained stable between 2001 and 2003. From 2004, fees were regulated by the fee and course costs maxima policy and since 2010 by the annual maximum fee movement policy.¹⁸ Under these policies, providers are permitted to increase fees, but only within limits. The introduction of interest-free student loans in 2006 and some growth in fees have contributed to a gradual increase in both the average and median amounts borrowed since 2005. In 2011 and 2012, average borrowing rose in response to fee increases.

Figure 17 Average and median amount borrowed



Source: Ministry of Social Development and Ministry of Education.

Note: The median loan balances were not calculated until 2000.

Loans by component

Most borrowers use the loan scheme to pay for the compulsory fees charged by the tertiary education provider. In 2012:

- 94 percent borrowed to pay fees
- 64 percent borrowed to help meet course-related costs
- 50 percent borrowed towards meeting their living costs
- 25 percent borrowed to pay fees only
- 73 percent of those eligible to borrow fees did so.

¹⁶ This is net of refunds/repayments to StudyLink.

¹⁷ See the glossary in Appendix 2 for details of the fee stabilisation policy.

¹⁸ See the glossary in Appendix 2 for details of the fee and course costs maxima policy.

Amounts drawn by component as a percentage of total borrowing are as follows:

- Since 2000 to 2011, the total amount drawn to pay for fees has been 62 percent of all money drawn from the loan scheme. In 2012, \$1,054 million was used to pay for fees; this amounted to 66 percent of the amount drawn in 2012.
- Money used to pay for course-related costs was 8.1 percent of all money drawn in 2012.
- Money used to pay for living costs was 24 percent of all money drawn in 2012.

The proportion of money drawn to pay for fees increased largely because entitlements were not frozen for fees but the entitlement for course-related costs was frozen; and living costs entitlements were frozen until 2008, with increases at the rate of inflation since 2009.

Table 2 presents the average, median and total amounts drawn by loan components for the period 2000–2012. Over this period, the average amount borrowed to pay for fees increased by 46 percent, from \$3,817 in 2000 to \$5,571 in 2012.

Students are entitled to borrow up to \$1,000 for course-related costs. From 1 April 2011 to 31 March 2012, students could borrow up to \$169.51 per week for living costs, less any student allowances they receive; this limit increased to \$172.51 per week from 1 April 2012 to 31 March 2013. Since the beginning of 2007, fees can be borrowed for government-funded courses only.

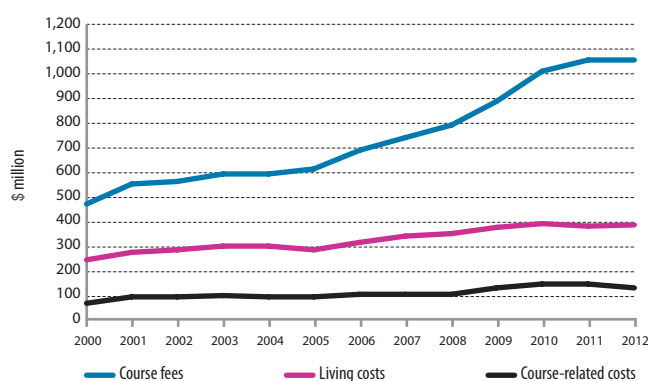
The average amount borrowed for living costs increased by 1.7 percent in 2012. This is likely a consequence of reduced access to student allowances. As the recession receded, family incomes rose, meaning many students lost all or some of their student allowance entitlement, resulting in their borrowing more.

Table 2 Average and median amounts borrowed by component

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	Course fees (\$)												
Average	3,817	3,985	4,023	4,105	4,051	4,253	4,408	4,576	4,743	4,766	5,076	5,441	5,571
Median	3,690	3,807	3,787	3,792	3,906	4,068	4,230	4,455	4,618	4,744	5,084	5,422	5,666
	Living costs (\$)												
Average	3,406	3,470	3,625	3,751	3,780	3,835	3,847	3,871	3,875	3,815	3,832	3,710	3,774
Median	3,150	3,300	3,580	3,800	3,907	4,050	4,129	4,256	4,256	3,900	3,851	3,537	3,599
	Course-related costs (\$)												
Average	896	935	940	936	938	943	950	948	955	987	992	990	988
Median	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000

Source: Ministry of Social Development.

Figure 18 Total amounts drawn by loan component



Source: Ministry of Social Development.

Living costs and support for students

Students are helped to meet their living costs by the provision of student loans and student allowances. The two schemes are interconnected. For the 2012/13 tax year, full-time students could borrow up to \$172.51 a week for living costs from the loan scheme, less any student allowances they receive. The maximum entitlement is adjusted annually for inflation on 1 April each year, and has increased to \$173.56 for the 2013/14 tax year.

In 2012:

- 20 percent of all borrowers borrowed living costs under the loan scheme and also received student allowances. In 2011, this group was only 19 percent of all borrowers
- 41 percent of people receiving student allowances used the loan scheme to supplement their living costs. This is an increase compared with 39 percent in 2011.

Table 3 presents the number of living costs borrowers and recipients of student allowances, and the average living costs and allowances received in 2012.

Table 3 Student allowances compared with student loan living costs borrowings in 2012

	Number of students receiving living support	Average allowances	Average living costs loan	Average allowances and living costs loan
Student allowances only	57,145	\$7,332		\$7,332
Student allowances and living costs loan	39,763	\$6,069	\$1,818	\$7,887
Living costs loan only	61,285		\$5,043	\$5,043

Source: Ministry of Social Development.

On average, in 2012:

- those who received only student allowances received \$7,332
- those who received student allowances and used the living costs entitlement under the loan scheme borrowed \$1,818 from the loan scheme and received \$6,069 in student allowances – meaning they were paid a combined total of \$7,887 from both schemes
- those who relied solely on the living costs entitlement under the loan scheme borrowed \$5,043.

The number of students borrowing a loan and/or receiving student allowances is illustrated by Figure 19. There was a declining trend in the number of students borrowing living costs and/or receiving student allowances from 2003 to 2005. From 2005, the number increased steadily, with a sharp rise in 2010.

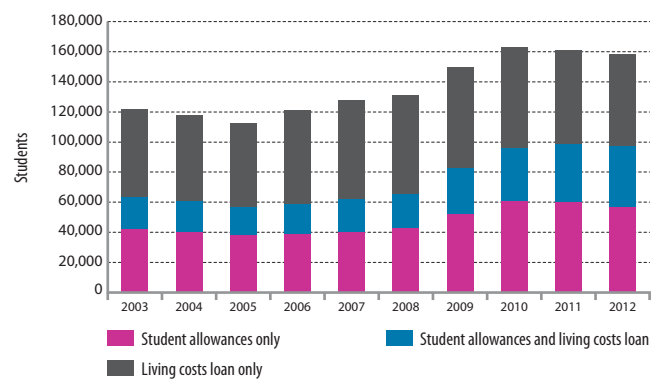
The significant increase in the number of students receiving a student allowance in 2009 was a result of three factors. The first was the reduction in the age limit for parental income testing to establish eligibility for an allowance from 25 to 24 years. The second was a 10 percent increase in the parental income threshold for student allowances. The third was the economic downturn that resulted in higher unemployment and hence lower family incomes.

In 2012, the number of borrowers fell again from the 2005 level. This is largely because the gradual recovery from the economic downturn has encouraged students to return to the workforce.

In 2012:

- 158,193 students in total either borrowed the student loan living costs component or received student allowances, or both; this is a 1.9 percent fall from the 2011 level (3,098 fewer students)
- 57,145 students received student allowances only, a fall of 5.5 percent, or 3,175 fewer recipients, from the 2011 level
- 39,763 students received student allowances and also borrowed living costs, an increase of 2 percent, or 812 students, over the 2011 level
- 61,285 students borrowed living costs only, a decrease of 1.2 percent from 2011, or 735 fewer borrowers.

Figure 19 Living cost support for students – students borrowing living costs and receiving student allowances



Source: Ministry of Social Development and Ministry of Education.

Provider type

Table 4 shows the number of students who borrowed course fees from 2007 to 2012, categorised by provider type and the proportion they represent out of all students borrowing course fees. Overall, there has been little change in the composition of borrowers over the past four years, with students attending universities consistently representing the greatest proportion of course fee borrowers.

Between 2007 and 2012, the proportion of course fee borrowers enrolled in polytechnics has increased gradually; in particular, the proportion of borrowers from polytechnics has grown from 25 percent in 2007 to 31 percent in 2012. In part, that reflects the fall-off in the fee discounting that had been common in polytechnics.

There has been a slight, steady decline in the proportion of borrowers from private training establishments. In 2007, private training establishments represented 20 percent of course fee borrowers, dropping to 15 percent in 2012.

Table 4 Students who borrowed course fees by provider type

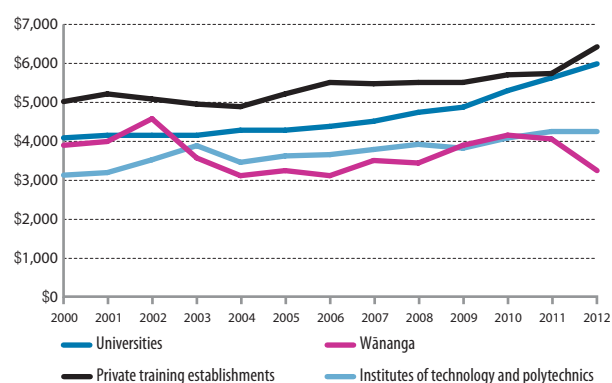
	2007		2008		2009		2010		2011		2012	
	Borrowers	%	Borrowers	%	Borrowers	%	Borrowers	%	Borrowers	%	Borrowers	%
Universities	89,530	56	92,797	56	102,467	55	107,631	54	103,769	54	103,302	55
Institutes of technology and polytechnics	39,514	25	41,589	25	50,220	27	57,546	29	58,570	30	58,107	31
Private training establishments	32,101	20	32,400	20	33,879	18	33,837	17	31,593	16	27,890	15
Wānanga	2,819	2	2,654	2	2,795	2	3,205	2	3,309	2	2,883	2
Total	160,855	100	166,112	100	185,745	100	198,575	100	193,851	100	189,120	100

Source: Ministry of Social Development.

Notes:

1. A student studying at more than one provider type has been counted in each provider type. As a result, the sum of the borrowers in this table will be more than the total number of borrowers and the percentage they represent will total to more than 100.0%.
2. Universities include college of education students.

The average course fees borrowed by provider type are shown in Figure 20. Universities and private training establishments had a year-on-year increase in the average course fees borrowed. Universities recorded an increase of 7 percent (\$391) in fees borrowed, as the balance of enrolments shifted to qualifications with higher fees and as fees increased. Polytechnic students' average fee borrowings rose by 0.2 percent (\$8). The average course fees borrowed increased by 12 percent (\$708) for students at private training establishments and decreased by 20 percent (\$813) for wānanga students.

Figure 20 Average course fees borrowed by provider type

Source: Ministry of Social Development.

Notes:

1. Colleges of education are now included with universities.
2. A student studying at more than one provider type has been counted in each provider type.

Qualification level

Table 5 provides a breakdown of borrowers and borrowing by gender and the level of qualification enrolled in from 2008 to 2012. In 2012, the number of borrowers enrolled in bachelors-level qualifications increased slightly, while most other qualifications showed no change or a fall. Bachelors-level qualification borrowers rose by 14 percent in 2012, an additional 14,802 borrowers from 2011. Postgraduate borrowers decreased by 68 percent, a fall of 13,619 borrowers from 2011. Diploma and certificate courses fell, with 6,451 fewer borrowers in 2012, a fall of 8.3 percent from 2011. The shift in the balance of borrowers reflected the enrolment trends in 2012. In 2012, across all qualification levels (apart from non-degree programmes), males borrowed more on average than females, a pattern that is consistent over the last four years.

Table 5 Student loan borrowers by level of qualification, gender and average amounts borrowed

Qualification level	Gender	2008		2009		2010		2011		2012	
		Number of borrowers	Average amount borrowed	Number of borrowers	Average amount borrowed	Number of borrowers	Average amount borrowed	Number of borrowers	Average amount borrowed	Number of borrowers	Average amount borrowed
Doctorates	Female	665	\$5,954	748	\$6,427	802	\$6,901	819	\$7,131	849	\$7,158
	Male	645	\$6,131	692	\$7,110	744	\$6,938	729	\$7,101	724	\$7,335
	Total	1,310	\$6,041	1,440	\$6,755	1,546	\$6,919	1,548	\$7,117	1,573	\$7,239
Masters, honours, postgraduate certificates and postgraduate diplomas	Female	7,234	\$6,241	8,986	\$6,981	10,265	\$7,492	10,053	\$7,844	9,981	\$8,081
	Male	7,783	\$7,527	9,141	\$7,953	10,160	\$8,591	9,877	\$8,919	9,484	\$9,222
	Total	15,017	\$6,908	18,127	\$7,471	20,425	\$8,039	19,930	\$8,377	19,465	\$8,627
Bachelors degrees, graduate certificates and diplomas	Female	55,623	\$7,164	60,293	\$7,438	65,274	\$7,743	65,780	\$8,100	66,811	\$8,323
	Male	35,309	\$7,601	38,466	\$7,872	41,431	\$8,243	41,069	\$8,590	41,686	\$8,803
	Total	90,932	\$7,334	98,759	\$7,607	106,705	\$7,937	106,849	\$8,289	108,497	\$8,507
Diplomas	Female	15,528	\$5,715	16,064	\$6,032	16,855	\$6,202	14,998	\$6,644	14,029	\$6,786
	Male	10,416	\$8,468	11,456	\$8,371	11,763	\$9,011	11,318	\$10,203	10,907	\$9,014
	Total	25,944	\$6,820	27,520	\$7,006	28,618	\$7,357	26,316	\$8,174	24,936	\$7,761
Certificates	Female	29,748	\$5,501	29,492	\$5,528	30,972	\$5,555	29,236	\$5,642	26,117	\$5,854
	Male	19,848	\$5,599	21,844	\$5,841	23,348	\$6,008	22,275	\$5,900	20,323	\$5,975
	Total	49,596	\$5,540	51,336	\$5,661	54,320	\$5,750	51,511	\$5,754	46,440	\$5,906
Other	Female	649	\$7,158	816	\$5,729	469	\$6,951	642	\$6,176	144	\$5,173
	Male	641	\$9,996	740	\$6,403	402	\$6,791	431	\$6,606	132	\$6,067
	Total	1,290	\$8,568	1,556	\$6,050	871	\$6,877	1,073	\$6,349	276	\$5,583
Overall		178,533	\$6,953	198,738	\$6,991	212,485	\$7,298	207,330	\$7,633	201,187	\$7,822

Source: Ministry of Social Development. Qualification classifications from the Ministry of Education.

Notes:

1. Some borrowers were enrolled in qualifications at more than one level.
2. This data is provisional.
3. Years are calendar years.
4. A small number of borrowers have not been assigned for any qualification level.

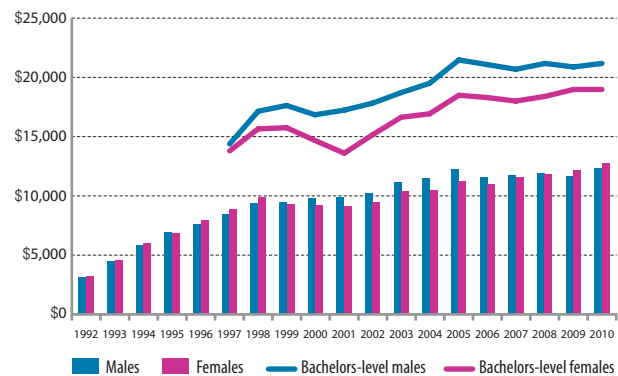
Table 6 Demographic characteristics of student loan borrowers

New active borrowers ¹⁹	
Number	The number of new active borrowers in 2012 was 54,836, falling by 3.8 percent from 57,024 in 2011.
Gender	Females represented 55 percent of new active borrowers and outnumbered males by 5,932. The proportion of new active borrowers who were female was 55 percent in 2011 (females outnumbering males by 5,954).
Age	The average age of new active borrowers was 24 years in 2012 and the median was 19, the same as the previous year. The number of new active borrowers in the 27–50 age group decreased by 1,729 or 15 percent and for those over 50 years it decreased by 209, or 12 percent in 2012.
Ethnicity	Of new active borrowers in 2012, 54 percent identified themselves as European, 18 percent as Māori, 10 percent as Asian and 9 percent as Pasifika.
Active borrowers overall	
Gender differences	In 2012, the number of females accessing the Student Loan Scheme was 117,931, compared with 83,256 males. The average amount borrowed by females increased in 2012 by \$275, or 4 percent (from \$7,291 in 2011 to \$7,566). The average amount borrowed by males increased by \$68 on average (an increase of 1 percent from \$8,117 in 2011 to \$8,185).
Age	Between 2011 and 2012, the number of active borrowers in the over-50 group fell from 7,568 to 6,313, a decrease of 17 percent. The 27–50 years demographic also fell, by 7.4 percent, from 57,905 borrowers in 2011 to 53,648 in 2012. The 20 and under age group (the largest demographic group) also experienced a fall, down 1.0 percent, from 65,257 in 2011 to 64,712 in 2012. The 21–26 age group in 2012 was effectively unchanged from 2011.
	In 2012, 70 percent (141,226) of all active student loan borrowers were under the age of 27. Those borrowers aged 27 to 50 represented 27 percent of active borrowers, while the over-50 age group constituted just 3.1 percent of all active borrowers.
Ethnicity	From 2000 to 2011, 45 percent of borrowers identified themselves as European, 16 percent of borrowers as Māori, 12 percent of borrowers as Asian and 7 percent of borrowers as Pasifika.
	In 2012, 56 percent of active borrowers identified themselves as European, 17 percent of borrowers as Māori, 12 percent of borrowers as Asian and 7 percent of borrowers as Pasifika.
	Further details on demographic characteristics of borrowers are available in the tables on the Education Counts website.

Leaving balances

Figure 21 gives the median leaving balances of males and females in the leaving cohorts from 1992 to 2010. Between 1999 and 2008, males left with larger median loan balances than females. However, in 2008 the median leaving balance among females was higher than for males. In 2010, the median leaving balance for females was \$12,760 and males was \$12,420.

