

# STUDENT LOAN SCHEME

ANNUAL REPORT OCTOBER 2012

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This report is also available on the Ministry of Education's website:  
[www.educationcounts.govt.nz/publications/series/2555](http://www.educationcounts.govt.nz/publications/series/2555)



October 2012

## FOREWORD

I am pleased to present the 2012 Student Loan Scheme Annual Report and the 2011/12 Financial Schedules.

Two decades have passed since student loans for tertiary study were first introduced in New Zealand, with the purpose of improving access to tertiary education by sharing the costs between students and government.

Tertiary education is a central part of New Zealand's culture and economy. Tertiary qualifications equip New Zealanders with skills and knowledge, leading to better employment outcomes that help people contribute to New Zealand's prosperity and provide greater personal opportunities. The Student Loan Scheme provides access to funding for course fees, course-related costs and living costs, enabling individuals to defer paying their share of the costs of their education until the benefits of their study are realised in the income they earn. Since its establishment in 1992, 1.1 million New Zealanders have used the loan scheme. This equates to about 31 percent of the New Zealand population aged 15 and over. The number of New Zealanders who have accessed the scheme each year has grown from 44,000 in 1992 to 207,330 in 2011. This rise indicates that more people are using the loan scheme as a means of funding their tertiary education. In the 2011 academic year, 74 percent of students eligible to borrow from the loan scheme did so, borrowing a total amount of \$1,586 million. More than 341,000 people have repaid their student loans in full since the loan scheme began.

The purpose of the Student Loan Scheme Annual Report is to provide public accountability information to government, to parliament and to New Zealanders, giving confidence 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.

Over the past year we've seen some significant changes to the Student Loan Scheme:

- Major system improvements were implemented in April 2012. The daily transfer of loan information from StudyLink to Inland Revenue enables borrowers to access their full loan balance through their *myIR* online services account. We have also created online tools for borrowers to manage their loans.
- We have shifted from assessing repayment obligations for salary and wage earners on an annual basis to a pay period basis, and we have streamlined the repayment process.
- We have improved collections and compliance with New Zealand-based borrowers and made inroads into collecting overdue loans from overseas-based borrowers.

From April 2013, the repayment obligation is increasing to 12 cents in each dollar of income above the repayment threshold as a means of improving the cost-effectiveness of loans while still protecting those on low incomes.

Overall, these changes have made the scheme more efficient and have brought down the cost of loans to the government.

The report is based on information and data 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 2011 and the financial situation in the 2011/12 fiscal year. The report also provides forecasts of future loan participation and expenditure.

This Student Loan Scheme Annual Report gives me an opportunity to provide information about the loan scheme, its performance and its value. It also gives us an overview of how many New Zealanders are choosing to invest in tertiary education with the help of the Student Loan Scheme.



**Lesley Longstone**  
Secretary for Education

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# HIGHLIGHTS

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## STUDENT LOAN SCHEME PORTFOLIO

### As at 30 June 2012:

- The nominal value of loan balances was \$12,969 million. (Page 44)
- The carrying value of the loan scheme – calculated using International Financial Reporting Standards – was \$8,291 million. (Page 44)
- The carrying value ratio increased from 61.8 percent of the nominal value to 63.9 percent of the nominal value ratio. (Page 44)
- The fair value of the loan scheme was approximately \$8,527 million. (Page 44)
- The cost of lending drops from 44.7 cents in the dollar lent in 2011/12 to 39.1 cents in the dollar lent in 2012/2013. (Table 30, Page 48)
- The cost of lending is forecast to reduce to 37 cents for each dollar lent by 2015/16. (Table 34, Page 49)
- 701,232 people had a student loan with Inland Revenue for collection. (Figure 21, Page 30)

### Since the loan scheme began:

- Students have borrowed a total of \$17,155 million. (Page 23)
- \$7,071 million has been collected in loan repayments. (Page 34)
- More than 341,000 loans have been fully repaid. (Page 34)

### During 2011/12:

- \$876.5 million in loan repayments was received by Inland Revenue and the Ministry of Social Development, \$75 million more than last year. (Table 39, Page 55)

## OUTCOMES

- 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 2011 was 383,000 compared with 245,000, the number enrolled in 1994. (Figure 1, Page 8)
- The participation rate for Māori of all ages was 15.2 percent in 2011, down slightly from 16.6 percent in 2010. The participation rate of all Pasifika students in 2011 was 11.6 percent, down slightly from 12.2 percent in 2010. (Table 1, Page 9)
- The total number of students completing formal qualifications reached 121,000 in 2011, an increase of 3.5 percent from 2010. (Page 9)

## ABOUT BORROWING IN 2011

- 207,330 students (74 percent of eligible students) borrowed from the loan scheme. (Page 22)
- Of these, there were 57,024 new borrowers (based on provisional Ministry of Social Development data), representing 30 percent of all borrowers. (Table 6, Page 28)
- The average amount borrowed was \$7,633 and the median amount borrowed was \$6,709. (Page 24)

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## BORROWERS

### Between 1997 and 2011:

- About 57 percent were female. (Table 8, Page 30)
- 49 percent were European, 22 percent were Māori, 12 percent were Asian and 9 percent were Pasifika. (Table 8, Page 30)
- 47 percent had studied at non-degree level, 35 percent at bachelors level and 9 percent at postgraduate level. (Table 8, Page 30)

### As at 30 June 2012:

- The average loan held by Inland Revenue was \$18,507 and the median loan balance was \$12,849. (Table 9b, Page 31)
- 69 percent of repayments were collected through the PAYE tax system in the 2011/12 tax year. (Table 10, Page 32)

## REPAYMENT TIMES

- The median repayment time for those who finished study in 2003 is expected to be 7.4 years. (Table 17 and 18, Page 38)
- The median repayment time for those who finished study in 2006 is expected to be 7.2 years. (Table 17 and 18, Page 38)
- The median repayment time for those who finished study in 2008 is expected to be 6.7 years. (Table 17 and 18, Page 38)
- The median repayment time for those who left study in 2008 and remained in New Zealand is expected to be 5.5 years. (Table 21, Page 40)

**For more information about these highlights, refer to the appropriate page 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 regarding the loan scheme's financial performance from 1 July 2011 to 30 June 2012.