The greatest volume of borrowing has tended to be by students at bachelors level.²⁰ Figure 21 also tracks the loan balances of those who studied at this level and left between 1997 and 2010. According to the graph, male borrowers who studied bachelors-level qualifications leave study with higher leaving loan balances than female borrowers who studied at bachelors level. The level of the loan balance depends on many factors, such as the field of study enrolled in, the provider attended, and the individual's pass rate. One of the explanations for the difference in leaving loan balances between males and females may be the higher pass rate of female students in bachelors-level studies. Higher pass rates mean that students complete their studies more quickly and borrow less.

Figure 21 Median loan balances for leavers by gender – all borrowers and those who studied at bachelors level

Source: Statistics New Zealand, integrated dataset.

Note: 2010 is the latest leaving cohort available.

Between 2000 and 2010, the median leaving balance for men rose by 27 percent and for women by 38 percent. Adjusting for inflation over that period, these amounted to a fall of 5.8 percent and a rise of 2.4 percent respectively.

3.2 Loan balances

This section provides an analysis of loan balances and the characteristics of the borrower population. Since April 2012, all loan balance information has been held by Inland Revenue and because of the previous separation of databases between StudyLink and Inland Revenue some data series presented here are not continuous over the time span covered.

Nominal value of balances

The nominal value of all loans at 30 June 2013 was \$13,600 million, an increase of \$593 million, or 4.6 percent, over last year. The nominal value includes all borrower obligations – the loan principal outstanding, interest and penalties.

Over the reporting year, the total loan balances outstanding were increased by:

- lending made by StudyLink (including establishment and administration charges)
- interest applied to overseas-based loans and penalties on overdue repayments

and reduced by:

- payments received from borrowers
- bonuses for voluntary repayments, loans written off due to death or bankruptcy, or small balance write-offs.

The nominal value is the basis for other calculations such as the carrying value²¹ and average and median balances. For details of the valuation of the portfolio, refer to chapter 4 and to the financial statements for the scheme in chapter 5.

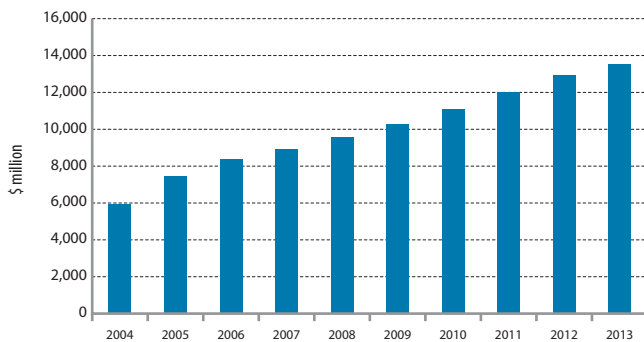
The value of total nominal balances since 2003 is shown in Figure 22a.

¹⁹ Those entering the loan scheme for the first time in 2012.

²⁰ This includes certificates and diplomas at level 7 on the New Zealand Qualifications Framework.

²¹ Refer to chapter 4.0 for a definition of carrying value.

Figure 22a Aggregate nominal balances of student loans at 30 June

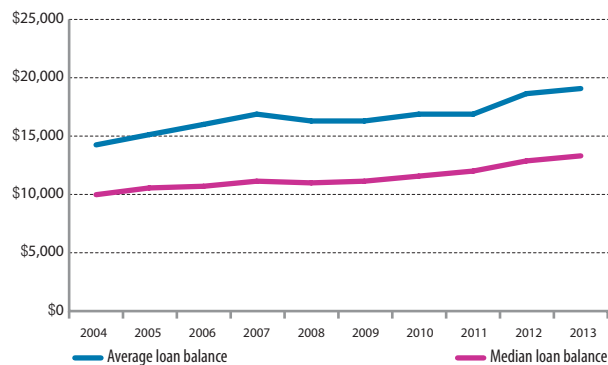


Source: Inland Revenue and Ministry of Social Development to 2011; from 2012 Inland Revenue's consolidated database.

Total nominal balances have risen consistently over the period shown as the total number of borrowers has grown. However, the increase in 2012/13 – \$593 million – was below the average of \$844 million for the previous nine years, because of the large volume of voluntary repayments received before the bonus scheme was ended. Chapter 3.3 discusses this in more detail.

Figure 22b shows the average and median values since 2004. The range of loan balances is shown in Table 7.

Figure 22b Average and median loan balances at 30 June



Source: Inland Revenue.

Notes:

1. The data for 2012 and 2013 includes loan information transferred on a daily basis from the Ministry of Social Development to Inland Revenue. In previous years there was a time lag of one year before loan data for an academic year was transferred.
2. Data for 2011 and earlier excludes data held by the Ministry of Social Development.

Table 7 Range of loan balances at 30 June 2013

Range of loan balances	Borrowers	%	Cumulative %
\$1-1,999	51,433	7.23	7.23
\$2,000-3,999	55,863	7.86	15.09
\$4,000-5,999	57,796	8.13	23.22
\$6,000-7,999	65,412	9.20	32.42
\$8,000-9,999	53,364	7.51	39.93
\$10,000-14,999	102,851	14.47	54.39
\$15,000-19,999	75,177	10.57	64.97
\$20,000-24,999	61,000	8.58	73.55
\$25,000-29,999	45,152	6.35	79.90
\$30,000-34,999	34,781	4.89	84.79
\$35,000-39,999	27,135	3.82	88.61
\$40,000-44,999	19,459	2.74	91.34
\$45,000-49,999	15,299	2.15	93.50
\$50,000-54,999	11,519	1.62	95.12
\$55,000-59,999	8,042	1.13	96.25
\$60,000-79,999	16,477	2.32	98.56
\$80,000-99,999	5,795	0.82	99.38
\$100,000-119,999	2,426	0.34	99.72
\$120,000-139,999	1,020	0.14	99.86
> \$139,999	967	0.14	99.86
Total	710,968	100.00	100.00

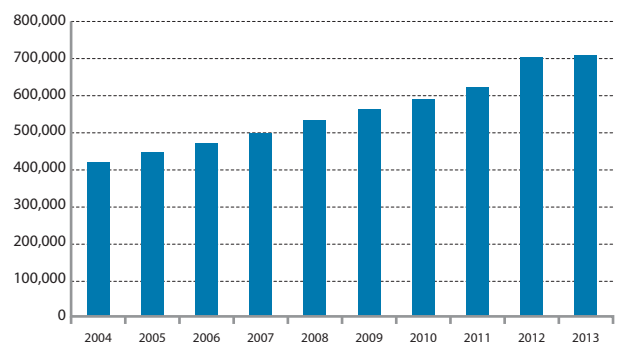
Source: Inland Revenue.

Number of borrowers

At 30 June 2013, there were 710,968 student loan borrowers. This compares with 701,232 last year (see Figure 23).

The large increase between 2011 and 2012 was due to the changes made in the way that loans are administered. In April 2012, the database held by Inland Revenue received two intakes of loan information. The first was a single data transfer for the 2011 academic year for new and existing borrowers who had borrowed in that year. The second was for the 2012 academic year to 30 June under the new arrangements by which loan data is transferred daily from StudyLink.

Figure 23 Number of borrowers at 30 June



Source: Inland Revenue.

Table 8 Characteristics of student loan borrowers

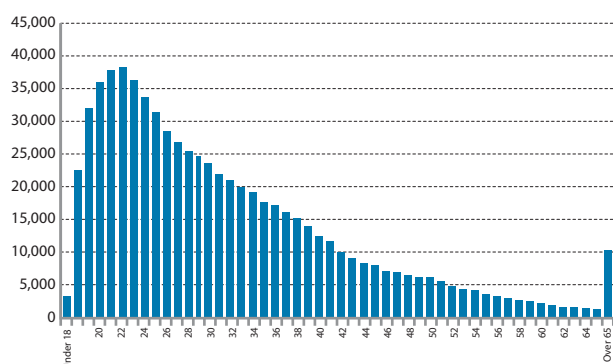
		% of borrowers	% of total loan balance	Forecast median repayment times
Ethnicity	European	48.4	51.5	6.7
	Māori	21.9	18.7	8.2
	Pasifika	9.1	8.8	8.2
	Asian	11.7	13.3	7.9
	Other	4.0	4.5	7.3
Gender	Male	43.4	46.4	7.1
	Female	56.6	53.6	7.4
Qualification	Doctorates	0.7	1.3	7.3
	Masters	2.7	4.5	6.8
	Honours/ Postgrad cert/dip	5.4	7.8	6.4
	Bachelors	35.2	43.4	7.5
	Diplomas	13.7	12.9	7.2
	Level 4 Certificates	12.2	8.4	6.9
	Level 1-3 Certificates	21.0	13.3	7.4

Source: Statistics New Zealand, integrated dataset.

Notes:

1. This table contains data on those who borrowed after 1997 and had a student loan at 31 March 2012.
2. The forecast repayment times are for borrowers who left study in 2009. Further details on forecast repayment times can be found in Tables 17-24 of this report. Therefore the repayment times relate to a different borrower population from that represented in the split of borrowers. Some borrowers with unknown ethnicity or unknown level of study are not shown in the table.
3. Repayment times are calculated in years.

Figure 24 shows borrowers by age group. In 2013, 49.9 percent of all borrowers were 28 years or under, slightly higher than the previous year (2012: 49.5 percent).

Figure 24 Borrowers at 30 June 2013 by age

Source: Inland Revenue.

Note: The graph gives data by single year of age from age 19 to age 65. Those aged greater than 65 are consolidated to a single bar. This accounts for the apparent 'spike' in the graph.

Summary of student loans at 30 June

Table 9a Borrower accounts and total nominal balances

	2011	2012	2013
Number of borrowers			
Borrowers based:			
– in NZ	529,434	600,137	603,965
– overseas	91,724	101,095	107,003
Total	621,158	701,232	710,968
Nominal balances			
Borrowers based:			
\$ million			
– in NZ	8,402	10,299	10,678
– overseas	2,329	2,670	2,884
Total	10,731	12,969	13,562

Source: Inland Revenue.

Note: Shaded data for 2011 is not comparable with 2012 and 2013. The data for 2011 is for Inland Revenue only, before loan information was transferred from StudyLink to Inland Revenue daily.

Table 9b Average and median value of loans

	2011	2012	2013
Average loan			
Average loan	\$17,276	\$18,494	\$19,076
Median loan			
Borrowers based:			
– in NZ	\$11,097	\$12,006	\$12,440
– overseas	\$18,632	\$19,218	\$19,370
All borrowers	\$11,880	\$12,849	\$13,307

Source: Inland Revenue.

Note: Shaded data for 2011 is not comparable with 2012 and 2013. The data for 2011 is for Inland Revenue only, before loan information was transferred from StudyLink to Inland Revenue daily.

3.3 Repayment performance

Overview

Earlier in this report (chapter 2.2), reference was made to factors that affect loan repayment, such as:

- the size of the borrower group actively repaying loans
- legislative changes to repayment obligations
- the number of borrowers in New Zealand and those overseas
- economic conditions that influence incomes
- the size of the repayment gap arising from:
 - circumstances or events anticipated in the legislation, such as having a low income, death or bankruptcy
 - non-compliance behaviour by borrowers and the effectiveness of measures to improve compliance.

This section of the report deals with these factors in more detail. It also highlights the impact of major events such as the end of the repayment bonus and the phasing out of the three-year holiday for overseas borrowers.

Repayments

In the year to June 2013, repayments overall rose by 37.3 percent (see Table 10), mainly because borrowers took advantage of the voluntary repayment bonus scheme which ended on 31 March 2013. 57 percent of repayments were collected through the PAYE tax system in the 2012/13 tax year. Details on the repayments collected directly from borrowers are shown in Table 11.

Table 10 Loan repayments

Repayments	2010/11	2011/12	2012/13
	\$ million		
PAYE	491.6	528.0	599.6
From borrower	199.0	239.7	454.3
Total	690.6	767.7	1,053.9
	Annual % change		
PAYE	3.7	7.4	13.6
From borrower	16.7	20.6	89.5
Total	7.2	11.3	37.3

Source: Inland Revenue.

The increase in repayments through the PAYE system is the result of:

- the increase in the number of borrowers repaying through the PAYE system
- mandatory use of the 'SL' tax code in the tax system for all borrowers (online services are available to borrowers to arrange exemptions if they study full time and expect to earn under the repayment threshold, or require special deduction rates)
- holding the repayment threshold at \$19,084 since 2011
- the increase in the repayment rate from 10 to 12 cents per dollar in the final quarter of the financial year (April to June 2013).

Table 11 Analysis of repayments directly from borrowers

Repayments from borrowers	2010/11	2011/12	2012/13
	\$ million		
Overseas			
– on repayment holiday	35.9	43.5	57.5
– with repayment obligation	52.6	70.4	102.8
NZ self-employed, etc	110.5	125.8	293.9
Total	199.0	239.7	454.3
	Annual % change		
Overseas			
– on repayment holiday	-16.7	21.2	32.2
– with repayment obligation	82.0	33.8	46.1
NZ self-employed, etc	12.2	13.8	133.6
Total	16.7	20.5	89.5

Source: Inland Revenue.

Repayments received directly from borrowers increased by 89.5 percent overall. The main factors that affected this payment stream were:

- a sharp increase in the number of voluntary repayments as borrowers took advantage of the bonus arrangements before the scheme ended on 31 March 2013
- the campaign to improve compliance among overseas-based borrowers (the Overseas-Based Borrower Compliance Initiative described below)
- the increase in the number of borrowers who now have a repayment obligation
- Inland Revenue campaigns to collect overdue repayments in New Zealand.

Analysis of borrowers by tax year

Inland Revenue data for the 2010/11 and 2011/12 tax years in Table 12 gives insight into trends based on borrowers' residence and tax status, their loan balances, whether they have a repayment obligation, and their actual payments.

Further analysis of actual payments received for the 2011/12 tax year shows the proportion of borrowers actively repaying (see Figure 25).

Note that other data on repayments, borrower numbers and outstanding balances presented elsewhere in this report is for the financial year from July to June (repayments), or at 30 June (borrower numbers and balances). The data here is for the tax year starting on 1 April and ending on 31 March the following year.

The move to pay period assessment from April 2012 for most borrowers means that the analysis presented here cannot be continued in future.

Repayment obligations

Tax year information about income and repayments for 2011/12 is near-complete, as most taxpayers who are required to file returns have done so, and the payment obligation of most of them has been determined. There is also relative certainty about the number of New Zealand and overseas-based borrowers.

Although tax year information is not directly comparable with data elsewhere in this report, total borrower numbers and total nominal balances are only slightly different from those based on other periods that overlap the tax year. However, the population in the tax year data and the associated cash flows reflect only those borrowers who still have a loan balance to pay at the end of March. Borrowers whose loans were paid off during the tax year, and any associated cash flow, are not included. Hence repayments in this analysis are about 10 percent lower than the recorded repayments over 12 months.²²

Table 12 divides borrowers into two main groups based on their tax status:

- those with **no immediate repayment obligation** – people in study and with an income below the threshold, or not in study, but with income under the repayment threshold, or overseas and on a repayment holiday. Although they do not have a repayment obligation, some are actively repaying
- those **with a repayment obligation** – receiving salaries or wages, or self-employed, with income above the repayment threshold, or overseas-based and not on a repayment holiday.

Comparison of the 2010/11 and 2011/12 tax years shows that:

- there still continue to be more borrowers without a repayment obligation (54 percent) than borrowers who have a repayment obligation (46 percent); there has only been a slight shift between the two tax years
- the most significant increases were in the number of borrowers who are self-employed New Zealand-based borrowers (and their nominal balances) and overseas borrowers with an assessment
- repayments in the 2011/12 tax year were up significantly in most categories, showing the effect of the voluntary repayment bonus, which is discussed later in this section.

This analysis needs to be treated with caution because of the nature of the tax year data, as indicated above.

Table 12 Profile of student loan balances and repayments by repayment obligation

	2010/11 tax year						2011/12 tax year						% change between years		
	Number of borrowers	Loan balances \$ million	Repayments \$ million				Number of borrowers	Loan balances \$ million	Repayments \$ million				Number of borrowers	Loan balances	Repayments
	No repayment obligation						No repayment obligation						No repayment obligation		
NZ-based															
No income	33,000	\$527	\$4				34,227	\$562	\$4				4%	7%	0%
Salary or wages	243,000	\$3,752	\$21				248,241	\$3,959	\$24				2%	6%	14%
Self-employed	40,000	\$666	\$9				39,153	\$683	\$9				-2%	3%	0%
Overseas-based															
Repayment holiday	33,000	\$717	\$25				35,190	\$773	\$30				7%	8%	20%
Sub-total	349,000	55%	\$5,662	52%	\$59	10%	356,811	54%	\$5,977	51%	\$67	11%	2%	6%	14%
	With repayment obligation						With repayment obligation						With repayment obligation		
NZ-based															
Salary or wages	181,000	\$2,920	\$359				188,822	\$3,144	\$384				4%	8%	7%
Self-employed	42,000	\$736	\$100				46,152	\$829	\$114				10%	13%	14%
Overseas-based															
Assessment	59,000	\$1,572	\$47				64,593	\$1,829	\$57				9%	16%	21%
Sub-total	282,000	45%	\$5,228	48%	\$506	90%	299,567	46%	\$5,802	49%	\$555	89%	6%	11%	10%
Total	631,000	100%	\$10,890	100%	\$565	100%	656,378	100%	\$11,779	100%	\$622	100%	4%	8%	10%

Source: Inland Revenue.

Notes:

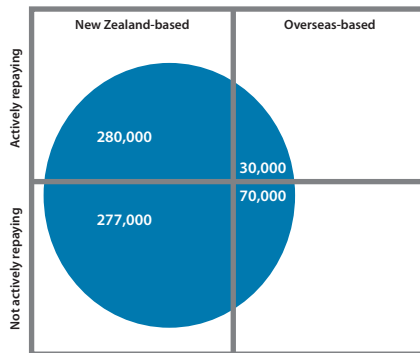
1. 2010/11 tax year = April 2010 to March 2011; 2011/12 tax year = April 2011 to March 2012.
2. The data in this table:
 - shows the number of borrowers with Inland Revenue at the end of the respective tax years, ie. 31 March
 - shows the loan balances for this group at that time
 - shows the repayments made by them during the tax year
 - only includes borrowers with an outstanding balance greater than zero; hence loans fully repaid during the tax year are not included.

²² Cash repayments may be allocated to the current tax period, but also to prior periods (for overdue amounts) or future periods.

Actual repayments

Figure 25 shows further analysis of the data used for Table 12. In this analysis, borrowers are divided into two groups by residence status and then into those actively repaying and those not.

Figure 25 Repayment profile for the 2011/12 tax year



Source: Inland Revenue.

Note that this analysis is based on the definition of active repayment (that is, the borrower has made at least one payment during the tax year) and does not differentiate according to the size of the amounts repaid.

Voluntary repayment bonus

From April 2009 (the start of the 2009/10 tax year), borrowers who made voluntary repayments over \$500 above their repayment obligation received a 10 percent bonus.²³ Table 13 shows data processed to 30 June 2013 for bonuses for the entire period in which the bonus applied. The bonus can be recorded retrospectively to previous tax years, so payments made in the 12 months before the bonus scheme ended on 31 March 2013 are spread into appropriate tax years depending on the borrower's tax situation.

The high level of repayments over 2012/13 has been attributed to the removal of the voluntary repayment bonus scheme, with voluntary repayments in respect of the 2013 tax year being the last to attract the 10 percent bonus. It has been estimated that the extra voluntary repayments attributable to the removal of the bonus total around \$160 million.

Table 13 Repayment bonus payments processed to June 2013

	Number of borrowers	Voluntary repayments \$ million	Bonus \$ million	Average bonus \$
Periodic bonus	86,830	250.1	25.0	288
Finalising bonus	42,605	451.4	45.1	1,059
By tax year ending 31 March				
2009/10				
– NZB	24,042	71.8	7.2	299
– OBB	8,559	60.1	6.0	702
Total	32,601	131.9	13.2	405
2010/11				
– NZB	27,167	85.1	8.5	313
– OBB	9,318	60.9	6.1	653
Total	36,485	146.0	14.6	400
2011/12				
– NZB	28,948	100.5	10.1	347
– OBB	11,122	78.6	7.9	707
Total	40,070	179.1	18.0	447
2012/13				
– NZB	12,527	149.6	15.0	1,194
– OBB	7,752	94.9	9.5	1,225
Total	20,279	244.5	24.5	1,206
– NZB – total	92,684	406.9	40.7	439
– OBB – total	36,751	294.6	29.5	802
Total	129,435	701.5	70.2	542

Source: Inland Revenue.

Note: Periodic bonus = bonus applied at the end of a tax year or pay period
Finalising bonus = bonus applied at the time of a loan being fully repaid
NZB = New Zealand-based borrower
OBB = overseas-based borrower.

Loans fully repaid

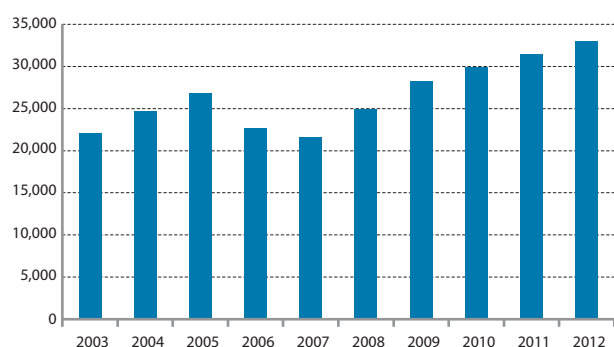
When loans are fully repaid, or 'finalised', they can be backdated to previous years and there is often a time lag of about two years before definitive data on fully repaid loans becomes available. At the time this report was produced, over 374,000 borrowers had repaid their loan since the scheme began and Inland Revenue had collected a total of \$8,125 million in repayments. In the year to June 2012, 33,067 borrowers repaid their loans in full.

Figure 26 shows the number of loans repaid in full to Inland Revenue at 30 June since 2003. The dip in loans fully repaid in 2006 and 2007 is most likely due to the introduction of interest-free loans, which resulted in reduced voluntary repayments.²⁴ The increase in repayments from 2008 reflects better management of collections by Inland Revenue, leading to better compliance and incentives such as the repayment bonus.

The high volume of repayments linked to the end of the bonus scheme referred to in the previous section affected tax years from 2009/10 onwards, but the main impact is expected to be on the 2012/13 tax year. In the period July 2012 to June 2013, about 16,000 borrowers fully repaid their loans under the bonus scheme.

²³ Borrowers are eligible for the repayment bonus if they are up to date with their repayments and filing their income tax returns, their loan balance with Inland Revenue is \$550 or more at the beginning of the tax year (1 April), and their excess repayments for the tax year total \$500 or more.

²⁴ From 1 April 2006, for borrowers living in New Zealand for 183 consecutive days or more, and for borrowers who are exempt, student loans became interest-free.

Figure 26 Number of loans fully repaid at 30 June

Source: Inland Revenue.

Note: Historical data can be changed because loans can be booked to previous tax years when they are repaid.

Overdue repayments

Trends in overdue repayments

Table 14 presents a summary of overdue repayments by borrower residency status. In 2013, the divergence in the volume of arrears between New Zealand and overseas-based borrowers has become even larger than in 2012. The number of overseas-based borrowers in arrears increased by 11,437, and the amount overdue rose by \$125.4 million, while arrears of New Zealand-based borrowers remained relatively static.

Table 14 Overdue student loan repayments at 30 June

Overdue repayments	2011	2012	2013	% change
Borrowers based:				
Overdue amount				
\$ million				
– in New Zealand	122.7	102.6	100.8	-1.8
– overseas	288.9	409.7	535.1	30.6
Total	411.6	512.3	635.9	24.1
Number of borrowers				
– in New Zealand	49,803	38,577	39,379	2.1
– overseas	50,267	53,471	64,908	21.4
Total	100,070	92,048	104,287	13.3
Average amount outstanding				
\$				
– in New Zealand	2,463.7	2,659.6	2,559.7	-3.8
– overseas	5,747.3	7,662.1	8,244.0	7.6
Total	4,113.2	5,565.6	6,097.6	9.6

Source: Inland Revenue.

Table 15 shows the age of overdue repayments for the last three years. The number of overdue repayments more than two years in arrears has been increasing steadily, reflecting the continuing non-compliance of overseas borrowers.

Table 15 Age of overdue repayments at 30 June

Age of overdue repayments	June 2011		June 2012		June 2013	
	\$ million	%	\$ million	%	\$ million	%
0-1 month	6.0	1	8.3	2	9.4	1
2-3 months	87.1	21	94.4	18	113.7	18
4-6 months	6.9	2	7.0	1	8.2	1
7-12 months	5.2	1	4.7	1	9.4	1
1-2 years	81.7	20	94.3	18	98.9	16
2-5 years	182.2	45	255.8	51	268.1	43
> 5 years	42.5	10	47.7	9	128.2	20
Total	411.6	100	512.3	100	635.9	100

Source: Inland Revenue.

Measures to improve repayment compliance

Various mechanisms have been put into place to make sure that New Zealand-based borrowers meet their repayment obligations. Campaigns to require borrowers to use the right tax code and to remind self-employed borrowers to pay their tax on time have progressively reduced the amount of arrears owed by New Zealand-based borrowers. Aside from these proactive campaigns, Inland Revenue's online services have been improved to make it easier for borrowers to self-manage their loans and find out changes that may affect them.

The capitalisation of small debts of less than \$334 has also meant that fewer cases become overdue. With the introduction of pay period deductions, Inland Revenue has also taken action to collect significant under-deductions in the PAYE system by requiring employers to make compulsory extra deductions.

The large increase in overdue repayments by overseas-based borrowers was once again caused mainly by a significant group of overseas-based borrowers coming off their repayment holiday. As well as more borrowers now being in arrears, interest and penalties are accumulating for this group and are increasing the average amount outstanding per borrower.

After March 2014, the number of overseas-based borrowers in arrears is expected to increase even further. A large number of borrowers (about 30,000) are the last group who have been on an extended repayment holiday that ended in March 2013. Based on the behaviour of previous groups of borrowers who came off the repayment holiday, many borrowers in the March 2013 post-repayment holiday group will not meet their obligations and they are expected to be in default after March 2014. The repayment holiday is still available to borrowers, but is only for one year. Borrowers need to apply for the holiday and provide the name and address of a person based in New Zealand willing to act as an alternative contact person.

The success of the Overseas-Based Borrower Compliance Initiative (OBBCI) has made inroads into the overdue amount owed by overseas-based borrowers and improved their repayment behaviour. However, overseas-based borrowers still represent an increasingly disproportionate share of the total amount overdue. In 2013 they:

- represented 15 percent of all borrowers (2012: 15 percent)
- represented 62 percent of all borrowers with overdue payments (2012: 58 percent)
- had 84 percent of the amount overdue (2012: 80 percent).

Loan balance write-off due to death or bankruptcy

The loan balances of deceased borrowers are written off under section 60 of the Student Loan Scheme Act 1992. The loans of borrowers adjudicated bankrupt are written off under the Insolvency Act 1967. In the year to 30 June 2013, \$9 million was written off due to bankruptcy. Over the same period, the total value of loans written off due to the death of the borrower was \$13 million.

Table 16 Write-offs due to bankruptcy or death

Write-offs	2010/11	2011/12	2012/13
	\$ million		
Bankrupt	10	10	9
Deceased	9	12	13
	Number of cases		
Bankrupt	935	674	422
Deceased	786	930	937

Source: Inland Revenue.

Overseas-Based Borrower Compliance Initiative (OBBCI)

This programme was initiated in October 2010 and has been scaled up since then to cover more countries and expand the range of ways in which Inland Revenue communicates with borrowers overseas. It targets borrowers predominantly in Australia and the United Kingdom.

The objective of the initiative is to improve the paying behaviour of overseas-based student loan borrowers using direct campaigns and online and outside advertising. To make it easier for overseas borrowers to make payments, options to pay by credit card or use online payment services are offered on a 'fee-free' basis. Inland Revenue is also using private sector debt collection services to track and trace borrowers, collect debt, process serve and start legal action against non-compliant overseas-based borrowers. Most payments to date have come from Australia.

At June 2013, the cumulative results for the OBBCI initiative were as follows:

- Total cost: \$6.9 million
- Payments received: \$70.2 million
- Return on investment: 10.1: 1.

Inter-agency initiatives are currently in progress to improve the information available to Inland Revenue to facilitate the collection process:

- Inland Revenue–Customs Student Loan Alerts Information Match: positively matching arrivals of overseas-based borrowers in serious default and allowing follow-up to collect outstanding loans,
- Inland Revenue–Department of Internal Affairs Passport Information-Sharing Agreement: public consultation on the proposed agreement started at the end of May 2013. The proposal will allow the Department of Internal Affairs to share contact details from adult passport applications and renewals with Inland Revenue. The details will be matched against Inland Revenue's database of overseas-based student loan borrowers in default and liable child support parents in default or with out-of-date contact details.

As part of Budget 2013, Government announced an 'arrest at border' provision in the student loan legislation similar to that in place for child support defaulters. Once enacted, overseas-based borrowers in serious default could have an arrest warrant issued and could be detained at the border. Actual arrests are not frequent under the child support provisions but, if this new provision is agreed to, it will add to the range of actions that can be used to recover overdue loans.

3.4 Forecasts of loan repayment

This section looks at the repayment phase of loans. It gives information on how long it has taken and how long we expect it will take borrowers to repay their loan in full. This is a key measure of the affordability of tertiary education for students. It is also a critical part of the calculation of the value of the loan portfolio.

Repayment times are influenced by a variety of factors, such as:

- government policy on tertiary education and on loans in particular
- the strength of the labour market
- the type of study undertaken
- whether a borrower stays in New Zealand or spends long periods overseas
- the size of loan on leaving study.

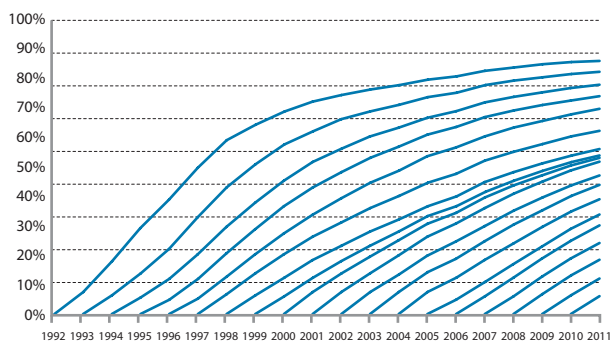
Observations of how long it has taken former students to repay are made from the integrated dataset, and for projections of repayment times we use the Student Loans Integrated Model. While there are always limitations on the power of models to predict future behaviour, this model has proved reliable in its forecasting to date.

Repayment times and rates

As at 30 June 2013, a total of \$8,125 million had been collected in repayments by Inland Revenue since the loan scheme was established in 1992.

Of the students who left study in 1992, 72 percent had repaid their loan in full by 2001, and 86 percent by 2011. This cohort had lower borrowing in comparison with those in later years, because fees were relatively low during this period and, as the loan scheme only commenced in 1992, borrowers who left in 1992 had only drawn from the scheme for one year.

Figure 27 Percentage of borrowers fully repaid by leaving cohort



Source: Statistics New Zealand, integrated dataset.

Notes:

1. The leaving cohorts are those who last studied in the years shown, had borrowed from the scheme, and had a student loan balance of \$20 or more at 31 March in the following year. Those who had repaid their student loan before 31 March in the year after leaving study are excluded.
2. The data includes New Zealand-based borrowers and overseas-based borrowers.
3. Full repayment is deemed to occur when the student loan balance has fallen below \$20.

Rates of repayment fluctuate from year to year. Students who left study after 2000 have faster repayment rates than those who borrowed and left study in the late 1990s. The variance in repayment times is in part due to changes in student support policy, such as:

- no interest while studying for full-time students and for part-time students on low incomes²⁵ (introduced in 2000)
- fee stabilisation policies that have operated since 2001
- interest-free student loans for New Zealand-based borrowers (introduced in 2006).

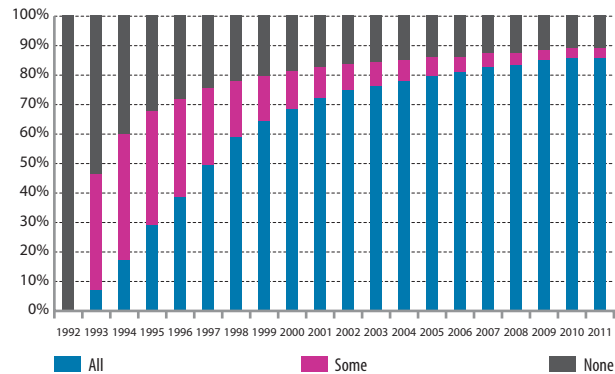
Repayment rates also reflect the strength of the labour market. Of the groups whose repayment rates are shown in Figure 27, those who left study in 2004 and 2007 faced relatively high demand for skilled graduates and their repayment rates reflect the fact that they earned more than those who left in 1995 and 1998, when earnings were lower.

Of the students who left study in 1998, 18 percent had fully repaid their loan three years later in 2001. By comparison, three years after leaving study, 20 percent of students from the 2001 cohort and 19 percent of the 2008 cohort had repaid their loan in full.

There are some borrowers who never succeed in repaying their loan completely and others who make no progress toward repayment over extended periods of time.

Figure 28a shows that, although around 86 percent of students who left study in 1992 with a student loan had fully repaid by 2011, 3 percent had made partial payment owing and 11 percent made no progress toward repayment at all.

Figure 28a Proportion of borrowers who left study in 1992 who had repaid all, some or none of their student loans by the end of 2011

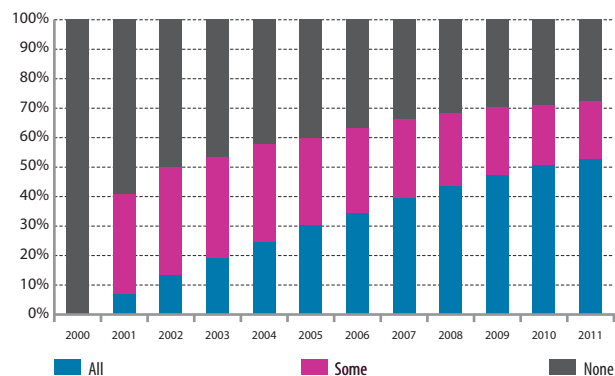


Source: Statistics New Zealand, integrated dataset.

Figure 28a shows the trend in progress to full repayment. In the years immediately after leaving study, the rate of repayment is higher and there is a rise in the proportion of borrowers who have repaid in full, and a decrease in the proportion making no progress toward repayment. One year out of study, 7 percent of borrowers who left study in 1992 had repaid their loan in full, while 54 percent had made no progress. By 1997, almost 50 percent of borrowers from this group had repaid their loan in full and only 25 percent had not reduced their loan balance.

A similar trend can be seen in Figure 28b with borrowers who left study in 2000. By the end of 2002, 14 percent of this group had repaid their loan in full, while 50 percent had made no repayment progress. By 2010, 51 percent of borrowers who left study in 2000 had repaid their loan in full, while the proportion of borrowers who had made no progress toward repayment had decreased to 29 percent.

Figure 28b Proportion of borrowers who left study in 2000 who had repaid all, some or none of their student loans by the end of 2011



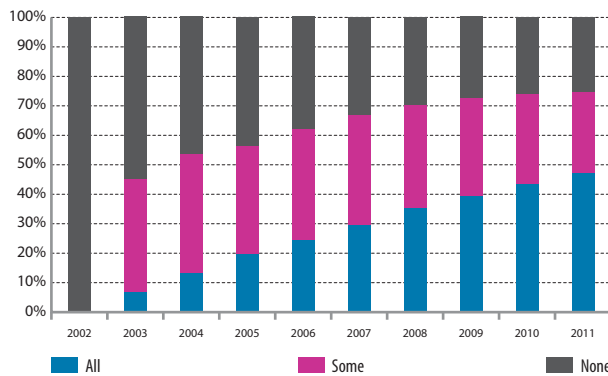
Source: Statistics New Zealand, integrated dataset.

25 These policies meant that most students paid no interest, or less than the full interest charged, while studying.

Figures 28a and 28b also illustrate how the rate of repayment reduces over time. For borrowers who left study in 1992, the rate of repayments began to slow about 10 years out of study and the proportion of borrowers who have made no progress toward repayment began to plateau. Among the 2000 leavers, the proportion who had completely repaid increased steadily over the first 10 years after study. But the proportion who had repaid nothing began to reduce at a slower rate over the last three years covered in Figure 28b. This picks up borrowers who are based overseas or are earning below the repayment threshold.