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 future developments to the loan scheme and student support policy.

The report evaluates 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.

### Tables behind graphs and historical data

The data underlying the graphs in this report and tables providing more detailed historical data will be available on the Education Counts website [www.educationcounts.govt.nz](http://www.educationcounts.govt.nz) later this year. These tables will be available to download in spreadsheet format.

New business rules were introduced by the Ministry of Social Development in 2010 regarding the reporting of borrowers' study status; this has changed previously reported data.

### 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 new borrowers and borrowers in study is largely drawn from the Ministry of Social Development. 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](http://www.educationcounts.govt.nz).

Where data in the tables and graphs is provisional and subject to minor change at a later stage, it 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 historic data reported in the 2012 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 2011.

### 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. A new ethnic group has been added from 2007 for those identifying themselves as Middle Eastern, Latin American or African (MELAA). MELAA ethnicity classification data is only available from 2007.

### Data series

A variety of different timeframes have been used for the data series presented in this report. This is due to a number of factors, including the availability of historical data and also as a means of highlighting interesting and important events or trends that occur over specific timeframes.



# 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 2009<sup>1</sup> 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 being gradually 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 has set a number of targets – the Better Public Services targets – intended to ensure that the public sector can respond even more effectively to the needs and expectations of New Zealanders.<sup>2</sup> 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 through:

- 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 qualifications<sup>3</sup> provided they meet the eligibility criteria and performance conditions. For the eligibility criteria see Appendix 1.

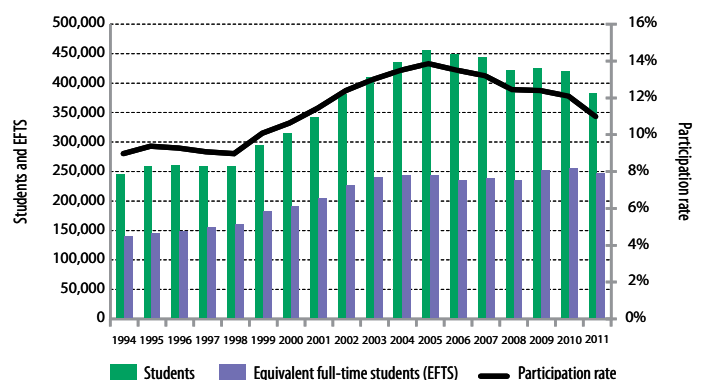
Appendix 1 also explains the operational changes made by the agencies to improve the services they offer to borrowers while managing the costs of loans.

## 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,<sup>4</sup> and the rate of participation in tertiary education from 1994 to 2011.

**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 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 56 percent between 1994 and 2011 (from 245,000 to 383,000). 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 2010 to 2011, by 8.7 percent or 36,000 students. The number of equivalent full-time students fell by 8,750, a decrease of 3.4 percent from 2010 numbers.

1 The Tertiary Education Strategy can be found at: [www.minedu.govt.nz/NZEducation/EducationPolicies/TertiaryEducation/PolicyAndStrategy](http://www.minedu.govt.nz/NZEducation/EducationPolicies/TertiaryEducation/PolicyAndStrategy).

2 The Better Public Services targets can be found at: [www.ssc.govt.nz/better-public-services](http://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		2009	2010	2011
Participation of domestic students in tertiary education	Number (000)	425	420	383
	Rate (all ages)	12.4%	12.1%	10.9%
	Rate (18-19 years old)	47.6%	48.4%	47.4%
	Rate (20-24 years old)	34.0%	34.4%	32.8%
	Rate – Māori	17.0%	16.6%	15.2%
	Rate – Pasifika	12.0%	12.2%	11.6%
Domestic students completing qualifications	Non-degree (000)	81	84	82
	Bachelors (000)	25	25	27
	Postgraduate (000)	12	12	12
	Total (000)	116	120	121
Government-funded places		2009	2010	2011
Student Achievement Component EFTS	Funded (000)	231	235	235
	Actual (000)	243	245	236
Government expenditure		2009/10	2010/11	2011/12
Expenditure (\$ million)	Student loans (new lending)	\$1,525	\$1,564	\$1,586
	Student allowances	\$570	\$620	\$649
	Tuition subsidies	\$2,277	\$2,279	\$2,255
	Total	\$4,373	\$4,463	\$4,490
	Total as % of GDP	2.3%	2.2%	2.2%
<b>Source:</b> 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. 2011/12 figures for 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 2011.				

The main trends shown in Table 1 are:

- The overall participation rate in tertiary education was 10.9 percent in 2011, down from 12.1 percent in 2010. In the 18-19 years and 20-24 years age groups, the participation rate also decreased in 2011, reaching 47.4 percent and 32.8 percent, respectively. The participation rate for Māori of all ages was 15.2 percent in 2011, down from 16.6 percent in 2010. The participation rate of all Pasifika students in 2011 was 11.6 percent, down from 12.2 percent in 2010.<sup>5</sup>
- The total number of students completing formal qualifications reached 121,000 in 2011, an increase of 3.5 percent from 2010.
- The number of government-funded equivalent full-time student (EFTS) places increased by 0.1 percent in 2011 to reach 235,000. The number of government-funded EFTS is now 5.4 percent higher than in 2008.
- The amount provided by the government through student loans reached \$1,586 million in 2011/12. This compares with expenditure of \$644 million on student allowances and \$2,255 million on tuition subsidies.

- Between 2008 and 2011, the largest growth in government tertiary education expenditure was in student allowances (61 percent), followed by student loans (27 percent) and tuition subsidies (5.1 percent). These three expenditure categories combined amounted to 2.2 percent of GDP in 2011/12, compared with 2.1 percent in 2008/09.

## 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 faces a number of challenges as a result of the economic downturn, which has constrained the resourcing available to the system. Recent student support system changes have focused on identifying low-priority expenditure and reallocating this to high-priority areas in tertiary education.

An important focus has been on the cost of the scheme and, in particular, its impact on the government's balance sheet. Each dollar lent in 2012/13 costs the government 39.09 cents (refer to Table 30, page 48).