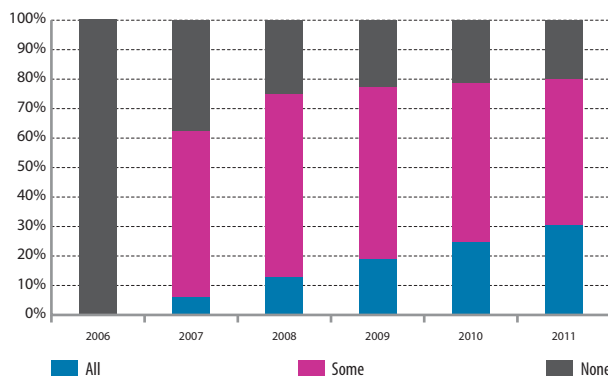
More recent leavers can be seen in Figures 28c and 28d. We see that 47 percent of the 2002 leavers had repaid in full by 2011. For the 2006 leavers, 30 percent had repaid by 2011.

Figure 28c Proportion of borrowers who left study in 2002 who had repaid all, some or none of their student loans by the end of 2011



Source: Statistics New Zealand, integrated dataset.

Figure 28d Proportion of borrowers who left study in 2006 who had repaid all, some or none of their student loans by the end of 2011



Source: Statistics New Zealand, integrated dataset.

Figures 28c and 28d show the impact of the interest-free student loans policy. Fewer of the 2006 leavers are making no headway with their debt compared with the 2002 leavers. Among the 2002 leavers, 54 percent had reduced or repaid their loan two years after study. But 75 percent of the 2006 leavers achieved a reduction in their loan in the first two years after study.

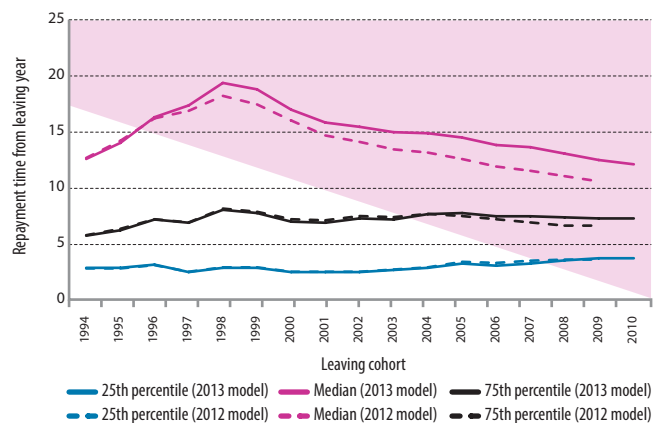
The proportion making some headway increases over time, with 80 percent having achieved a reduction in loan size by five years after study. When we look at the 2000 cohort, we see that, 11 years after study, only 72 percent had succeeded in reducing their loan. However, it is interesting to note that there is little difference in the first five years in reaching full repayment. For example, after five years, 30 percent of both groups had fully repaid.

Forecasts of repayment times

This section looks at expected repayment times for different groups of borrowers. The approach taken is to look at the repayment experience to date of each of these groups and to combine that with projected repayment behaviour drawn from the Ministry of Education's Student Loans Integrated Model (SLIM).

A new version of SLIM is created each year by the Student Loan Scheme's valuers. Over the years, the construction of SLIM has been refined and improved as new information has become available, enabling the modellers to develop better assumptions and to improve the accuracy of the forecasts. Figure 29 below compares the forecasts from the latest model, SLIM 2013, with those that came from the previous year's model, SLIM 2012.

Figure 29 Forecasts of repayment times quartiles by leaving cohort: SLIM 2012 and SLIM 2013



Source: Ministry of Education, Student Loans Integrated Model 2012 and 2013.

Note: Shaded section represents forecast repayment times.

Figure 29 shows the results from the two models for the median repayment times and the upper and lower quartiles for each leaving cohort. The dashed lines are from the 2012 model and the solid lines are from 2013. The results below the diagonal line are actual observations, representing the actual repayment times. Points above the diagonal are forecasts. We see that this year's model has pushed out forecast repayment times compared with last year. For instance, the upper quartile repayment time for the 2004 leaving cohort is forecast to be 15 years in SLIM 2013, around two years longer than forecast a year ago. This change relates to the valuers' assessment of macroeconomic conditions and their assumptions about future incomes for borrowers. These factors are discussed in greater detail in chapter 4.

In the remainder of this chapter we present more results from the 2013 model.

Forecast repayment times by borrower characteristics

Below, we look at the expected repayment times by sub-groups of several cohorts of leavers, and explore differences by gender, level of study and ethnicity, using SLIM 2013.

Gender

Before the introduction of interest-free loans, females used to repay slightly more quickly than males, even though females earn less on average on graduation than males with equivalent qualifications. Table 17 shows that, in the leaving cohorts since 2006, males are projected to repay slightly more quickly than females.

Table 17 Forecast repayment times for borrowers who left study in 1999, 2003, 2006 and 2009 by gender

Leaving cohort	Gender	Repayment time from leaving year		
		25th percentile	Median	75th percentile
1999	Male	3.2	8.0	19.2
	Female	2.6	7.4	18.5
	All	2.9	7.8	18.8
2003	Male	3.0	7.3	15.0
	Female	2.5	7.1	14.8
	All	2.7	7.2	14.9
2006	Male	3.0	7.1	13.7
	Female	3.3	7.8	13.9
	All	3.1	7.5	13.8
2009	Male	3.5	7.1	12.3
	Female	3.9	7.4	12.5
	All	3.7	7.3	12.5

Source: Ministry of Education, Student Loans Integrated Model 2013.

Notes:

1. Repayment times are calculated in years.
2. The shaded area indicates that the statistic is a projection. Other numbers are actual observations.

Level of study

For all leaving cohorts, borrowers whose last study was at postgraduate level are expected to have the shortest median repayment time. This is because of the higher earnings potential of postgraduate students after study.

It is significant that the forecast median repayment time for borrowers who last studied at certificate level has begun to fall – in the 1999, 2003 and 2006 groups, certificate-level borrowers had the highest median repayment time, but in the 2009 group the median time for those who studied at certificate level fell below bachelors. In 2009, the median time at certificate level was the second lowest (behind postgraduate). And since the 2006 leaving cohort, the repayment times for bachelors students have risen slightly.

There are two reasons for this. First, one of the factors that influence repayment times is the size of the loan. Because bachelors degrees are multiyear qualifications, students borrow for longer and so leave study with

larger loans than certificate students, whose qualifications take one year of full-time study or less. Table 18 below shows the influence of loan size on repayment times.

The second reason is that since 2006 the government has been trying to improve the quality and relevance of certificate study – using certificates as a pathway to higher qualifications and reducing the availability of certificates that have poor outcomes.

Table 18 Forecast repayment times for borrowers who left study in 1999, 2003, 2006 and 2009 by level of last study

Leaving cohort	Study level	Repayment time from leaving year		
		25th percentile	Median	75th percentile
1999	Certificates	3.1	7.8	18.0
	Diplomas	2.8	7.3	17.9
	Bachelors	2.7	7.7	19.2
	Postgraduate	1.7	4.6	12.6
	All	2.9	7.8	18.8
2003	Certificates	3.0	7.6	14.8
	Diplomas	2.8	7.3	15.2
	Bachelors	2.6	7.2	15.1
	Postgraduate	1.4	4.4	11.8
	All	2.7	7.2	14.9
2006	Certificates	3.2	7.7	13.5
	Diplomas	2.8	7.3	13.6
	Bachelors	3.3	7.5	14.1
	Postgraduate	2.2	5.6	12.5
	All	3.1	7.5	13.8
2009	Certificates	3.7	7.1	12.3
	Diplomas	3.5	7.2	12.3
	Bachelors	4.0	7.5	12.5
	Postgraduate	2.5	6.6	12.1
	All	3.7	7.3	12.5

Source: Ministry of Education, Student Loans Integrated Model 2013.

Notes:

1. Repayment times are calculated in years.
2. The shaded area indicates that the statistic is a projection. Other numbers are actual observations.
3. Level 7 graduate certificates and diplomas are included in the bachelors category.

Ethnicity

In all analysed leaving cohorts, borrowers of European ethnicity are forecast to have the shortest repayment time. Pasifika borrowers have the longest median repayment times for the 1999 and 2003 cohorts, and longest equal with Māori for the 2006 and 2009 cohorts. For the 2003, 2006 and 2009 leaving cohorts, Māori and Pasifika borrowers have longer median repayment times than Asian and other ethnicities. In all cohorts, borrowers of Asian ethnicity are projected to have the longest 75th percentile of repayment times compared with the other ethnic groups.

Table 19 Forecast repayment times for borrowers who left study in 1999, 2003, 2006 and 2009 by ethnicity

Leaving cohort	Ethnicity	Repayment time from leaving year		
		25th percentile	Median	75th percentile
1999	European	2.4	6.1	14.5
	Māori	3.5	9.3	19.7
	Pasifika	5.5	12.7	29
	Asian	2.9	12.2	–
	All	2.9	7.8	18.8
2003	European	2.0	5.9	12.8
	Māori	3.9	9.5	16.3
	Pasifika	5.3	10.6	18.9
	Asian	2.2	7.8	25
	All	2.7	7.2	14.9
2006	European	2.7	6.6	12.4
	Māori	4.0	8.9	14.9
	Pasifika	4.4	8.9	15.3
	Asian	3.1	8.1	18.2
	All	3.1	7.5	13.8
2009	European	3.4	6.7	11.4
	Māori	4.5	8.2	13.4
	Pasifika	4.5	8.2	13.6
	Asian	3.6	7.9	16.7
	All	3.7	7.3	12.5

Source: Ministry of Education, Student Loans Integrated Model 2013.

Notes:

1. Repayment times are calculated in years.
2. The shaded area indicates that the statistic is a projection. Other numbers are actual observations.
3. A dash indicates that the repayment projection is not seen to occur in the model within 30 years.

Loan size

There is a clear difference in repayment times for different loan sizes. In most cases, increasing loan size leads to increasing repayment times.

Table 20 Forecast repayment times for borrowers who left study in 2009 by loan size

Loan size \$000	Proportion of leavers	Repayment time from leaving year		
		25th percentile	Median	75th percentile
<5	23.0%	1.0	2.8	5.6
5-10	21.3%	3.4	6.0	9.5
10-15	14.3%	4.7	7.8	12.1
15-20	10.0%	5.3	8.8	13.5
20-25	7.8%	6.0	9.5	14.7
25-30	5.8%	6.7	10.3	16.3
30-35	4.9%	7.4	11.2	17.1
35-40	3.5%	8.0	11.5	17.8
40-45	2.7%	8.5	11.7	17.1
45-50	2.0%	9.1	12.8	19.8
50-55	1.3%	9.9	13.4	20
55-60	1.0%	10.2	13.8	21
60-65	0.6%	10.9	14.3	23
65-70	0.4%	10.9	14.7	22
>75	1.5%	12.5	17.9	–

Source: Ministry of Education, Student Loans Integrated Model 2013.

Notes:

1. Repayment times are calculated in years.
2. The shaded area indicates the statistic is a projection. Other numbers are actual observations.
3. A dash indicates that the repayment projection is not seen to occur in the model within 30 years.

Differences in repayment times between borrowers who stay in New Zealand and those who spend time overseas

Those who stay in New Zealand throughout the period of their loans make faster repayment progress. This is because those in New Zealand find it easier to repay – mostly via deductions from their earnings. Inland Revenue can readily keep in contact with New Zealand-based borrowers. As well, New Zealand-based borrowers face no interest charges, so once they leave study their loans cannot increase as long as they do not incur penalties.

By contrast, overseas-based borrowers have interest added to their loans and, in many cases, take a repayment holiday. In addition, many overseas-based borrowers either do not inform Inland Revenue when they go overseas, or do not maintain contact with Inland Revenue, so there is a higher risk of an overseas-based borrower falling behind on repayments and incurring penalties.

In this section we discuss forecast repayment times for two groups of borrowers:

- always New Zealand-based, who are borrowers that remain in New Zealand after completing their study and do not spend time overseas before repaying their loan in full
- not always New Zealand-based, who are borrowers that spend some time overseas after completing their study, but before repaying their loan in full.

We compare those borrowers who do not go overseas in the projected period, or at least until their loans are repaid, with those borrowers who spend some time overseas (not always New Zealand-based) during the projected period after leaving study in 2009. The comparison of the forecast repayment times by these two groups is shown in Table 21 below.

Table 21 Forecast repayment times for borrowers who left study in 2009

2009 leaving cohort	Repayment time from leaving year		
	25th percentile	Median	75th percentile
Always NZ-based	3.4	6.7	11.2
Not always NZ-based	6.7	12.1	28
All	3.7	7.3	12.5

Source: Ministry of Education, Student Loans Integrated Model 2013.

Notes:

1. Repayment times are calculated in years.
2. 'Not always NZ-based' are borrowers who spend some time overseas after completing their study, but before repaying their loan in full.

Of those borrowers in the 2008 leaving cohort who do not go overseas during the projected years, half are expected to have repaid in 6.7 years and three-quarters in 11.2 years after study. By contrast, the median repayment time for the borrowers who spend some time overseas, or are projected to go overseas in future years, is projected to be 12 years.

The 75th percentile is high, reflecting the fact that those who spend time overseas following study have longer repayment times – see Tables 22–24 below.

Forecast repayment times by borrower characteristics

The tables below compare the repayment times for borrowers who left study in 2009 and remain in New Zealand in the projected years, with the borrowers who spend time overseas.

Gender

Females have slightly longer median repayment times than males in the 2009 leaving cohort, whether they are New Zealand-based or overseas-based.

Table 22 Forecast repayment times for borrowers who left study in 2009 by gender

2009 leaving cohort	Gender	Repayment time from leaving year		
		25th percentile	Median	75th percentile
Always NZ-based	Male	3.2	6.5	11.0
	Female	3.6	6.9	11.4
	All	3.4	6.7	11.2
Not always NZ-based	Male	6.5	12.1	28
	Female	6.9	12.1	28
	All	6.7	12.1	28

Source: Ministry of Education, Student Loans Integrated Model 2013.

Notes:

1. Repayment times are calculated in years.
2. 'Not always NZ-based' are borrowers who spend some time overseas after completing their study, but before repaying their loan in full.

Level of study

The median repayment time for borrowers who left study in 2009 and remained in New Zealand was longest for those who studied at certificate and bachelors level, while postgraduate students had the shortest. Borrowers who were not always based in New Zealand and studied at bachelors level have the longest repayment times compared with other qualification levels.

Table 23 Forecast repayment times for borrowers who left study in 2009 by level of last study

2009 leaving cohort	Study level	Repayment time from leaving year		
		25th percentile	Median	75th percentile
Always NZ-based	Certificates	3.5	6.7	11.5
	Diplomas	3.3	6.6	11.2
	Bachelors	3.5	6.8	10.8
	Postgraduate	2.0	5.6	10.0
	All	3.4	6.7	11.2
Not always NZ-based	Certificates	6.2	11.4	–
	Diplomas	6.6	11.8	25
	Bachelors	7.3	12.6	25
	Postgraduate	6.3	12.1	24
	All	6.7	12.1	28

Source: Ministry of Education, Student Loans Integrated Model 2013.

Notes:

1. Repayment times are calculated in years.
2. 'Not always NZ-based' are borrowers who spend some time overseas after completing their study, but before repaying their loan in full.
3. A dash indicates that the repayment projection is not seen to occur in the model within 30 years.

Ethnicity

Europeans in the 2009 cohort have the shortest forecast median repayment time for both borrowers who remain in New Zealand and those who spend some time overseas before repaying their loan in full. Asian borrowers have more than 14 years' median repayment time if they are projected to spend time overseas. This suggests that those borrowers may stay overseas for a longer period of time, or are less likely to come back to New Zealand, compared with other ethnicities that go overseas.

Table 24 Forecast repayment times for borrowers who left study in 2009 by ethnicity

2009 leaving cohort	Ethnicity	Repayment time from leaving year		
		25th percentile	Median	75th percentile
Always NZ-based	European	3.0	6.1	10.2
	Māori	4.3	7.8	12.6
	Pasifika	4.3	7.7	12.6
	Asian	3.1	6.9	13.1
	All	3.4	6.7	11.2
Not always NZ-based	European	6.4	11.4	21
	Māori	7.3	12.9	–
	Pasifika	7.4	12.8	–
	Asian	6.9	14.2	–
	All	6.7	12.1	28

Source: Ministry of Education, Student Loans Integrated Model 2013.

Notes:

1. Repayment times are calculated in years.
2. 'Not always NZ-based' are borrowers who spend some time overseas after completing their study, but before repaying their loan in full.
3. A dash indicates that the repayment projection is not seen to occur in the model within 30 years.

CHAPTER **FOUR**

THE COSTS OF THE STUDENT LOAN SCHEME



4.0 Introduction

This chapter looks at the latest valuation of the Student Loan Scheme at 30 June 2013 and changes since the previous valuation. It explains the key valuation statistics and the factors that have led to changes over the past year. It also identifies the costs of the scheme and looks at the modelling of the total loan balance into the future.

The valuation of the loan scheme in 2013 saw a decrease of \$484 million in the value of the asset.

Student loan valuation terms

Nominal value

The nominal value of student loans is the balance of borrowings with Inland Revenue and the Ministry of Social Development. It is the total amount owed by borrowers at a point in time, including loan principal, interest and penalties. The change in the value from year to year reflects changes in the amount owed by borrowers.

The **nominal value** as at 30 June 2013 was **\$13,562 million** (2012: \$12,969 million).

Fair value

The fair value is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The fair value calculation discounts expected repayments using a contemporary view of future discount rates. This differs from the carrying value calculation, which uses discount rates at the time of borrowing.²⁶ The fair value has been reported in the accounts since 2003.

The **fair value** as at 30 June 2013 was **\$8,298 million**²⁷ (2012: \$8,527 million).

Carrying value

The carrying value is the value of the Student Loan Scheme asset which is maintained in the scheme's accounts. It increases during the year as new loans are issued and decreases as repayments are made. Adjustments are made each year following an annual valuation of the asset. Since 1 July 2005, valuations have been made in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Under NZ IFRS, the cost to the government of new lending is recognised at the time it is lent, so that, all things being equal, there is no further cost associated with that lending. An annual, NZ IFRS-compliant valuation is undertaken and any adverse difference between the carrying value and the result of this valuation is recorded as an expense.²⁸

The **carrying value** as at 30 June 2013 was **\$8,288 million** (2012: \$8,291 million).

Initial write-down²⁹

When a student draws money from the Student Loan Scheme, part of the money is treated as an operating expense and part as capital. The capital part is the value of repayments that are expected from this lending. The operating expense is the balance of the lending and is known as the 'initial fair value write-down'. The initial fair value write-down is normally treated as the cost of lending.

Interest unwind

The schedule of revenue and expenditure includes revenue from what is called an 'interest unwind'. As time moves on, loans on the balance sheet come closer to being repaid and are therefore worth more. This increase in value is called the interest unwind; in effect, this is a partial reversal, or unwinding, of the reduction in value brought about by the discounting process.

The Ministry of Education has a model (called the Student Loans Integrated Model (SLIM)) which is used to value the loan scheme annually and is used to price policy options. The model starts with actual data drawn from the integrated dataset on student loans and allowances and projects future repayments using the past behaviour of borrowers to model future events. It takes account of economic trends, interest rates and discount rates and trends in incomes and borrower behaviour. The details of the assumptions used in the model this year can be found in Appendix 1.

4.1 Valuation and accounting

Each year, the student loan asset is valued in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). If this value is lower than the current carrying value, the carrying value is reduced or 'written down' through what is known as an impairment or reduction in value. An impairment is treated in the government's accounts as an expense. The valuation can also result in an increase in value – called a negative impairment. A negative impairment is shown in the accounts as a gain.

At 30 June 2013, the value of student loans was assessed as \$8,288 million. This is \$484 million less than the value in the accounts before the valuation occurred³⁰. This reduction or impairment of \$484 million is recognised in the scheme's financial statements.

Movements in the carrying value over the year

The source of movements in the carrying value in 2012/13 is set out in Table 25.

The opening carrying value from the last valuation is:

- increased by new lending during the year (including establishment fees applied at the time each loan is first drawn)
- decreased by the initial write-down of that new lending
- reduced by repayments that are made during the year

26 For lending up until December 2012 the discount rates for the carrying value are fixed based on the time of a borrower's first borrowing from the scheme.

27 See also Student loan fair value on page 60 of this report.

28 For a fuller description see chapter 5.4 Statement of accounting policies on pages 58 of this report.

29 The initial write-down is called 'fair value write-down' in the financial schedules (chapter 5). In this chapter we use the term 'initial write-down' to avoid confusion with 'fair value', which is a different concept.

30 This \$484 million represents a 5.2 percent reduction in the scheme's value.

- increased by the ‘interest unwind’, which is income that accrues to the asset as future repayments occur
- adjusted for any impairment resulting from a revaluation of the student loan asset according to NZ IFRS principles.

Table 25 Movements in the carrying value

	2009/10	2010/11	2011/12	2012/13
	\$ million			
Opening value	6,553	6,790	7,459	8,291
New lending	1,525	1,564	1,586	1,470
Establishment fee	11	12	12	11
Initial write-down	-728	-713	-702	-536
Repayments	-754	-802	-876	-1,054
Interest unwind income	463	484	526	590
Impairment	-280	124	286	-484
Closing value (after impairment)	6,790	7,459	8,291	8,288

Source: Student Loan Scheme Financial Statements.

Note: New lending shown includes refunds of course fees up until 2011/12. In 2012/13, new lending is net of refunded course fees. Similarly, repayments up until 2011/12 include refunded course fees, while in 2012/13 repayments exclude these amounts.

New lending over the year amounted to \$1,470 million and repayments were \$1,054 million so the net cash paid out was \$416 million. Over the year, the nominal loan balances increased by \$593 million from \$12,969 million to \$13,562 million.

On 30 June 2012, the carrying value was \$8,291 million, which was \$832 million more than the 30 June 2011 result. This year the carrying value is actually \$3 million lower than the year before.

The ratio of carrying value to nominal value was 61.8 percent in 2011, 63.9 percent in 2012 and has fallen to 61.1 percent this year.

Factors contributing to the change in value or impairment over the year

Factors that contributed to the decrease in the value of the student loan portfolio during the 2012/13 financial year include:

- *policy change effects*: in recent years, the valuation has been significantly affected by policy change. But there were fewer student loan policy changes in Budget 2013, so the effect was smaller. The change to the overseas-based borrower repayment rules added \$3 million to the value
- *macroeconomic effects*: changes to forecasts of salary inflation and loan interest rates led to a decrease in value of \$118 million. The largest contributor was a more pessimistic outlook for wage growth. That led also to a change in the assumptions made previously about the rate and timing of recovery from the recession of 2008, which reduced the value by a further \$103 million. Other macroeconomic factors – such as interest rate changes and the change in the Consumer Price Index (CPI) – together offset some of the drop by \$19 million

- *changes in the composition of the borrower population*: these decreased the value by \$29 million
- *the annual update of the modelling*: this caused the value to increase by \$34 million
- *experience variation*: this represents the difference between what had been predicted for 2012/13 at last year’s valuation and the actual results. The most important finding was that the incomes of those with loans were found not to have increased as predicted. This set of changes led to a reduction in value of \$303 million
- *remaining impairment*: this amounted to an increase of \$13 million and represented the effect of one further year’s experience on the model.

Together these factors amount to a decrease of \$484 million and have the combined effect of reducing the carrying value from 63.9 percent of the nominal value to 61.1 percent of the nominal value.

Fair value change over the year

As part of the annual valuation, the valuers undertake a measurement of the fair value, which is disclosed in a note to the accounts. The fair value this year is \$8,298 million, which is \$229 million lower than the fair value last year.

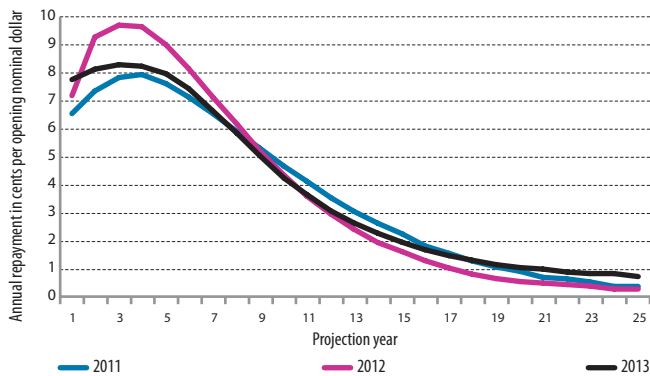
The fair value has decreased from 65.8 percent to 61.2 percent of the nominal value (refer to Table 26).

The fair value depends on a contemporary view of future discount rates as well as on the factors (like policy changes and macroeconomic changes) that affect the carrying value. Last year the representative discount rate was 6.60 percent and this year it is 7.06 percent. This change has decreased the fair value by \$201 million – 3.3 percent of the nominal value.

Figure 30 graphs three forecasts of loan repayments generated by current loans. The three lines are taken from the scheme valuations in 2011, 2012 and 2013. The lines show the expected number of cents repaid each year for each dollar currently on loan. Between the 2011 and 2012 valuations the domestic repayment rate was increased from 10 cents to 12 cents, causing repayments to rise over the first eight years. The 2013 valuation compared with 2012 has lower repayments over the first 10 years (lower by a total of 6.3 cents) and higher repayments thereafter, reflecting the lower than expected incomes of the borrower population.

Over the 25-year horizon, repayments occurred on average after 7 years and 10 months in the 2011 valuation, 6 years and 10 months in the 2012 valuation and 7 years and 9 months in the 2013 valuation. Over these 25 years, we recover 91 percent of the opening nominal amount in the 2011 valuation, 94 percent in the 2012 valuation and 93 percent in the 2013 valuation.

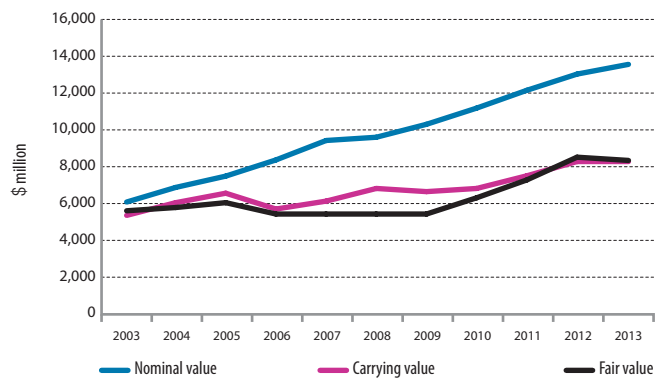
Figure 30 Comparison of projected repayments



Source: Student Loan Scheme Financial Statements.

Note: Annual repayments in cents per nominal dollar of loan are shown, as used in the valuations. The tracks show the average repayment expected from each dollar on loan at valuation time for the following 25 years.

Figure 31 The value of the Student Loan Scheme at 30 June



Source: Student Loan Scheme Financial Statements.

Notes:

1. The carrying value from 2006 onwards is prepared according to New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).
2. The carrying value up until 30 June 2005 was prepared according to New Zealand Financial Reporting Standards.

Figure 31 and Table 26 show the trends in the nominal value of the scheme, the carrying value and the fair value over the last 11 years.

Table 26 The loan scheme's nominal value, carrying value and fair value at 30 June

		2005	2006	2007	2008	2009	2010	2011	2012	2013
		\$ million								
Values	Nominal value	7,499	8,370	9,413	9,573	10,259	11,145	12,070	12,969	13,562
	Carrying value	6,465	5,569	6,011	6,741	6,553	6,790	7,459	8,291	8,288
	Fair value	5,994	5,537	5,443	5,521	5,464	6,261	7,221	8,527	8,298
		Cents per dollar of nominal value								
Ratios	Carrying value to nominal value	86.2	66.5	63.9	70.4	63.9	60.9	61.8	63.9	61.1
	Fair value to nominal value	79.9	66.2	57.8	57.7	53.3	56.2	59.8	65.8	61.2

Source: Student Loan Scheme Financial Statements.

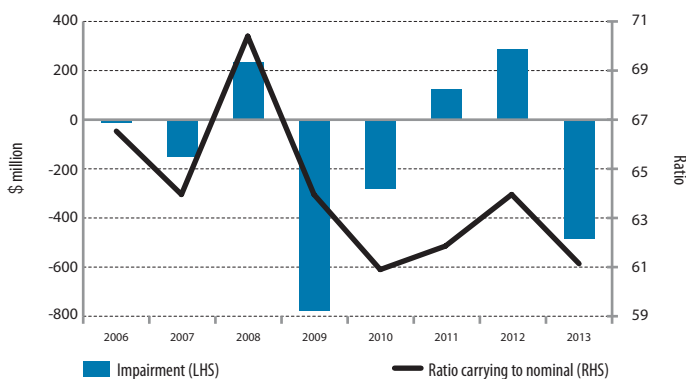
Notes:

1. The carrying value from 2006 onwards is prepared according to New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).
2. The carrying value up until 30 June 2005 was prepared according to New Zealand Financial Reporting Standards.

Figure 32 shows how the impairment has moved over time. It also shows the ratio of the carrying value to the nominal value – a key measure of the financial health of the loan scheme asset.

Figure 32 shows an improving trend in the financial health of the scheme between 2009 and 2012, with a downturn in 2013 as a consequence of an adverse shift in the valuation.

Figure 32 The loan scheme's impairment and the ratio of carrying value to nominal value at 30 June



Source: Ministry of Education.

4.2 Historical and forecast cost of the scheme

Table 27 Nominal and carrying value movements

			2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Notes			\$ million							
Nominal value	Opening balance	1	7,499	8,370	8,920	9,573	10,259	11,145	12,070	12,969
	New lending	8	981	1,107	1,122	1,259	1,423	1,453	1,477	1,470
	Establishment fee	4	8	9	9	10	11	12	12	11
	Administration fee	5							20	21
	Repayment	8	-486	-486	-550	-619	-652	-691	-767	-1,054
	Interest	2, 7				14	119	142	133	156
	Penalties	2				42	16	45	50	43
	Voluntary repayment bonus						-5	-17	-16	-32
	Death write-off		-4	-2	-10	-9	-11	-9	-10	-13
	Bankruptcy write-off		-11	-9	-16	-11	-15	-10	-12	-9
	Balancing item	6	384	-68	98				12	
	Closing balance		8,370	8,920	9,573	10,259	11,145	12,070	12,969	13,562
Carrying value	Opening balance		6,465	5,569	6,011	6,741	6,553	6,790	7,459	8,291
	New lending	8	981	1,107	1,122	1,259	1,423	1,453	1,477	1,470
	Initial write-down on new borrowing	9	-328	-488	-487	-532	-728	-713	-702	-536
	Initial write-down		-1,415							
	Establishment fee		8	9	9	10	11	12	12	11
	Repayment		-486	-486	-550	-619	-652	-691	-767	-1,054
	Interest unwind		358	451	406	473	463	484	526	590
	Impairment		-13	-151	231	-779	-280	124	286	-484
	Closing carrying value		5,569	6,011	6,741	6,553	6,790	7,459	8,291	8,288

Source: Ministry of Education, Ministry of Social Development and Inland Revenue.

Notes:

- The balance at 30 June 2007 has been restated as per Table 15 of the 2008 annual report to exclude accrued interest that would be subsequently written off. All other nominal balance figures are as per the accounts as published in annual reports.
- Interest and penalty amounts are only available for the 2008/09 and later fiscal years. Before this, these amounts are implicit in the balancing item.
- The no interest for New Zealand-based borrowers policy came into effect on 1 April 2006.
- The establishment fee is the amount charged by the Ministry of Social Development to borrowers each time they take out a loan. Before 2012, this was known as the administration fee.
- The administration fee is an annual fee added to loans on 31 March. This fee is only charged if a Ministry of Social Development establishment fee has not been charged in the same tax year. This was first charged in 2011/12.
- Before 2008/09, the balancing item includes penalties and loan interest charged. In 2011/12, the balancing item reflects adjustments over the period.
- The interest in 2008/09 is low because in that year \$96 million was reversed due to over-charging interest on borrower accounts in prior years.
- In all years, new lending is net of repayments made to the Ministry of Social Development (which were mostly refunded course fees) and the repayments are those made to Inland Revenue only. In previous annual reports, refunded course fees were counted both in the lending and in the repayment lines.
- From 1 April 2012, the initial write-down is applied to new borrowing net of refunded course fees. Before this, gross lending was written down.

Table 27 shows that over the last eight years the scheme has:

- lent out \$10,300 million to students
- received \$5,300 million in repayments
- written down new lending over the period by \$4,500 million (initial write-down of \$1,400 million in 2006)
- experienced an aggregate impairment of \$1,100 million
- booked \$3,800 million in interest unwind income.

In this way, an asset that was worth \$6,500 million in 2005 is worth \$8,300 million in 2013.

Expenses of the scheme

Tables 28 and 29 show the net expense and cash outlay of the scheme over the last seven years.

Table 28 Cash movements for the year ending 30 June

	2007	2008	2009	2010	2011	2012	2013
	\$ million						
New lending	1,107	1,122	1,259	1,423	1,453	1,477	1,470
Repayments	-486	-550	-619	-652	-691	-767	-1,054
Net cash out	621	572	640	771	762	710	416

Source: Student Loan Scheme Financial Statements.

Note: In all years, new lending is net of repayments made to the Ministry of Social Development (which were mostly refunded course fees) and the repayments are those made to Inland Revenue only. In previous annual reports, refunded course fees were counted both in the lending and in the repayment lines.

Table 29 Cost of the scheme for the year ending 30 June

	2007	2008	2009	2010	2011	2012	2013
	\$ million						
Write-down on new lending	484	483	529	723	708	696	532
Interest unwind income	-451	-406	-473	-463	-484	-526	-590
Establishment fee at fair value	-5	-5	-6	-6	-7	-7	-7
Impairment	151	-231	779	280	-124	-286	484
Net expense	179	-159	829	534	93	-123	419

Source: Student Loan Scheme Financial Statements.

Notes:

1. The write-down on new lending excludes the write-down on the establishment fee added to borrowers' loan balances at the time they first draw on their loans each year. The establishment fee in 2012/13 was \$11.3 million and is shown here at fair value of \$7.2 million.
2. From 1 April 2012, the initial write-down is applied to new borrowing net of refunded course fees. Prior to this, gross lending was written-down.

These tables indicate that, in 2012/13, \$1,470 million was lent out. Repayments amounted to \$1,054 million, meaning that the net cash outlay was \$416 million, a reduction of 41 percent on the previous year and of 46 percent on the peak year of 2009/10.

The high level of repayments over 2012/13 has been attributed to the removal of the voluntary repayment bonus scheme, with voluntary repayments in respect of the 2013 tax year being the last to attract the 10 percent bonus.

The new lending incurred an expense through an initial write-down of \$532 million. The interest unwind led to income of \$590 million, and establishment fees added \$7 million to the value of the scheme. The valuation of the scheme at 30 June 2013 produced an impairment of \$484 million. The combination of these factors was a net cost of \$419 million for the year.

This 'cost view' treats the scheme as if it were an entity. Its portfolio is generating an accounting return through the interest unwind which is helping to offset the cost of new lending. Viewed this way, the net expense for the Crown over the last five years has been \$1,753 million. The portfolio is growing, so we would expect this cost to decrease in the future, as the interest unwind grows, as the portfolio grows and while the level of new lending remains relatively flat.

The cost of new lending under the Student Loan Scheme

When the government lends money under the Student Loan Scheme, part of the lending is treated as an asset and is regarded as a capital item. Part is treated as an expense and is effectively 'written off' from an accounting point of view. It reflects the fact that some of the sum lent will never be repaid (for instance, if the borrower never earns above the repayment threshold or if he or she dies or is bankrupted). In addition, the value of the repayments – spread over time – is lower in dollar terms than the amount lent.

The cost of lending – technically called the 'initial fair value write-down' – is the amount expensed for each dollar of lending. It is calculated by the actuaries who value the scheme when they do their valuation.

The two main factors that influence the cost of lending are:

- *the repayment pattern* – because the more slowly people repay, the more the value is eroded and the greater the cost
- *the interest rate* – because the cash flows are discounted by what is called 'the effective interest rate'.

As noted above, the valuers found in 2013 that borrowers' incomes had not grown at the rate previously forecast and this meant repayments are now expected to be slower than had been estimated a year ago. This shift had the effect of raising the cost of lending.

The forecast of interest rates is for higher rates than that made a year ago. This factor raised the effective interest rate used to discount the value of the lending. This also raised the cost of lending.

The approach to calculating the cost of new lending

A complicating factor in looking at the cost of lending in 2013 is that the Government and the loan scheme auditors agreed on a new approach to calculating the cost of lending that took effect on 1 January 2013.

Previously, the discount rate used in the valuation of each borrower's loan was set according to interest rates in the year in which he or she first borrowed. It would remain fixed until the loan was repaid, even if the person borrowed in subsequent years when interest rates had moved.