An analysis of the cost of lending indicates that there are three main drivers of cost:

- borrowers whose income is insufficient to make progress in repaying their loans
- borrowers who do not comply with their repayment obligations
- the level of subsidy in the loan scheme.

The Crown's cost of lending to borrowers is also affected by the size of their student loans. Large student loans are of high cost to the government if borrowers are slow to repay (or never repay) them.

In order to make the scheme more cost-effective and ensure that it is financially sustainable and well managed as an asset, the government has placed a central focus on:

- requiring a greater contribution to tertiary education costs from borrowers who can most afford to pay (for example, increasing the repayment obligation as set out in section 1.3 below)
- ensuring that borrowers are meeting their obligations. This issue:
  - largely relates to overseas-based borrowers, who have much lower repayment compliance and slower repayment times than New Zealand-based borrowers (refer to Table 21, page 40)

<sup>5</sup> The participation rates for Māori and Pasifika have been age standardised based on the structure of the New Zealand population in 2011, to enable comparisons to be made over time.

- involves increasing borrowers' awareness of their repayment obligations and ensuring that contact is maintained between borrowers and Inland Revenue (see 1.3 below)
- improving the return on the country's investment in supporting students through their tertiary education. Recent Budget changes aim to do this by reducing lending that is of low benefit to the scheme (for example, imposing an annual borrowing cap as set out in section 1.3 below)
- the agencies continuing to ensure that 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 loan <http://www.studylink.govt.nz/student-loans/index.html>.

## 1.3 Student support changes in 2012

This section provides an overview of recent strategic and operational policy changes. Some were announced in Budget 2012 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 2012.

### Budget 2012 – changes to eligibility for student support

#### Setting a 2 EFTS annual student loan borrowing limit

The amount of study that a student can borrow for in a year will be capped at 2.0 EFTS. This policy will take effect for study starting on or after 1 January 2013.

#### Implementing a student loan borrowing cap for pilot training

The amount a student can borrow through the compulsory fees component of the Student Loan Scheme for pilot training will be capped at \$35,000 per EFTS. The policy will apply for pilot training commencing on or after 1 January 2013. Transitional arrangements will be in place for some students.

#### Removing student allowance eligibility for postgraduate study and Long Programmes

For study starting 1 January 2013, student allowance eligibility for postgraduate certificates or diplomas, masters and doctorates will be removed. A number of exemptions to the 200-week student allowance lifetime limit will also be removed.

An existing special circumstances exemption will be amended to exclude student allowance policy changes as a ground for exemption.

Transitional arrangements will be in place for some students.

### Freezing the student allowances parental income threshold

From 1 April 2012 to 31 March 2016, the student allowances parental income threshold will not be increased.

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

## Budget 2012 – changes to repayment obligations

### Increase in the student loan repayment rate from 10 percent to 12 percent

From 1 April 2013, the repayment rate for New Zealand-based borrowers with incomes over the repayment threshold (currently \$19,084 annually or \$367 weekly) will increase from 10 to 12 cents in the dollar.

### Removing the voluntary repayment bonus

The student loan voluntary repayment bonus scheme will end on 31 March 2013. Legislative changes were made to give effect to this decision as part of Budget night legislation.

### Extending student loan data matching between Inland Revenue and the New Zealand Customs Service

In 2013, an information match between Inland Revenue and the New Zealand Customs Service will be extended to identify student loan borrowers in serious default, so Inland Revenue can contact them. Legislation is required for this initiative.

### Broadening the definition of income for student loan repayment purposes

From 1 April 2014, the definition of income for student loan repayment purposes will be broadened to include income from trusts and other sources. This initiative requires legislation.

### Legislative changes from 2012

In 2012, the following changes were made to the way student loans are administered.

### Pay period repayment obligation

From 1 April 2012, the assessment of income (to work out how much is due in repayments) for salary and wage earners shifted from an annual basis to a pay period basis. Unless the borrower has an exemption, student loan deductions made each pay period will generally be considered final. This change eliminates the need for a year-end assessment for borrowers' salary and wage income.

## 'SL' repayment code

New Zealand salary and wage earners now need to add 'SL' to their tax code, regardless of how much they earn, unless they have an exemption.

## Repayment exemptions for full-time students

Borrowers who are studying full-time and expect to earn less than the annual repayment threshold can apply for a repayment exemption. They do not have to add 'SL' to their tax code while they're exempt.

## Reduced rates for secondary earnings

Borrowers with more than one job can apply for a student loan special deduction rate for their secondary earnings if they earn less than the pay period repayment threshold from their main job.

## Late payment penalties

The late payment penalty is now called late payment interest and has been reduced from 1.5 percent to 0.843 percent monthly.

## Consolidated loan information

Borrowers can now see a complete and up-to-date view of their total loan balance through their *myIR* online services account. Borrowers need to be registered for this service. From April 2012, StudyLink began transferring loan account information to Inland Revenue on a daily basis in place of the previous annual transfer.

## Recalling the entire student loan amount

Inland Revenue now has the authority to demand full payment of a student loan, whether or not the whole amount is outstanding. This will be targeted to borrowers who have consistently been non-compliant with their repayment obligation.

## Annual administration fee

From 1 April 2012, an annual administration fee of \$40 has been charged on a borrower's account if they have a student loan balance of \$20 or more (except if they have also been charged StudyLink's establishment fee in the same tax year). This was a Budget 2010 student support initiative.

## Excluding losses from calculating repayment obligation

Borrowers can no longer use losses from their business or investment activities to offset their income and reduce their student loan repayment obligation. This was a Budget 2011 student support initiative.

## One-year repayment holiday

Borrowers who go overseas on or after 1 April 2012 no longer automatically receive a three-year repayment holiday. They can, however, apply for a one-year repayment holiday. Applications must be made before leaving New Zealand or within the first 183 days of being overseas. An alternative contact person based in New Zealand must also be provided. This policy was a Budget 2011 initiative.