From 1 January 2013, discount rates have been set according to the year of lending, so that a borrower who borrowed in several years would have a different discount rate for each year's borrowings.

Table 30 Average cost of lending a dollar

	2007/08	2008/09	2009/10	2010/11	2011/12	2012 July-Dec	2013 Jan-Jun	2013 July-Dec
	Cents							
Average cost of lending in cents per dollar	40.25	39.15	47.39	45.25	44.62	39.09	35.19	40.02

Source: Ministry of Education.

The cost of the Crown's ownership of the Student Loan Scheme

The assets on the Crown's balance sheet, such as the Student Loan Scheme, have a cost associated with them which is the cost of capital. If the Crown did not own as many assets, for example, debt would be lower than it would otherwise be, annual interest payments would be lower and the risks associated with ownership would be reduced.

Measuring the Crown's cost of capital is not straightforward. The Crown faces a direct and obvious cost of borrowing when it raises debt. This cost is almost always lower than that faced by the private sector, because sovereign borrowers normally have a higher credit rating than private companies.

The fact that the Crown has a lower cost of borrowing than the private sector leads some to conclude that the Crown is best placed to finance investment. But the direct cost of borrowing is not the whole picture. Investments come with risks borne by taxpayers when Crown projects fail to meet expectations.

The Crown's cost of capital therefore reflects both the direct cost of borrowing and the risks associated with each of the Crown's investments.

The appropriate proxy that represents the associated capital costs of the Student Loan Scheme to the Crown is given by the discount rate of 7.06 percent, which is also the rate used to derive the fair value of the asset. This discount rate consists of the Representative Risk Free Rate (4.10 percent), the Risk Premium (2.35 percent), and the costs of collection and administration of the scheme (0.61 percent).

The change from the 'borrower approach' to the 'year of lending approach' was made to increase the accuracy of the cost of lending.

One consequence of the change is that the effective interest rate – one of the factors that contribute to the cost of lending – changes on 1 January each year. But all the other factors that contribute to the 'fair value write-down' change at balance date (30 June) when the valuation takes place. This means that we now have two rates for the cost of lending each year. One, covering July to December, uses the effective interest rate set on 1 January, plus the results of the valuation. The other, covering January to June, uses the valuation information from the previous year and the current effective interest rate.

The cost of lending between January and June 2013 was 35.19 cents for each dollar lent, down from 39.09 cents per dollar in the second half of 2012. The factors that drove the impairment at 30 June have led to an increase in the cost of lending to 40.02 cents/dollar for the period 1 July to 31 December 2013.

The proxy of the Crown's cost of holding the asset on 30 June 2013 would be as set out in Table 31 below.

Table 31 Government's cost of ownership of the Student Loan Scheme

Fair value of the asset	\$8,298 million
Discount rate for the asset	7.06%
Cost of capital associated with the Student Loan Scheme	\$586 million for the financial year 2013/14

Source: The Treasury.

Forecast expenses of the scheme

The *Budget Economic and Fiscal Update 2013* forecast these cash flows for the scheme.

Table 32 Forecast of cash movements for years ending 30 June

	Actual		Forecast		
	2013	2014	2015	2016	2017
	\$ million		\$ million		
New lending	1,470	1,516	1,562	1,610	1,674
Repayments	-1,054	-1,020	-1,079	-1,126	-1,187
Net cash out	416	496	483	484	487

Source: *Budget Economic and Fiscal Update 2013* (BEFU 2013) and Ministry of Education.

Note: New lending is net of Ministry of Social Development refunds.

The annual valuation assesses the value to which new lending should be written down for the following six months. In January current interest rates will be assessed and a write-down will be determined using the model results from the last valuation. Because new borrowers are, on average, further away from repaying than the typical holder of a student loan, loans held by new borrowers are worth less to the Crown than average. So the initial fair value write-down is higher than suggested by the carrying value. In 2011/12, the initial write-down was 44.69 cents in the dollar. In 2012/13, this decreased to 39.09 cents for lending in July to December 2012 and 35.19 cents for lending in January to June 2013. For the period July to December 2013 the rate will be 40.02 cents. One way of looking at this is that of every dollar the Crown lends in this period, 59.98 cents is treated as an asset and 40.02 cents as an expense.

This is forecast to change over the next few years as follows:

Table 33 Average cost of lending a dollar actual and forecast

	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast		
	2012/13		2013/14		2014/15		2015/16		2016/17	
	July-Dec	Jan-Jun	July-Dec	Jan-Jun	July-Dec	Jan-Jun	July-Dec	Jan-Jun	July-Dec	Jan-Jun
Average cost of lending in cents per dollar	39.09	35.19	40.02	39.53	41.01	40.52	41.89	41.40	42.60	42.11

Source: Ministry of Education.

Assuming that cost of new lending per dollar in Table 33 above, and the cash forecast in Table 32 above, the forecast expenses of the Student Loan Scheme can be estimated. The current valuation fully accounts for impairment known at this time, and it would take an adverse change in outlook to generate further impairment (or a favourable change in outlook to generate a future reversal of impairment as we experienced this year). This is why we forecast no impairment in future years.

Table 34 Forecast of costs of the scheme for years ending 30 June

	Actual		Forecast		
	2013	2014	2015	2016	2017
	\$ million		\$ million		
Write-down on new lending	-532	-601	-635	-668	-707
Interest unwind income	590	579	611	643	679
Establishment fee at fair value	7	7	7	7	7
Impairment	-484	0	0	0	0
Net expense	-419	-15	-17	-18	-21

Source: Ministry of Education.

Notes:

1. The table shows negative net expenses.
2. New lending and repayment numbers are from BEFU 2013. The costs of scheme numbers have been reworked from BEFU 2013 to reflect the valuation results as at 30 June 2013.
3. The write-down on new lending excludes the write-down on the establishment fee added to borrowers' loan balances at the time they first draw on their loans each year. The establishment fee is shown net of this write-down, that is, at fair value.

Under a 'cost view' we expect the net cost of the scheme to decrease from \$419 million in 2012/13 to around \$20 million in each of the following four years.

Aggregate balance projection

Using the forecast of new lending and repayments, and assuming a constant proportion of the loan book held by Inland Revenue is overseas and attracting loan interest, a forecast of nominal loan balance and of the carrying value can be made. This is shown in Table 35.

Table 35 Forecast of scheme loan balance and carrying value as at 30 June

	Actual		Forecast		
	2013	2014	2015	2016	2017
	\$ million		\$ million		
Nominal value	13,562	14,232	14,886	15,541	16,202
Carrying value	8,288	8,769	9,235	9,700	10,165
	Cents per dollar of nominal value				
Carrying value to nominal value ratio	61.1	61.6	62.0	62.4	62.7

Source: Ministry of Education.

Note: New lending and repayment numbers are from BEFU 2013. The costs of scheme numbers have been reworked from BEFU 2013 to reflect the valuation results as at 30 June 2013.

4.3 Agency costs

The cost of administering the loan scheme varies from year to year, depending on the number of borrowers, the number of transactions, and any system changes required for the implementation of new policies.

Table 36 Student Loan Scheme administration costs

	2008/09	2009/10	2010/11	2011/12	2012/13
	\$ million				
Ministry of Social Development	17.0	13.8	17.0	16.4	15.8
Inland Revenue	27.8	28.8	39.3	31.5	30.2
Ministry of Education	0.6	0.7	0.8	0.8	0.9
Statistics New Zealand	0.7	0.7	0.7	0.7	0.7
Total	46.1	44.0	57.8	49.4	47.6

Source: Ministry of Social Development, Inland Revenue, Ministry of Education and Statistics New Zealand.

Note: All amounts exclude GST.

Table 36 shows the total cost for the agencies over the last five years. The figures are a mixture of estimates and actual costs, which differs by agency, depending on how their appropriations are structured. In addition to costs incurred by the Ministry of Social Development and Inland Revenue in managing the lending and repayment process, both the Ministry of Education and Statistics New Zealand have costs resulting from the scheme. The Ministry of Education provides policy advice to government on student support in the tertiary education sector and produces this report. Statistics New Zealand manages the integrated dataset on student loans and allowances; their costs associated with the scheme cover the collation and management of the dataset. The estimated and actual costs above include those that can be directly attributed to these activities plus overhead costs where appropriate.

Borrowers contribute to the cost of administering the loan scheme through a \$60 establishment fee that is charged to the borrower's account by StudyLink when the loan is first made. From the 2011/12 tax year, borrowers were also charged an annual administration fee of \$40. Borrowers are not charged the administration fee if the establishment fee has been charged in the same tax year. This new policy improves value for money of student support expenditure by recovering more of the costs of administering the Student Loan Scheme.

One way of getting an idea of the scale of the administrative costs is to look at them in relation to the scale of the loan scheme – which lent \$1,400 million and saw more than \$1,000 million in collections in 2012/13.

Table 37 looks at the administrative costs from Table 36 in light of the scale of the scheme.

Table 37 Estimated Student Loan Scheme administration costs

	2008/09	2009/10	2010/11	2011/12	2012/13
	Cents per dollar				
Ministry of Social Development cost for each dollar advanced	1.4	1.0	1.2	1.1	1.1
Inland Revenue cost for each dollar collected	4.5	4.4	5.7	4.1	2.9
Total cost as a percentage of turnover	2.5	2.1	2.7	2.2	1.9

Source: Ministry of Social Development, Inland Revenue, Ministry of Education and Statistics New Zealand.

Note: All amounts exclude GST.

The total cost as a percentage of turnover and Inland Revenue's costs as a percentage of the value of repayments have both reduced substantially between 2011/12 and 2012/13. However, the extent of the drop is influenced by the spike in repayments that arose as a result of the removal of the voluntary repayment bonus.

Adjusting for that spike, Inland Revenue's costs as a percentage of collections fell by 18 percent between 2011/12 and 2012/13, while the total cost as a percentage of turnover fell by 8 percent.

CHAPTER FIVE

STUDENT LOAN SCHEME FINANCIAL
SCHEDULES FOR THE YEAR ENDED
30 JUNE 2013



5.0 Financial schedules for the year ended 30 June 2013

The financial schedules for the Student Loan Scheme comprise schedules of revenue and expenditure, assets and cash flows relating to student loans. The Ministry of Social Development (MSD) and Inland Revenue (IR) administer student loans on an agency basis within policy parameters set by the Ministry of Education (MoE), on behalf of the Crown.

The financial information represents extracts from the financial schedules of Crown activities carried out by the entities administering student loans to provide an overview of the Student Loan Scheme.

The schedule of assets shows a total asset value (carrying value) as at 30 June 2013 of \$8,288 million (\$8,291 million at 30 June 2012).

5.1 Schedule of revenue and expenditure

Table 38 Schedule of revenue and expenditure for the year ended 30 June 2013

Actual 2012 \$ million		Actual 2013	Main Estimates 2013 \$ million	Supplementary Estimates 2013
	Revenue			
525.9	Interest unwind	589.5	601.0	581.0
12.0	Establishment fees	11.3	12.2	11.7
537.9	Total revenue	600.8	613.2	592.7
	Expenditure			
-286.0	Impairment	484.0	110.0	332.0
701.6	Fair value write-down on new borrowings	535.6	651.2	538.0
415.6	Total expenditure	1,019.6	761.2	870.0
122.3	Net surplus (deficit)	-418.8	-148.0	-277.3

- The accompanying accounting policies and notes on pages 58-61 form part of these financial statements.
- Actual and budget figures represent the combined total for the applicable agencies.
- For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the Financial Statements of the Government, for the year ended 30 June 2013.
- Details of the Consolidated Movements Schedule for the year ended 30 June 2013 are shown in Note 1.

5.2 Schedule of assets

Table 39 Schedule of assets as at 30 June 2013

Actual 2012 \$ million		Actual 2013	Main Estimates 2013 \$ million	Supplementary Estimates 2013
	Current assets			
930.0	Student loans	1,020.0	1,054.0	1,020.0
930.0	Total current assets	1,020.0	1,054.0	1,020.0
	Non-current assets			
7,360.9	Student loans	7,268.2	7,727.1	7,423.8
7,360.9	Total non-current assets	7,268.2	7,727.1	7,423.8
8,290.9	Total assets	8,288.2	8,781.1	8,443.8

- The accompanying accounting policies and notes on pages 58-61 form part of these financial statements.
- Actual and budget figures represent the combined total for the applicable agencies.
- For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the Financial Statements of the Government, for the year ended 30 June 2013.
- Details of the Consolidated Movements Schedule for the year ended 30 June 2013 are shown in Note 1.

5.3 Schedule of cash flows

Table 40 Schedule of cash flows for the year ended 30 June 2013

Actual 2012 \$ million		Actual 2013	Main Estimates 2013 \$ million	Supplementary Estimates 2013
Cash flows from investing activities				
	<i>Cash was provided from:</i>			
767.7	Repayments received	1,053.9	840.0	1,041.0
108.8	Refunded course fees	96.8	112.6	107.9
	<i>Cash was disbursed for:</i>			
-1,585.8	New borrowings	-1,566.8	-1,643.6	-1,589.1
-709.3	Net cash outflow from investing activities	-416.1	-691.0	-440.2
-709.3	Net student loan cash outflow	-416.1	-691.0	-440.2

- The accompanying accounting policies and notes on pages 58-61 form part of these financial statements.
- Actual and budget figures represent the combined total for the applicable agencies.
- For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the Financial Statements of the Government, for the year ended 30 June 2013.
- Details of the Consolidated Movements Schedule for the year ended 30 June 2013 are shown in Note 1.

5.4 Statement of accounting policies for the year ended 30 June 2013

Reporting entity

The Student Loan Scheme is a Crown activity which forms part of the consolidated Financial Statements of the Government. The scheme has dimensions of revenue, expenditure, assets and cash flows within the overall Financial Statements of the Government.

Statutory authority

The scheme is administered jointly by the Ministry of Education, Inland Revenue and the Ministry of Social Development, under the Student Loan Scheme Act 2011. Also relevant to the administration of the scheme is the Education Act 1989.

Budget figures

The budget figures are those included in the Information Supporting the Estimates of Appropriations (Main Estimates) for the year ending 30 June 2013 and the Information Supporting the Supplementary Estimates of Appropriations (Supp Estimates) for the year ending 30 June 2013 and any transfer made by Order in Council under section 26A of the Public Finance Act 1989. The figures combine budgets for Vote Revenue and Vote Social Development, as applicable.

Financial instruments

Student loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method, plus or minus any impairment movement. Fair value on initial recognition is determined by projecting forward the expected repayments required under the scheme and discounting them back at an appropriate discount rate. The difference between the amount lent and fair value is expensed on initial recognition.

The subsequent measurement at amortised cost is determined using the effective interest rate calculated at initial recognition.

The effective interest rate discounts estimated future cash flows through the expected life of the loan to the net carrying amount of the loan, excluding future credit losses. Interest is recognised on the loan evenly in proportion to the amount outstanding over the period to repayment.

Allowances for impairment are recognised when there is objective evidence that the loan is impaired. Impairment movements are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan, and that the event (or events) has an impact on the estimated future cash flows of the student loan carrying value that can be reliably measured.

The measurement of impaired value can result in an increase or decrease to the carrying value of the student loan debt.

Interest

Interest is calculated on the nominal student loan account balances on a daily basis at a rate determined by the government, currently 5.9 percent per annum. Interest is charged to New Zealand-based borrowers and overseas-based borrowers; however, there is a concurrent write-off for New Zealand-based borrowers under the interest-free policy.

Credit risk

For the Student Loan Scheme, credit risk is the risk that borrowers will default on their obligation to repay their loans or die before their loan is repaid, causing the scheme to incur a loss.

The Student Loan Scheme policy does not require borrowers to provide any collateral or security to support advances made. As the total sum advanced is widely dispersed over a large number of borrowers, the Student Loan Scheme does not have any material individual concentrations of credit risk.

The credit risk is reduced by the collection of compulsory repayments from New Zealand-based borrowers through the tax system.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in interest rates. Changes could impact on the return on loans advanced. The interest rate and the interest write-off provisions attached to student loans are set by the government.

Changes in accounting policies

There have been no changes in the student loan accounting policies applicable to the preparation of financial statements of Crown activities administered by the Ministry of Social Development and Inland Revenue for Crown consolidation, from those used in the previous year. All accounting policies have been applied on a basis consistent with the previous year.

From 1 January 2013, there has been a change in methodology for the initial fair value write-down of student loans. Effective interest rates are assigned to new lending each year on a 'year of lending' basis; previously rates were assigned to the borrower on a 'year of first lending' basis.

Comparatives

When presentation or classification of items in the financial schedules is amended or accounting policies are changed, comparative figures have been restated to ensure consistency with the current period, unless it is impracticable to do so.

The comparative for the initial fair value write-down of student loans has not been restated after the methodology change as it is impracticable to do so.

5.5 Notes to the financial schedules

Note 1: Consolidated movements schedule for the year ended 30 June 2013

Table 41 Consolidated movements schedule for the year ended 30 June 2013

Consolidated Actual 2012 \$ million		Consolidated Actual 2013	Inland Revenue 2013 \$ million	Ministry of Social Development 2013
12,069.7	Opening nominal balance	12,968.7	12,968.7	0.0
1,585.8	New borrowings	1,566.8	0.0	1,566.8
0.0	Borrowings transferred	0.0	1,481.3	-1,481.3
-767.7	Repayments	-1,053.9	-1,053.9	0.0
-108.8	Refunded course fees	-96.8	0.0	-96.8
132.7	Interest	155.8	155.8	0.0
32.4	Administration and establishment fees	32.6	21.3	11.3
50.2	Penalties	43.4	43.4	0.0
-22.3	Deaths and bankruptcies	-22.0	-22.0	0.0
-16.3	Voluntary repayment bonus	-32.3	-32.3	0.0
13.0	Other movement in nominal balance	0.0	0.0	0.0
12,968.7	Closing nominal balance	13,562.3	13,562.3	0.0
-4,677.8	Adjustment due to initial fair value recognition and impairment	-5,274.1	-5,274.1	0.0
8,290.9	Total carrying value	8,288.2	8,288.2	0.0
7,459.3	Opening carrying value	8,290.9	8,290.9	0.0
-767.7	Repayments	-1,053.9	-1,053.9	0.0
-108.8	Refunded course fees	-96.8	0.0	-96.8
12.0	Establishment fees	11.3	0.0	11.3
1,585.8	New borrowings	1,566.8	0.0	1,566.8
-701.6	Fair value write-down on new borrowings	-535.6	-535.6	0.0
0.0	Borrowings transferred	0.0	1,481.3	-1,481.3
286.0	Impairment	-484.0	-484.0	0.0
525.9	Interest unwind	589.5	589.5	0.0
831.6		-2.7	-2.7	0.0
8,290.9	Student loans carrying value	8,288.2	8,288.2	0.0

Note 2: Recognition

Student loan nominal value

The nominal balance is the total obligations that borrowers have, including loan principal, interest and penalties. The change in nominal value from year to year reflects the net growth of the portfolio through new lending less repayments and other adjustments such as write-offs due to deaths and bankruptcies. The nominal balance is the basis for other values such as the carrying value and fair value.