# 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:

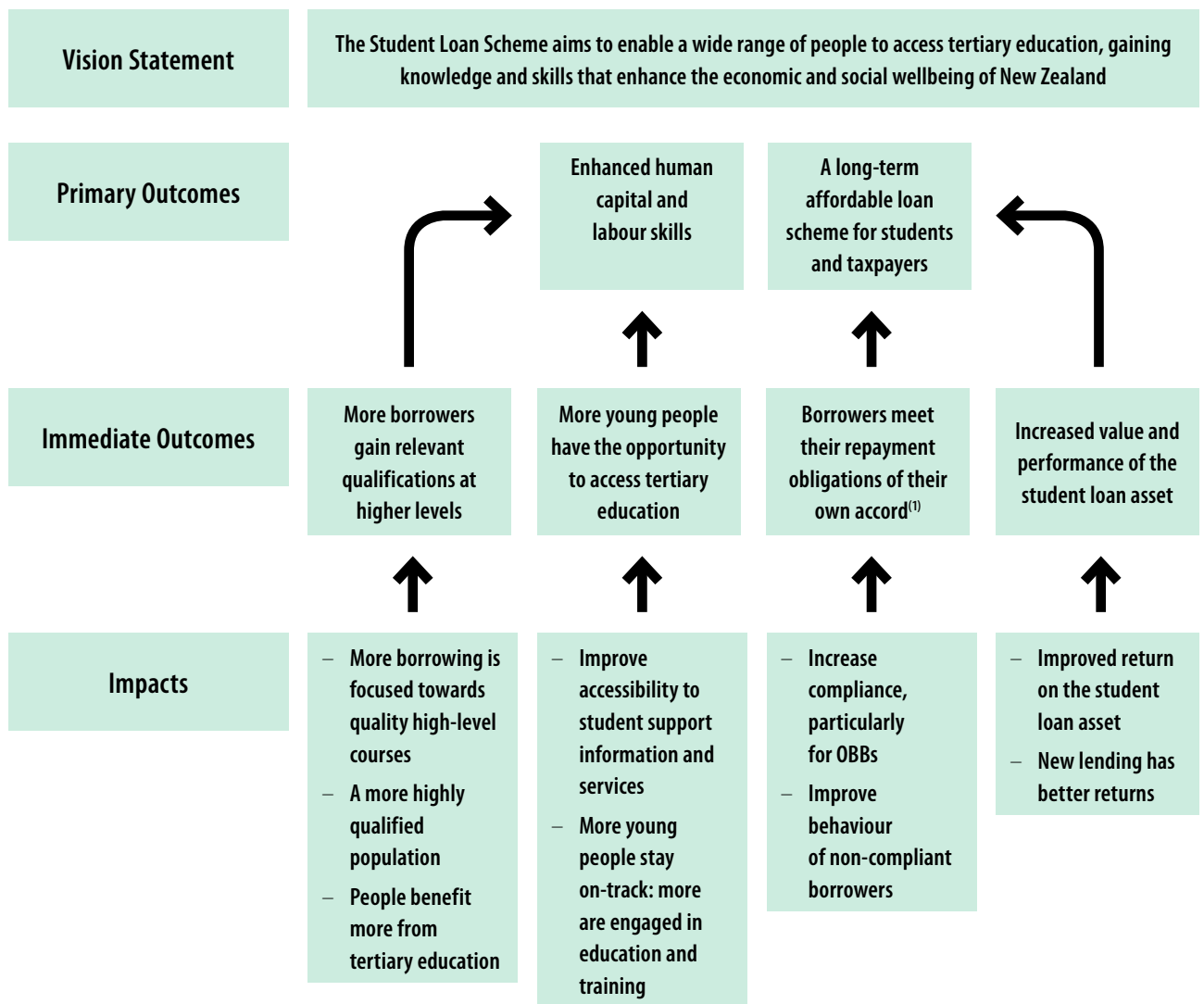
- enhanced human capital and labour skills
- a long-term, affordable loan scheme for borrowers and taxpayers.

This chapter looks at the extent to which the loan scheme contributes to those outcomes. It also explores evidence of any unintended outcomes of the loan scheme.

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



<sup>(1)</sup> 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 the skills and the qualifications that are valued by employers. Research and analysis<sup>6</sup> 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.<sup>7</sup>

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

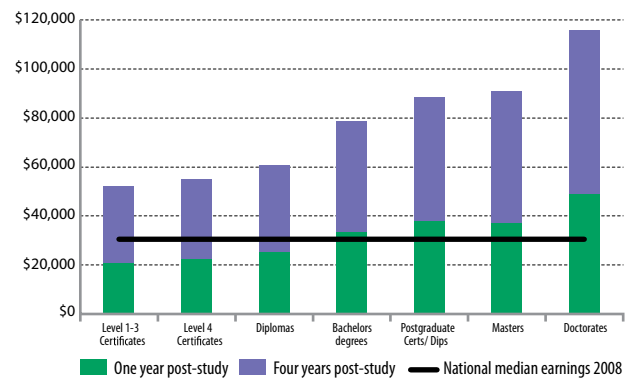
Many economists measure gains in human capital by looking at people's earnings. They reason that what an employer pays is an indicator of how much value the worker creates – because the employer cannot pay a person more than the value created by that employee if the firm is going to remain profitable.

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 Employment Outcomes of Tertiary Education dataset show that employers pay a premium for completed qualifications. For instance, on average, those who complete a bachelors degree earn 25 percent above people who start a bachelors but leave without completing.

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 students who completed a qualification and left study in 2003 (around 118,000 domestic students). The research conducted focused on a subgroup of these leavers whom we have called 'young leavers'.<sup>8</sup> They represent the students who moved to tertiary education more or less directly after school and who were more likely to be completing their tertiary education for the first time, 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 it is for older students, who perhaps already hold qualifications or have a number of years of work experience.

**Figure 3** Median earnings for young students who completed a qualification and left study in 2003



Source: Statistics New Zealand, Employment Outcomes of Tertiary Education dataset. Ministry of Education interpretation and calculations.

Figure 3 shows that the higher the qualification, the higher the expected earnings. It shows that:

- the median earnings of bachelors graduates were above the national median earnings in the first year after study
- four years post-study, the median earnings of young bachelors degree graduates were 45 percent higher than those who completed level 1 to 3 certificates, and 28 percent higher than diploma completers
- the median earnings of young masters degree graduates were 19 percent higher than those of young bachelors degree graduates four years post-study
- young doctorate completers earned 48 percent more than bachelors degree completers four years post-study
- returns for people who take lower-level qualifications are more modest.