Student loan carrying value

Student loans are initially recognised at fair value plus transaction costs and subsequently measured annually at amortised cost using the effective interest rate method and including the annual impairment figure.

Impairment of student loans in 2012/13 totalled \$484 million. This impairment is due to lower than expected incomes and repayments as well as changes to macroeconomic assumptions for income recovery and earnings inflation. This explanation may appear contrary to the significant increase in repayments reported. This significant increase was driven by borrowers making one-off payments to qualify for the voluntary repayment bonus which ceased on 31 March 2013; however, repayments not attracting a bonus did not meet forecast expectations, reflecting lower incomes.

In 2011/12, there was a reversal of impairment of the student loan asset totalling \$286.0 million, which was mainly driven by the Budget 2012 policy decision to increase the student loan repayment rate from 10 percent to 12 percent.

Fair value on initial recognition of student loans is determined by projecting forward expected repayments required under the scheme and discounting them back at an appropriate discount rate. The subsequent measurement at amortised cost is determined using the effective interest rate calculated at initial recognition. This rate is used to spread the interest income across the life of the loan and determines the loan's carrying value at each reporting date.

The valuation model reflects current student loan policy. The carrying value is also sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macroeconomic factors such as inflation and the discount rate used to determine the effective interest rate on new borrowers. The significant assumptions are shown below.

Table 42 Significant assumptions

	30 June 2013	30 June 2012
Carrying value		
Effective interest rate	7.08%	7.20%
Interest rate applied to loans for overseas borrowers	5.9%-6.4%	6.4%-6.6%
Consumer Price Index	1.4%-2.5%	1.8%-2.5%
Future salary inflation	2.2%-3.5%	3.2%-3.5%
Fair value		
Fair value (\$m)	8,298.0	8,527.0
Discount rate	6.45%	6.03%
Impact on fair value of a 1% increase in discount rate (\$m)	-423.0	-396.0
Impact on fair value of a 1% decrease in discount rate (\$m)	471.0	432.0

Source: Inland Revenue.

Notes:

1. The effective interest rate is a weighted average rate across all cohorts.
2. The discount rate is the single discount rate that is equivalent to a set of year-specific discount rates used to compute the fair value.

The data for the valuation of student loans has been integrated from files provided by Inland Revenue, the Ministry of Social Development and the Ministry of Education. The current data is up to 31 March 2012 and contains information on borrowings, repayments, income, educational factors, and socioeconomic factors among others and has been analysed and incorporated into the valuation model. This integrated data has been supplemented by 2013 Employer Monthly Schedule (EMS) information held by Inland Revenue, which summarises income from salaries and wages (that is, more recent data to value student loans at balance date).

Student loan fair value

Fair value is the amount for which the loan book could be exchanged between knowledgeable, willing parties in an arm's length transaction as at 30 June 2013. It is determined by discounting the estimated cash flows at an appropriate discount rate. The estimated fair value of the student loan debt at 30 June 2013 has been determined to be \$8,298 million (\$8,527 million at 30 June 2012).

Fair values will differ from carrying values due to changes in market interest rates, as the carrying value is not adjusted for such changes, whereas the fair value was calculated on a discount rate that was current at 30 June 2013. At that date, the fair value was calculated on a discount rate of 6.45 percent which excludes expenses, whereas a weighted average discount rate of 7.08 percent including expenses was used for the carrying value. For reference, the representative discount rate for fair value including an allowance for expenses is 7.06 percent. The difference between fair value and carrying value does not represent an impairment of the asset.

Note 3: Reconciliation of impairment allowance account

Table 43 Reconciliation of impairment allowance account

Impairment allowance account	30 June 2013	30 June 2012
\$ million		
Balance at beginning of year	952	1,238
Impairment expense recognised on receivables	484	–
Impairment reversal recognised on receivables	–	-286
Balance at end of year	1,436	952

Source: Inland Revenue.

Independent Auditor's Report

To the readers of the Student Loan Scheme's financial schedules for the year ended 30 June 2013

The Auditor-General is the auditor of the Student Loan Scheme (the Scheme). The Auditor-General has appointed me, Ajay Sharma, using the staff and resources of Audit New Zealand, to carry out the audit of the financial schedules of the Scheme on her behalf.

We have audited:

- the financial schedules of the Scheme on pages 54 to 61, that comprise the schedule of assets as at 30 June 2013, the schedule of revenue and expenditure and schedule of cash flows for the year ended on that date and the notes to the financial schedules that include accounting policies and other explanatory information.

Opinion

In our opinion the financial schedules of the Scheme on pages 54 to 61:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect the Scheme's:
 - financial position as at 30 June 2013; and
 - financial performance and cash flows for the year ended on that date.

Our audit was completed on 22 November 2013. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Secretary for Education and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial schedules. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial schedules whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Scheme's preparation of the financial schedules that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Secretary for Education;
- the adequacy of all disclosures in the financial schedules; and
- the overall presentation of the financial schedules.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial schedules. Also we did not evaluate the security and controls over the electronic publication of the financial schedules.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Secretary for Education

The Secretary for Education is responsible for preparing financial schedules that:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect the Scheme's financial position, financial performance and cash flows.

The Secretary for Education is also responsible for such internal control as it determines is necessary to enable the preparation of financial schedules that are free from material misstatement, whether due to fraud or error. The Secretary for Education is also responsible for the publication of the financial schedules, whether in printed or electronic form.

The Secretary for Education's responsibilities arise from the requirements of the Education Act 1989 and the Student Loan Scheme Act 2011.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial schedules and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in the Scheme.



Ajay Sharma
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

APPENDICES

Appendix 1: Management and design of the Student Loan Scheme

Roles and responsibilities

Two ministers are responsible for the Student Loan Scheme. The Minister for Tertiary Education, Skills and Employment is responsible for tertiary education policy, including student loan policy. The Minister of Revenue is responsible for all operational matters, from the time loans are issued to repayment.

Under these arrangements, the Minister for Tertiary Education, Skills and Employment is responsible for the relevant appropriations in Vote Tertiary Education, while the Minister of Revenue is responsible for the relevant appropriations in Vote Social Development and Vote Revenue.

As lead official, the Secretary for Education has overall responsibility for the scheme. The lead official's role is to provide direction, working across formal agency boundaries, to ensure that the scheme is a success and delivers on Ministers' priorities. The Ministry of Education is also the lead agency on student loans and therefore has overall responsibility for the Student Loan Scheme. The lead official also acts as Chair of the Student Loans Governance Group, which was set up in December 2010 to provide collective oversight and ownership of the scheme. The group sets the overall direction of work and monitors progress and resources.

Agencies with an interest in the Student Loan Scheme

Six government agencies have an interest in the Student Loan Scheme – the three agencies that manage the scheme (the Ministry of Education, the Ministry of Social Development and Inland Revenue) plus the Tertiary Education Commission, the New Zealand Qualifications Authority and Statistics New Zealand.

- The Ministry of Education provides advice to government on tertiary education strategy and policy, funding for tertiary education, quality assurance and monitoring. It has overall responsibility for the Student Loan Scheme.
- The Ministry of Social Development, through its StudyLink service, provides information on student loan entitlements, assesses applications for student support, makes student loan payments and provides information and support to students online and through phone and face-to-face services.
- Inland Revenue manages the collection of current and overdue loan repayments, provides loan account information including loan repayments and drawdowns, and provides customer service through contact centres and online services.
- The Tertiary Education Commission approves courses and qualifications for eligibility for funding and for access to student loans and allowances.
- The New Zealand Qualifications Authority provides quality assurance of qualifications and tertiary providers – a prerequisite for access to loans and allowances.

- Statistics New Zealand manages the integrated dataset on student loans and allowances.
- The Treasury advises on alignment with government macro policy, fiscal constraints, and accounting policy.

Legal structure and authority of the Student Loan Scheme

All policy decisions on entitlements and eligibility criteria for a student loan are made by Cabinet and incorporated in the student loan contract. Lending under the Student Loan Scheme is administered by StudyLink.

Student loan contracts are not covered by the Credit Contracts and Consumer Finance Act 2003; consumer protection is ensured through the Student Loan Scheme Act 2011.

The assessment and collection of student loan repayment obligations are set out in the Student Loan Scheme Act 2011 and are administered by Inland Revenue.

Parameters of the Student Loan Scheme

Eligibility

General eligibility criteria

To be eligible a student must:

- be a New Zealand citizen or a refugee or protected person (under the Immigration Act 2009). Permanent residents (including Australians) are subject to a two-year stand-down³¹ before they can receive a student loan
- be enrolled in an approved qualification³² offered by a recognised tertiary education provider
- be studying (see individual components below):
 - full-time, or
 - part-time for a full year (32 weeks or longer), or
 - part-time for part of the year (less than 32 weeks) with a course load of 0.25 equivalent full-time student units or more.

In addition:

- students younger than 18 years old need parental consent before they can borrow
- undischarged bankrupts are not eligible for a student loan³³
- students must not have exceeded the 7 EFTS limit (which includes all study for which a student has had a student loan, from 1 January 2010). Students may be eligible for additional entitlement beyond the 7 EFTS limit to:
 - finish a paper or course of study if it takes the student over the 7 EFTS limit
 - complete postgraduate study (up to an additional 1 EFTS)
 - undertake doctoral study (up to an additional 3 EFTS)

31 The two-year stand-down will increase to three years for study starting 1 January 2014. Transition arrangements apply for some people.

32 Only qualifications that receive student component funding (or other government funding) can be recognised for student loan and student allowances purposes by the Tertiary Education Commission.

33 'No asset procedure' debtors can access the Student Loan Scheme, but, unlike for bankruptcy, the student loans of these debtors cannot be written off. The 'no asset procedure' was put in place by the Insolvency Act 2006 as an alternative to bankruptcy.

- applicants need to pass at least half of their course load (EFTS) over a set period to retain their student loan eligibility.³⁴

The following student loan eligibility changes took effect for study in 2013:

- The amount of study that a student can borrow for in a year is capped at 2 EFTS.
- The amount that a student can borrow for pilot training is capped at \$35,000 per EFTS.
- Students aged 55 years and over are restricted to the compulsory fees element of the Student Loan Scheme.
- Borrowers in default of their student loans by \$500 or more are ineligible for a student loan (from 7 February 2013).
- Borrowers are required to provide details of a contact person before they receive a student loan.

Student support eligibility changes for 2014 are set out in chapter 1.

Loan components

A student loan has four components:

Compulsory fees

Students can borrow the full amount of their compulsory fees. These are direct-credited to the borrower's chosen tertiary education provider.

Where compulsory, students' association fees can be borrowed as part of the compulsory fees loan entitlement. Otherwise, students' association fees can be borrowed as part of a student's course-related costs entitlement.

Course-related costs

Full-time students can borrow up to \$1,000 each year to help cover expenses related to their studies, such as equipment, textbooks and field trips. Students may have to provide justification of their expenses. Students studying part-time are not able to access this component of the loan scheme.

Living costs

Only full-time students are eligible for the living costs component for each week of the course, less the net amount of any student allowance paid.³⁵

The living costs component is paid in weekly instalments in arrears.

In the 2012/13 tax year, students could borrow up to \$172.51 per week.

For the 2013/14 tax year, students can borrow up to \$173.56 per week.

Students nominate the amount they wish to draw each week up to the maximum entitlement. If they nominate less than their full entitlement, the remainder cannot be claimed retrospectively at a later date.

Establishment fee and administration fee

When a new loan account is established, StudyLink charges an establishment fee of \$60. This is added to the student's loan balance when the student first draws from the loan account, or when fee payments are made to the provider (on the student's instructions). The establishment fee is charged for each loan that is established. If a student borrows for three academic years, this requires three loans to be established and therefore three establishment fees are charged, one for each academic year.

If a student cancels their loan within seven days of the account being established, and repays any money that has been drawn down, the \$60 establishment fee (and any interest charged on it) will be waived. Otherwise, the establishment fee is always included in the loan balance.

An annual administration fee of \$40 is charged to the borrower's account if the loan balance is \$20 or more at 31 March each year. This fee is not payable if a StudyLink establishment fee has been charged in the same tax year.

Loan repayments

Inland Revenue handles the collection of loan repayments. Borrowers have obligations depending on whether they are defined as being New Zealand-based or overseas-based. Repayments from New Zealand-based borrowers are made through the tax system.

Interest is charged on the loans of overseas-based borrowers, but not of those who are defined as being based in New Zealand.

The student loan repayment rate for New Zealand-based borrowers was increased to 12 cents on 1 April 2013.

In New Zealand – earning salary or wages

New Zealand-based borrowers are required to declare their student loan to their employer as part of the PAYE (pay as you earn) deductions system. Until 31 March 2012, their repayment obligations were based on the annual repayment threshold. If their annual income was over \$19,084, repayment deductions of 10 cents in every dollar were made from the amount over the threshold.

From 1 April 2012, deductions are made when a borrower earns over the pay period threshold (for example, if a borrower is paid weekly, the annual repayment threshold is divided by 52 weeks). These deductions are generally considered as meeting a borrower's repayment obligation for that pay period, unless there's been a significant over- or under-deduction. This means there are no end-of-year repayment obligations for borrowers earning salary or wages.

Borrowers can apply for an exemption from having repayment deductions if they are in full-time study and expect to earn under the annual repayment threshold. Those who have two or more jobs can apply for a reduced student loan deduction rate on their second income, if they earn less than the pay period repayment threshold from their main job.

³⁴ On completion of 1.6 EFTS units (approximately two years of study), the first assessment of academic performance will occur. Thereafter, performance is measured over the previous five years (using a five-year rolling assessment period) or since the student first received a student loan for study ending in 2009 or later – whichever is first.

³⁵ Information on student allowances is available on the StudyLink website www.studylink.govt.nz.

In New Zealand – other income

Borrowers with other income (for example, if they are self-employed) have any salary and wage deductions treated as full and final but need to make repayments on the other income if their total earnings are over the repayment threshold. The repayments are generally made in three instalments during the tax year in the same way that businesses pay interim tax. Repayments of 12 cents in the dollar apply to the amount over the threshold in the same way as for salaries and wages. Specific rules apply to amounts payable once a borrower's annual obligation has been determined.

Overseas-based borrowers

Overseas-based borrowers are those defined as being overseas for 184 days or more. Limited exemptions apply to this rule.

Interest applies to their student loan from the day after they leave New Zealand. The interest rate applying from April 2012 to March 2013 was 6.4 percent per annum and 5.9 percent for the tax year to March 2014.

The repayment obligation for overseas borrowers is not based on income as it is for New Zealand-based borrowers. The obligation is set in steps according to loan balances³⁶. For loan balances:

- under \$1,000 – the whole loan balance is due
- over \$1,000 and up to \$15,000 – \$1,000 is due
- over \$15,000 and up to \$30,000 – \$2,000 is due
- over \$30,000 – \$3,000 is due.

Repayment holiday

From April 2007, overseas-based borrowers were automatically given a repayment holiday for a maximum of three years. Borrowers did not have to make repayments during this period, although their loans still attracted interest. Those entitled to the repayment holiday include borrowers who went overseas after 1 April 2007 and those who were already overseas and had either kept up to date with their repayments or had been overseas for less than a year.

Changes to the repayment holiday took effect with the enactment of the Student Loan Scheme Amendment Act 2012. Borrowers going overseas from 1 April 2012 need to apply for a repayment holiday and provide a contact person in New Zealand. The repayment holiday was reduced to a maximum of one year.

Voluntary repayments

By making voluntary repayments towards their student loan, borrowers can repay their loan faster. All borrowers are able to make voluntary repayments towards their student loan at any time. They can be made in a number of ways, including through additional deductions from salary or wages by using a special repayment code, by automatic payment, through online banking, or with credit or debit cards. Borrowers who are overseas can make an international money transfer.

Repayment bonus

From the 2009/10 tax year onwards, borrowers making repayments of \$500 or more above their repayment obligation for that year received a 10 percent bonus. For example, a borrower who made voluntary repayments of \$1,000 in the 2009/10 tax year would have a total of \$1,100 credited against their loan balance. Any student loan repayments made directly to Inland Revenue are first credited towards any overdue and current repayment obligations, with any remaining payment over \$500 eligible for the bonus, assuming all required returns have been filed and the loan balance at the start of the year was over \$550.

The voluntary repayment bonus was repealed as part of the Government's 2012 Budget initiatives. Bonus payments applied up until the tax year ended 31 March 2013.

Overdue repayments and late payment interest

Collection of overdue loan repayments is achieved in the same way as for overdue taxes. If repayment obligations are not met by the due date, late payment charges may apply to the unpaid amount. Up to March 2012, these late payment charges were called 'late payment penalties', but from April 2012 it changed to 'late payment interest'. The charges are added to the unpaid amount from the day after the due date, and then monthly until the amount is paid in full. From 1 April 2013, the late payment interest will be 0.789 percent monthly. This rate will vary each year, depending on the student loan interest rate.

Borrowers having difficulty paying an overdue student loan repayment can negotiate a repayment arrangement. A borrower may also negotiate a lower repayment amount if the compulsory repayment obligation would cause serious financial hardship. In certain circumstances, a borrower suffering hardship may have any overdue amount added back to the loan principal.

Write-offs

If a borrower has a loan balance of less than \$20 at the end of a tax year, this is written off in accordance with section 197 of the Student Loan Scheme Act 2011. Inland Revenue may also refrain from collecting all or part of an overdue repayment obligation that is less than \$334, with the overdue portion being added back to the loan principal.

Interest

Most borrowers no longer pay interest on student loans because they are New Zealand-based. To be eligible, student loan borrowers must be living in New Zealand for 183 consecutive days or more, or qualify for an exemption from being overseas-based borrowers.³⁷

Borrowers who do not qualify for an interest-free student loan – defined as 'overseas-based borrowers' – will continue to be charged interest at the rate set each year. Borrowers who have returned to New Zealand after being classified as overseas-based have interest charged for the first 183 days without the concurrent write-off. However, once 183 days have passed, the interest charged from the date they returned is written off and the daily concurrent interest write-off takes over.