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 2011 were around 246,500 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 in the number of people enrolling in tertiary education between 2006 and 2011. This reduction 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.

The trend to higher-level qualifications was especially pronounced during the period 2009–2010, when the economic downturn led to a rise in longer duration vocational qualifications in polytechnics and greater retention of new graduates into postgraduate enrolments in universities.

6 Mahoney, P (2011) *What do men and women earn after their tertiary education?* Ministry of Education; Scott, D (2009) *What do students earn after their tertiary education?* Ministry of Education and Statistics New Zealand; Smart, W (2006) *Outcomes of the New Zealand tertiary education system – a synthesis of the evidence*, Ministry of Education; Nair, B (2007) *Measuring the returns on investment in tertiary education three and five years after study*, Ministry of Education; Maani, S and T Maloney (2004) *Returns to post-school qualifications*, Department of Labour.

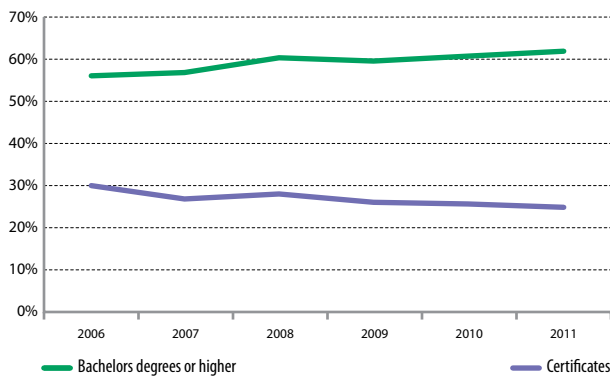
7 Human capital is a way of thinking about the skills people possess. Earnings are one way of measuring differences in human capital between different groups.

8 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 postgraduate 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 2011, 51 percent of New Zealanders 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 17 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 2011, the proportion had risen to 62 percent. Over the same period, the proportion of borrowers enrolled in certificates had fallen from 30 percent to 25 percent. The trends are illustrated in Figure 4.

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

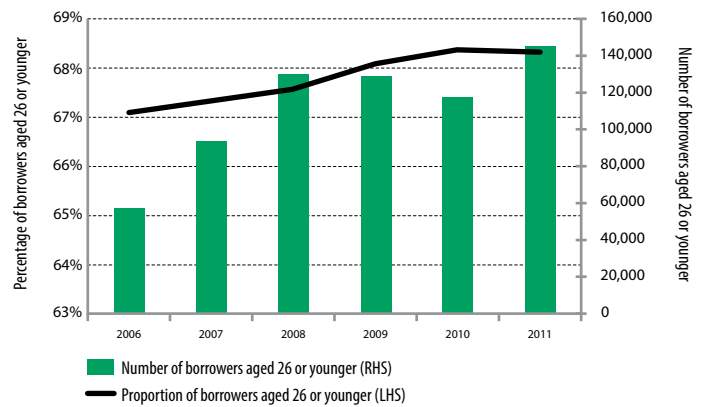


Source: StudyLink. Ministry of Education interpretation and calculations.

### 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. 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 2011, we have seen a rise of 30 percent in the number of borrowers aged 26 or younger. The proportion of borrowers in that age group has increased from 65 percent to 68 percent.

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



Source: StudyLink. Ministry of Education interpretation and calculations.

## 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.

## 2.2 A long-term, 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 partly enjoyed 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 greater 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 a measure of sharing the costs.

The Student 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 this funding, 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 28 percent in 2011.

While the government's share was nominally 72 percent in 2011, 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 83 percent.

## The costs of the loan scheme to students

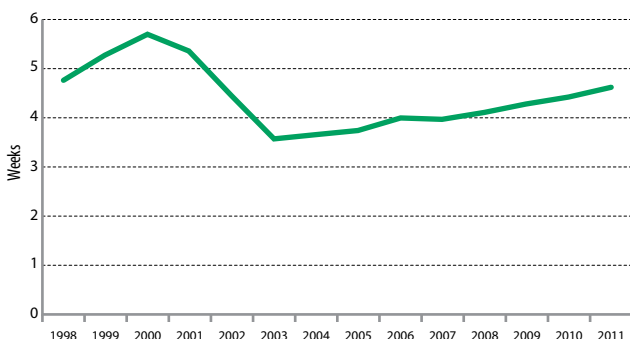
There are three ways of assessing the cost of tertiary education to students:

- 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 leave their tertiary education with
- the time it takes to repay loans.

The first of these is a measure of the affordability of tertiary education. Given the fact that around 74 percent of eligible students (and 82 percent of full-time students) support themselves through study by accessing the loan scheme, the second gives a measure of the overall cost of participation in tertiary education.

Figure 6 gives the trend in the affordability of tertiary education by calculating how many weeks it takes for a person on the average weekly wage to earn the average tuition fee at a tertiary education institution.

**Figure 6** Ratio of the average domestic per EFTS tuition fee at TEIs to the average weekly income for employed persons

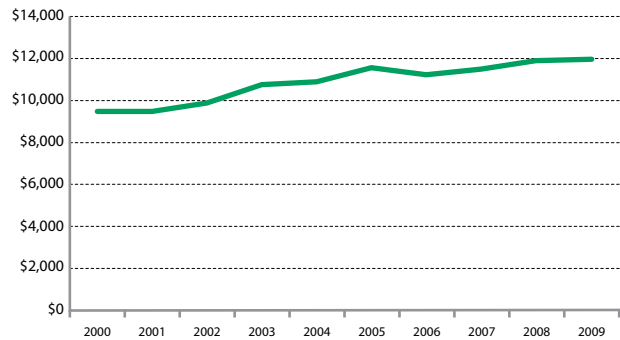


Source: Tertiary Education Commission and Statistics New Zealand. Ministry of Education interpretation.

Figure 6 shows that tertiary education became more affordable as a consequence of fee stabilisation measures taken in the first half of the last decade. In 2011, it took 4.6 weeks of work at the average weekly wage to earn the amount of the average tuition fee, compared with 5.7 weeks in 2000. Since 2003, there has been a gradual increase in the relative cost of fees.

The median leaving loan rose by 1 percent between 2008 and 2009 and by 0.26 percent between 2000 and 2009. When we take account of inflation between 2000 and 2009, the change in the size of the leaving loan balance amounts to a reduction of 7.4 percent.

**Figure 7** Median loan balance on leaving study

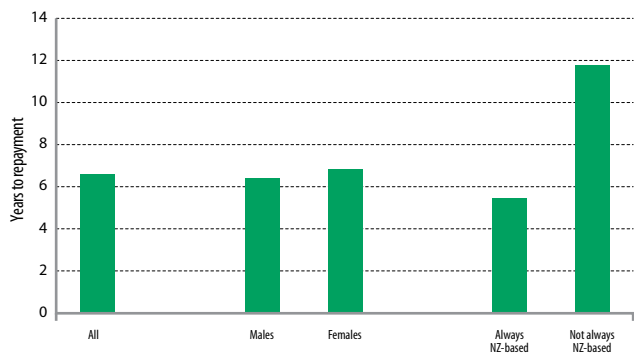


Source: Tertiary Education Commission and Statistics New Zealand. Ministry of Education interpretation.

When we look at all loans held by Inland Revenue on 30 June 2012, 41 percent are under \$10,000.

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 2008



Source: Tertiary Education Commission and Statistics New Zealand. Ministry of Education interpretation.

## Improving compliance with repayment obligations

Sharing the cost of education requires borrowers to comply with their repayment obligations.

The government has moved to make it fairer and easier for borrowers to meet their obligations:

- Administrative changes mean that borrowers who are current students since April 2012 can get a consolidated view of their loan balance, because of the daily transfer of lending information from StudyLink to Inland Revenue.
- The repayment obligations of most wage and salary earners have been calculated on a pay period basis from April 2012 – meaning that repayments match people's earnings more closely.
- In Budget 2012, the government announced it was broadening the definition of income in the Student Loan Scheme so as to remove anomalies in the calculation of repayment obligations.

Compliance with repayment obligations is high among New Zealand-based borrowers. In the 2012 tax year, Inland Revenue collected \$654 million from borrowers who were in New Zealand. Each tax year, those who are in New Zealand for the full tax year collectively pay more than 10 percent above their assessed repayment obligation.

But compliance is much lower among those overseas. While overseas-based borrowers represent 15 percent of the borrower population, they are 58 percent of all borrowers with overdue payments and hold 80 percent of all overdue repayment.

As a result, the government has made it a requirement for borrowers going overseas to name a contact person, to enable Inland Revenue to keep in touch with borrowers overseas.

The government has also initiated an overseas-based borrowers compliance initiative, which aims to contact those overseas and encourage them to repay. The scheme so far has focused mostly on borrowers in Australia and the United Kingdom. In the year to 30 June 2012, this scheme was successful in collecting more than \$19 million.

## The costs of the loan scheme to the government

The Student Loan Scheme is a significant financial asset. The government agencies responsible for the scheme are expected to manage it in a way that protects that asset. The value of the scheme depends on a variety of factors. Firstly, the policies that govern the scheme affect its value. The loan scheme is not designed to make large financial returns; rather it is intended as a cost-effective means of enhancing access to tertiary education. As a consequence, the scheme's parameters include provisions such as the repayment threshold and the fact that the level of an individual's repayments depends on his or her income. And loans are interest-free to those who remain in New Zealand.

The second group of factors that affect the scheme's value is the country's economic situation. If incomes are rising, so will repayments, but in a period of stagnant unemployment, more people will earn 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 third group of factors that affect the value relate to borrower behaviour. 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.

Finally, the value is affected by how well the agencies manage their roles in the scheme.

The scheme is valued according to New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). The approach to the valuation is described in detail in chapter 4 of this report.

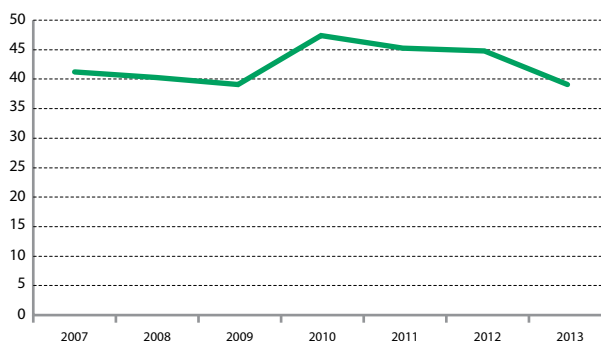
The government has placed a high priority on lowering the costs of the loan scheme. Measures taken since 2010 include:

- 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 of income over the repayment threshold to 12 cents per dollar (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 was 45.25 cents in 2010/11 and 44.69 cents in 2011/12. In 2012/13, the cost of lending falls to 39.09 cents and is expected to decrease to 36.93 in the year 2015/16. The fall between 2011/12 and 2012/13 amounted to 12.5 percent. The two main reasons for this most recent fall are the increase in the repayment obligation and also the forecast that interest rates will remain lower than forecast a year earlier.

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

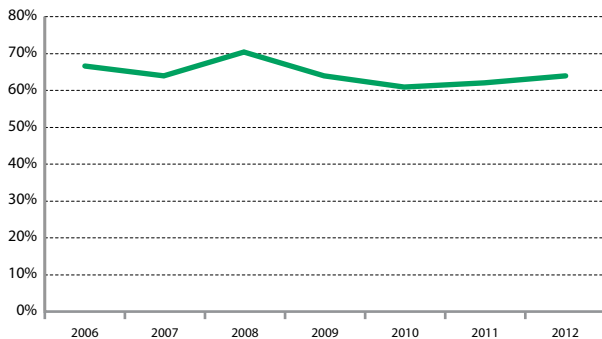
**Figure 9** Cost of lending – cents per dollar lent



Source: Ministry of Education, Student Loans Integrated Model.

The value of the scheme in the Crown's accounts was 63.8 percent of the total amount of money on loan (which is called the nominal value). This is up from 61.8 percent in 2011 and 60.9 percent in 2010. This is shown in Figure 10 below.