³⁶ In Budget 2013, the Government announced that it will be adding two new repayment thresholds, for overseas-based borrowers with loan balances over \$45,000.

³⁷ Some borrowers may qualify for exemption from interest charges if they are overseas and, for example, they are studying or working as a volunteer. Full details are available at www.ird.govt.nz/studentloans/.

The interest rate for the tax year from April 2011 to March 2012 was 6.6 percent per annum, 6.4 percent per annum for the 2013 tax year, and 5.9 percent per annum for the 2014 tax year.

Student Loans Integrated Model (SLIM)

SLIM is built on the integrated dataset on student loans and allowances. It was constructed by actuaries engaged by the Ministry of Education. Each year the integrated dataset is rebuilt to incorporate an extra year's data. Following this, the model is revised and updated and is used by the consulting actuaries in preparing their valuation of the scheme. The experience of past borrowers forms the core of the model and is used to predict what present and future borrowers will do in the future.

Changes in the economic environment and policy changes also affect borrowing and repayment behaviour and, depending on timing, these impacts are not necessarily reflected in the data on which the model is built.

This year's model was built on administrative data up until the end of March 2012. Between that date and the valuation date there is a 'lag' of 15 months. Adjustments are made to allow for policy changes that are not captured in the data, such as the change to pay period assessments.

SLIM benefits from a longitudinal dataset that becomes increasingly rich as further years of data are integrated each year. It gives agencies, researchers and the public a clearer understanding of the loan scheme's probable future status and outcomes. It enables more accurate assessments, for example, the likely effects of the loan scheme or of policy changes on different groups (such as ethnic groups or gender) and the borrowing and repayment behaviour of borrowers in different fields or levels of study. In this year's model, three years' worth of data has been used to produce the predictive models.

SLIM is based on a large number of categorical and regression tree models developed from the integrated dataset. The 2013 version of SLIM has 27 sub-models of decision-tree code. Together, these sub-models encapsulate former borrowers' borrowing, repaying, income growth, travelling overseas and other characteristics. A number of borrower features, including residency, income, study duration, borrowing amounts and voluntary repayments, are modelled and projected into the future.

Each sub-model uses several predictive variables (for example, study-related fields such as the level of study undertaken and the completion status, or demographic fields such as age and gender, or loan-related data such as the loan balance, amount borrowed and so on). SLIM works out the probabilities that an individual is going to be enrolled or not enrolled, earning or not earning, or overseas. It then proceeds to model the income of the individual and their repayment obligations. From there, the expected repayments in each year for each individual are calculated again using decision-tree models.

Area	Assumption
Economic assumptions	The Treasury publishes a central table of CPI inflation assumptions which are to be used in major accounting valuations for reporting to the Crown. These figures have been adopted for the valuation. The remaining economic assumptions are set by the consulting actuaries in consultation with the Treasury, Inland Revenue, the Ministry of Social Development and the Ministry of Education. For example, the long-term Average Weekly Earnings growth is expected to be 3.5 percent in 2018 onwards.
Discount rates	The carrying value of student loans is based on discount rates that are set at the time of lending. These incorporate a risk-free component and a risk premium calculated each year for each new cohort of borrowers. As with the CPI, the risk-free rates are as prescribed by the Treasury. The risk margin was determined by the consulting actuaries as 2.35 percent. The discounting used to compute the fair value, which is based on current risk-free rates and margins (risk margin and expenses), is equivalent to a single annual discount rate, which for this year's valuation is estimated to be 7.06 percent.
Income of borrowers	Personal income growth from 'career advancement' is modelled from the experience of the loan scheme and from Census data for longer durations. Salary inflation is imposed on top of this 'career advancement' analysis as an economic assumption.
Transitions between being a student, employment and overseas	Modelled from the recent experience of the loan scheme's participants.
Voluntary repayments	The probability and amount of voluntary repayments are modelled from the experience of the loan scheme since the introduction of the interest-free policy. The output from the sub-models is then adjusted to allow for the impact of moving to pay period assessments.
Repayment threshold	\$19,084 until 31 March 2015 and increasing by annual CPI thereafter. This is then adjusted to allow for the impact due to moving to pay period assessments.
Resident underpayments	The probability and amount of underpayment by New Zealand-based borrowers have been modelled from recent data and adjusted for the expected impact due to moving to pay period assessments, and changes to the underpayments collection process.
Bankruptcy	Age-specific, graduated rates were constructed based on the experience of the loan scheme. For example, the rate of bankruptcy at age 40 is 2.54 per 1,000 borrowers each year. This is an increase over last year based on better understanding of the data.
Mortality	Based on the experience of the loan scheme: male mortality is assumed to be 95 percent of the New Zealand Life Tables 2005 and female mortality is assumed to be 100 percent of the New Zealand Life Tables 2005. This is an increase from last year based on better understanding of the data.

Appendix 2: Glossary

Academic year

The academic year is from 1 January to 31 December.

Active borrower

Someone who is currently borrowing from the scheme. Active borrowers will either be studying for the first time in 2012, or continuing with their study.

Active repayer

Borrowers who have made at least one repayment in the financial year, as distinguished from those borrowers who have not made payments.

Administration fee

A \$40 fee charged by Inland Revenue for each year a borrower has a loan balance with Inland Revenue (except in those tax years that the borrower is charged an establishment fee by StudyLink). The fee is charged at the end of each tax year on 31 March.

Amortised cost

The amount that represents the initial fair value write-down plus interest unwind. The interest unwind rate effective at the initial fair value write-down is used to spread the interest over the life of the loan.

Annual maximum fee movement

The way that the government sets limits on the amount tertiary education providers may charge for tuition fees for programmes funded by the Government.

The annual maximum fee movement replaced the previous fee and course costs maxima (FCCM) policy from 2011.

Approved qualification

A formally assessed qualification approved by the New Zealand Vice-Chancellors' Committee or the New Zealand Qualifications Authority (NZQA) or bodies delegated by NZQA.

Borrower

Any person who has drawn from the Student Loan Scheme.

Borrowers overseas

Until 31 March 2007, a borrower living overseas was called a non-resident borrower and defined as a borrower not living in New Zealand in terms of section OE 1 of the Income Tax Act 1994.

From 1 April 2007, borrowers living overseas are referred to as 'overseas-based borrowers'. An overseas-based borrower now includes anyone not eligible for an interest-free student loan.

Carrying value

The carrying value is the value of the Student Loan Scheme asset which is maintained in the scheme's accounts. It increases during the year as new loans are issued and decreases as repayments are made. Adjustments are made each year following an annual valuation of the asset. Since 1 July 2005, valuations have been made in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Cohort

A group of people with a common statistical factor. For example, a cohort could be a group of students for whom 2008 is their first year of tertiary education.

Compulsory fees or tuition fees

Compulsory fees charged for tuition by public and private tertiary education providers.

Compulsory repayments

Compulsory repayments are repayments a borrower must make on his/her loan.

For New Zealand-based borrowers, compulsory repayments commence when their earnings cross the income threshold. When this happens, loan repayments must be made to Inland Revenue, even if the borrower is still studying. The repayments are 10 cents in every dollar earned over the threshold. From 1 April 2013, the repayment rate will increase to 12 cents in the dollar.

For overseas-based borrowers, compulsory repayments must be made to Inland Revenue twice a year. One instalment is due on 30 September, the other on 31 March. The amount to be repaid is based on the size of the borrower's loan. For those who have successfully applied for a repayment holiday, repayment will begin after they have been away for one year. For more details about repayment rates for overseas-based borrowers, visit the Inland Revenue Department website at www.ird.govt.nz/studentloans/overseas/long-trip/.

Course

A course is a component of education encompassing teaching, learning, research and assessment. Papers, modules and unit standards are all terms that are sometimes applied to courses. A course or collection of courses forms a programme of study which, if completed successfully, results in the award of a qualification.

Course-related costs

These are the additional expenses associated with tertiary study that are not compulsory for all students. These can include such costs as equipment, textbooks, field trips, and transport to and from classes.

Equivalent full-time student (EFTS)

'Equivalent full-time student' is a measure used to count tertiary student numbers. A student taking a normal year's full-time study generates one 'equivalent full-time student' unit. Part-time or part-year students are fractions of a unit.

Establishment fee

A \$60 fee charged by StudyLink each year when a borrower establishes a new loan account with StudyLink.

Effective Interest Rate

The effective interest rate is associated with a tranche of lending. It is the single discount rate at which the projected repayment cash flows from this lending discount to the same value as its initial fair value. The initial fair value in turn is the net present value of expected repayments discounted using future risk free rates plus the risk margin. The future risk free rates are prescribed by Treasury while the risk margin is set by the Scheme's valuers.

Fair value

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fee and course costs maxima policy (FCCM)

This policy replaced the fee stabilisation policy from 2004. There are three dimensions to this policy: an increase in subsidy rates, an annual fee movement limit, and a set of maximum fee levels. The policy rationale was to provide certainty for students as to future costs, while allowing providers some flexibility in setting their fees.

Fee stabilisation policy

The fee stabilisation policy was introduced in 2001 to prevent increases in tuition fees before the FCCM policy was developed. The policy involved institutions agreeing not to increase their fees and the government increasing tuition fee subsidies.

Fiscal year

Government's accounting year – starting on 1 July and ending on 30 June.

Formal education/study

Learning opportunities within the New Zealand tertiary education system can be categorised as formal and non-formal. Formal study contributes towards a recognised qualification, while non-formal study does not contribute towards a recognised qualification.

Full-time

Any programme of study undertaken by a student that is either:

- 32 weeks or more and at least 0.8 equivalent full-time student units (this is designated full-time, full-year), or
- 12 weeks or more and at least 0.3 equivalent full-time student units or the equivalent on a pro rata basis (for example, 24 weeks and 0.6 equivalent full-time student units is designated full-time, part-year).

This definition is used to determine eligibility for the living costs component of the student loan and for student allowances. It was used in applying the student loan full interest write-off for full-time students, which has now been replaced by a full interest write-off for New Zealand-resident borrowers (interest-free student loans).

Governance

The process of steering or directing the activities and priorities of an organisation, group or process. With respect to student loans governance, the Student Loan Scheme Governance Group was set up in 2010 to provide collective oversight and ownership of the scheme. The group is made up of representatives from the Ministry of Education, the Ministry of Social Development, the Treasury and Inland Revenue. See Appendix 1 for a description of the various roles and responsibilities, including governance, in respect of the Student Loan Scheme.

Impairment

A change in the value of a long-term asset.

Income year or tax year

From 1 April to 31 March the following year. For example, in this report the 2012/13 tax year is referred to as the 2013 tax year, ending on 31 March 2013.

Industry training organisations (ITOs)

These are organisations that develop high-quality, systematic training arrangements (through tertiary institutions, private training establishments and the workplace) for employees in their industry.

Institutes of technology

'Institutes of technology' is an alternative name for polytechnics.

Institutes of technology and polytechnics (ITPs)

Institutes of technology and polytechnics are public tertiary education institutions characterised by diverse vocational and professional programmes.

Integrated dataset

The integrated dataset is managed by Statistics New Zealand. It combines:

- information collected by tertiary education providers on students, enrolments and courses
- information collected by StudyLink on students' borrowings under the loan scheme and student allowances payments
- data on student loan balances, repayments, income and tax status from Inland Revenue
- data on student loan borrowing from the now-defunct student loan account manager provided by Inland Revenue and the Ministry of Education.

Interest

Refer to Total interest rate.

Interest-free student loans

From 1 April 2006, student loans for borrowers living in New Zealand for 183 consecutive days or more (about six months), and for borrowers who are exempt, are interest-free. This is the 183-day requirement.

Interest unwind

Refer to chapter 4.

Interest write-offs

In some previous years, interest has been charged on student loans. There were a number of provisions under which this interest was written off or cancelled. From 1 April 2007, interest write-offs ceased to exist due to the introduction of interest-free student loans. For more detail refer to previous years' reports and the web document *Changes to the student support system* located at www.educationcounts.govt.nz.

Lead official

An appointed or authorised member of a government agency that directs or governs a project.

Loan balance

In this report, the term 'loan balance' means the total amount owed by an individual to Inland Revenue which was borrowed under the Student Loan Scheme. This amount may also be referred to as 'debt'.

Negative impairment

When a valuation results in an increase in the value of an asset, the resulting change in value is called a reversal of an impairment or a negative impairment.

New borrowers

Borrowers who entered the loan scheme for the first time in a given year. For example, 2008 new borrowers are those that entered the loan scheme for the first time in 2008, and 2007 new borrowers are those that entered the loan scheme for the first time in 2007. A small number of new borrowers may have also borrowed during the 1990s.

New Zealand-based borrowers

All borrowers who qualify for an interest-free student loan. Since 1 April 2006, if borrowers live in New Zealand for six months (183 days) or more, interest charged to their loan balance is written off daily.

Nominal value

The nominal value of student loans is the balance of borrowings with Inland Revenue and the Ministry of Social Development. It is the total amount owed by borrowers at a point in time, including loan principal, interest, fees and penalties. The change in the value from year to year reflects changes in the amount owed by borrowers.

Non-degree

Non-degree level applies to programmes of study and qualifications that are not at degree or postgraduate level.

Non-formal education/study

Learning opportunities in the New Zealand tertiary education system can be categorised as formal and non-formal. Non-formal study does not contribute towards a recognised qualification.

Other tertiary education providers (OTEPs)

Providers recognised by the Minister of Education under section 321 of the Education Act 1989 as bodies that provide an educational or developmental service or facility.

Overseas-based borrowers

All borrowers who are not eligible for an interest-free student loan. Borrowers are no longer eligible for an interest-free student loan if they travel overseas for a period longer than six months (184 days), or for more than 31 days during the 183-day qualifying period.

Part-time

A programme of study that is less than full-time.

Pasifika

This is a collective term for people of Samoan, Cook Islands, Tongan, Niuean, Tokelauan, Fijian and other mixed Pasifika heritage. It includes a variety of combinations of ethnicities, recent migrants and third, fourth and fifth generation New Zealanders.

Pay period repayment threshold

The amount which can be earned in a pay period in New Zealand, before student loan repayments need to be made from salary or wages for borrowers using a main job tax and repayment code. From 1 April 2013, borrowers who earn over the pay period repayment threshold have 12 cents for every dollar above the threshold deducted to pay their loan. The pay period repayment threshold is based on the annual repayment threshold (for example, if a borrower is paid weekly, the annual repayment threshold is divided by 52).

PAYE (pay as you earn)

If your income is from salary, wages, benefits or taxable pensions, tax is deducted automatically under the PAYE (pay as you earn) system. Employees who are taxed under the PAYE system and have a student loan must indicate this by selecting a certain tax code. This ensures that borrowers make the correct repayments on their student loan, according to their level of income.

Private training establishments (PTEs)

These are private providers of tertiary education registered with the New Zealand Qualifications Authority.

Programme of study

A programme of study is a collection of courses, classes or work that leads to a qualification.

Qualification

An official award given in recognition of successful completion of a programme of study that has been quality assured by a recognised quality assurance agency. All recognised qualifications must be registered on the New Zealand Qualifications Authority's Register of Quality Assured Qualifications.

Repayment deductions

Amounts deducted by employers from a borrower's salary or wages when a borrower's income exceeds the repayment threshold and where the borrower has notified their employer of their student loan repayment obligation by using the appropriate tax code.

Repayment holiday

From 1 April 2012, borrowers who go overseas for six months (184 days) can apply to Inland Revenue for a one-year repayment holiday. Prior to this, an automatic three-year repayment holiday was in place. Borrowers must provide contact details for an alternative New Zealand contact person when applying for the repayment holiday. A repayment holiday means that borrowers won't have to make any repayments on their loan during this time. Interest, however, will continue to accumulate on the loan during this period.

Repayment obligation

The amount a borrower must repay toward their loan in any given income year. For New Zealand-based borrowers, this is calculated as the amount by which the borrower's net income exceeds the repayment threshold, multiplied by 10 percent (from 1 April 2013 the multiplier will be 12 percent). The amount of repayment for overseas-based borrowers is based on the size of their loan.

Repayment threshold

The amount a New Zealand-based borrower can earn in a year before having to make repayments on their loan. Once a person earns more than the threshold, they must pay 12 cents for every dollar earned over the threshold. The repayment threshold was set at \$19,084 in the 2011/12 income year and will be held at that level until 31 March 2014. (See also Pay period repayment threshold.)

Student allowances

Income-tested grants provided to support living costs while studying.

Student Loans Integrated Model (SLIM)

The stochastic model used to provide an annual valuation of the loan scheme and price policy options. Refer to Appendix 1 for more details.

Study status

This refers to whether a person is studying full-time or part-time.

StudyLink

StudyLink is responsible for the delivery and administration of student loan payments, student allowances and the Jobseeker Support (student hardship). StudyLink is part of the Ministry of Social Development.

Tax year

From 1 April to 31 March the following year.

Tertiary education

Tertiary education comprises all involvement in post-school learning activities, including industry training and community education. It also includes in-school programmes such as Gateway and the Secondary-Tertiary Alignment Resource (STAR).

Tertiary education institutions (TEIs)

Tertiary education institutions are public providers of tertiary education. TEIs are universities, institutes of technology and polytechnics, and wānanga. On 1 January 2007, the last two remaining colleges of education merged with their local universities.

Tertiary education organisations (TEOs)

These are all institutions and organisations that provide or facilitate tertiary education. They include tertiary education providers and industry training organisations.

Tertiary education providers (TEPs)

Tertiary education providers are all the institutions and organisations that provide tertiary education. These include public tertiary education institutions, private training establishments, other tertiary education providers and government training establishments.

Tertiary Education Strategy (TES)

The Tertiary Education Strategy sets the Government's goals and priorities for New Zealand's tertiary education system so that it contributes to New Zealand's national goals and is closely connected to enterprise and local communities.

Total interest rate

This is the interest charged on loans. Interest is adjusted annually from 1 April. The total interest rate was 6.4 percent for 2012/13 and is 5.9 percent for 2013/14. From 1 April 2006, only overseas-based borrowers are liable for interest.

Tuition fees or compulsory fees

Compulsory fees charged for tuition by public and private tertiary education providers.

Voluntary repayments

Any student loan repayment that is made over and above a borrower's compulsory annual repayment obligation and is not an overpayment is considered a voluntary repayment.

Wānanga

A public tertiary institution that provides programmes with an emphasis on the application of knowledge regarding ahuatanga Māori (Māori traditions) according to tikanga Māori (Māori custom).

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