**Figure 10** Ratio of carrying value of the Student Loan Scheme to nominal value



Source: Ministry of Education, Student Loans Integrated Model.

## Summary – long-term affordability of the loan scheme

The data presented in this section shows that succeeding in tertiary education has multiple benefits for individuals and for society and the economy. So it is appropriate that there is a measure of sharing of the costs. The share of the cost of tertiary education paid by students and their families is around 28 percent – but that figure does not take account of the fact that many students rely on student loans to meet their share and those loans are subsidised, with each dollar loaned currently costing 39 cents.

The government aims to manage its costs in the loan scheme. The cost of lending for the year to 30 June 2013 will fall by 12.5 percent.

### 2.3 Unintended outcomes

Information from the integrated dataset on student loans and allowances indicates that a proportion of borrowers are unlikely to repay their loans in full. This implies that there is a proportion of borrowers – around 12 percent in the case of the 1992 leavers – who are not in the New Zealand labour market and who may not be able to repay.

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, 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.

## 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 who 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 since 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 2008 and stay in New Zealand until repayment manage to settle their loan in 5.5 years, while three-quarters repay within 8.7 years. But borrowers who spend time outside of the country have much longer repayment times. Looking at the 2008 leavers, the median repayment time for those who are overseas-based for some of the time is 11.8 years.

The Organisation for Economic Co-operation and Development provides information on repayment rates in student loan schemes in some of its member countries. They report that in 2004/05 the expected repayment time for a New Zealand bachelors graduate was significantly lower than the comparable figures for Norway, Denmark, Sweden, the Netherlands or the United States.<sup>9</sup>

## Who does not end up repaying their loans?

The loan scheme has a repayment threshold, so there is no repayment obligation for those whose income falls below the threshold, and any unpaid portion is written off on death. The loan scheme allows for the fact that some people may not be able to repay their loans, for example people who suffer illness or disability that reduces or removes their work opportunities. During the current period of relatively high youth unemployment, we expect that an increased proportion of borrowers will experience a period during which their income falls below the repayment threshold.

An analysis<sup>10</sup> of borrowers who last studied in 2006 and remained in New Zealand showed that those who still had 85 percent or more of their leaving balance outstanding three years after study:

- are more likely to have left study without completing a qualification – 53 percent of those who did not complete had made slow progress, compared with 34 percent of those who had completed their qualifications
- are more likely to have taken lower-level qualifications – 46 percent of those who completed a qualification below degree level had made slow progress, compared with 19 percent who completed at postgraduate level
- are more likely to be Māori or Pasifika than of any other ethnic group – 56 percent of all Māori borrowers and 49 percent of Pasifika borrowers had made slow progress, compared with 31 percent for those of European ethnicity

<sup>9</sup> Organisation for Economic Co-operation and Development (2008) *Education at a glance: OECD indicators 2008*, OECD, Paris. Refer to Table BS.1e.

<sup>10</sup> Chen, N and M Webster (forthcoming) *Slow repayers – the characteristics of borrowers who made slow progress in reducing their student loans*. Ministry of Education, Wellington.

- are more likely to have been aged 50 years or older in their last year of study – around 54 percent of those who left aged 50+ made slow progress whereas the figures for other age groups ranged between 35 percent and 45 percent.

## Are there other unintended outcomes?

Some surveys have claimed that students may be encouraged to go overseas after their studies and their student loans deter them from returning. Furthermore, it has been claimed their loans may discourage home ownership or cause them to delay having children.<sup>11</sup>

Around 40 percent of couple 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.<sup>12</sup>

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*,<sup>13</sup> 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 – show 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 analysis<sup>14</sup> 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 Education<sup>15</sup> on the relationship between the size of a student loan and the likelihood of going overseas concluded that borrowers who were overseas 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. They found little difference in the demographic and study-related characteristics of these two groups. A forthcoming statistical study by the Ministry of Business, Innovation and Employment<sup>16</sup> finds 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.<sup>17</sup>

## 2.4 Conclusion

Analysis of the longer-term outcomes of a policy such as the loan scheme is complex and it takes many years for trends to emerge and for the effects of some policy changes to become evident. Without sophisticated statistical modelling, it is hard to draw clear causal associations. As the loan scheme matures and new data is added to the integrated dataset on student loans and allowances and as new research opportunities are explored, the agencies will be able to strengthen their analysis and expect to be able to report on the analysis in future reports.

11 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.

12 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.

13 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.

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

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

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

17 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

Since 2005, a number of events have had an impact on the Student Loan Scheme, including the introduction of the interest-free student loans policy and the economic recession from 2008 to 2009. In particular:

- the rate of participation in tertiary education has decreased but the number of full-time students increased
- the number of new borrowers from the 27-50 years age group has increased
- enrolments in postgraduate qualifications (like masters, honours and postgraduate certificates/diplomas) have increased – up 14 percent between 2008 and 2011, leading to an increase of 32 percent (5,000 borrowers) at postgraduate level over that time period
- there was a decline in the growth rate of repayments through the PAYE system since 2008/09 as the recession affected employment, but the 2011/12 data shows a return to stronger growth.

The type of tertiary study undertaken and study status also affected the uptake of student loans. For instance, full-time students have a higher financial burden to meet because of higher tuition fees, but they have less opportunity to earn so they have a greater propensity to access the loan scheme than part-time students.<sup>18</sup>

A number of significant policy and operational changes have been made to tighten eligibility and improve the collection of student loans, and will be implemented over the next few years.<sup>19</sup> In 2011, these changes included the introduction of a performance requirement, a life-time limit, and the move to a pay period repayment obligation. Over time, as the various policies take full effect, it is expected that the borrowing and repayment data of this report will reflect their impact.

This chapter has information about:

- the students borrowing through the loan scheme in 2011 and the amounts they borrowed
- borrowers and their loan balances
- repayment rates and factors influencing repayment and collection
- forecast repayment times for different groups of borrowers.

It looks at the characteristics of the students who have used the loan scheme, and changes over time.

The information on borrowing is largely drawn from the Ministry of Social Development. Inland Revenue has supplied data on the repayments for loans that were transferred from StudyLink to Inland Revenue.

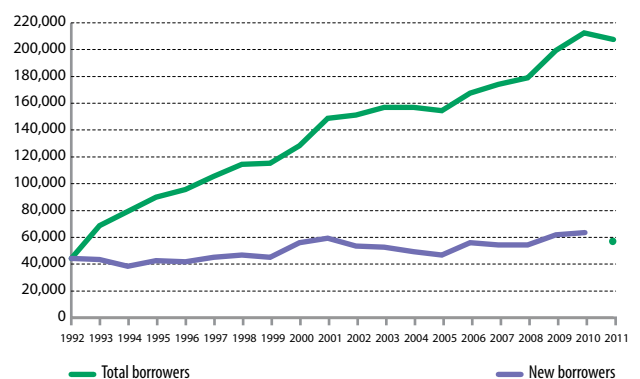
### 3.1 Borrowing in 2011

#### Uptake and uptake rates in 2011

Since the scheme began, about 1,102,000 people have taken out a student loan. This represents about 29 percent of the New Zealand population aged 15 years or over. In 2011, 207,330 students borrowed under the loan scheme. This was a decrease of 2.4 percent on the 212,485 borrowers in 2010. This decrease can likely be attributed to the gradual economic recovery. The recession significantly increased the number of borrowers in the scheme in 2009 and 2010, as fewer available jobs encouraged more people to become students.

The reduction in the number of people participating in tertiary education in 2011, 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 – may have had an impact on eligibility as well. Student loan borrowers in 2011 represented about 6 percent of the estimated population living in New Zealand aged 15 and over. Figure 11 shows the growth in borrower numbers and in the number of new borrowers since 1992.

**Figure 11** Number of borrowers and new borrowers in each academic year



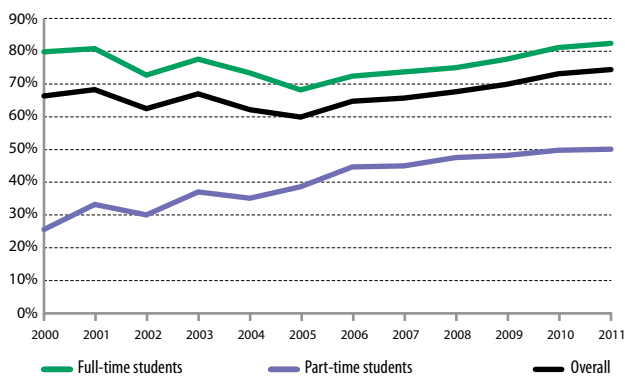
Source: Ministry of Social Development — Statistics New Zealand, integrated dataset

Note: The 2011 data on new 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 2011 data. The two sets of data are derived from different datasets and therefore are not directly comparable.

<sup>18</sup> For more information on access to and participation in tertiary education in New Zealand refer to section 1.1.

<sup>19</sup> For more details, see section 1.3 of this report



**Figure 12** Student loan uptake rates

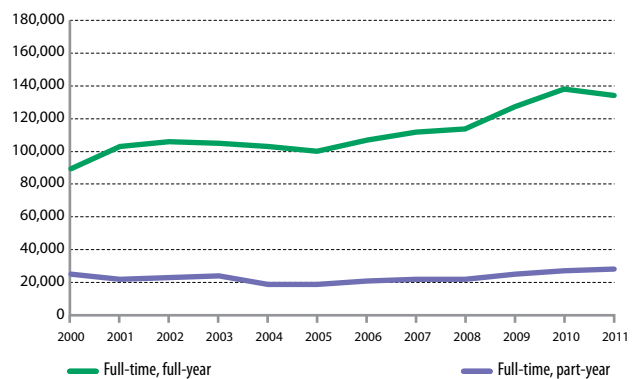
Source: Ministry of Social Development and Ministry of Education.

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

Figure 12 presents the proportion of students eligible to borrow who do so. In 2011, the overall uptake rate was 74 percent of eligible students. This is an increase on the 73 percent uptake in 2010. In 2007, the overall uptake was 67 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 and the 50/50 repayment rules.<sup>20</sup> Further increases from 2006 onwards are a result of the interest-free loan policy with additional rises as the economy went into recession in 2009, causing increases in tertiary education enrolments.

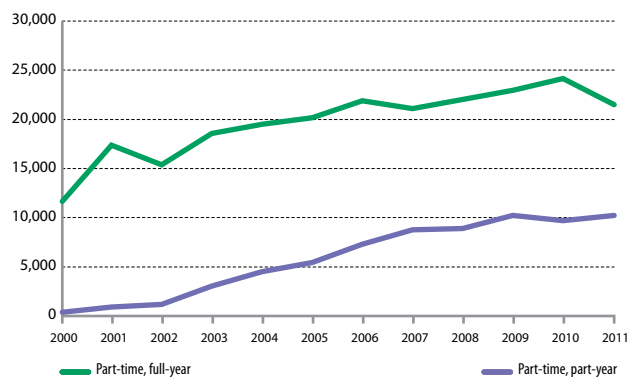
While the rate of full-time eligible students accessing the loan scheme has gone from 75 percent in 2007 to 82 percent in 2011, there has been lower growth since 2007 in the uptake rates of part-time students (from 45 percent in 2007 to 50 percent in 2011). A factor contributing to this is the policy introduced to align student support with funded qualifications; since 2007, students enrolled in qualifications that do not attract government funding, do not qualify for student loans or allowances.

Figures 13a and 13b present the number of borrowers by study status from 2000 to 2011. Figure 13a shows full-time, part-year students have remained comparatively stable from 2000 to 2011. Full-time, full-year student 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 students. 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 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.

**Figure 13a** Number of borrowers with full-time study status

Source: Ministry of Social Development.

Figure 13b indicates that there has been a steady rise in part-time, full-year borrowers, with a 58 percent increase between 2002 and 2010. In 2011, however, there was a significant drop (of 11 percent) to the levels seen in 2005-2007. 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. In contrast, the number of part-time, part-year borrowers has shown a steady increase over the decade, including 2011 (when there was an annual increase of 6.4 percent, or 610 borrowers).

**Figure 13b** Number of borrowers with part-time study status

Source: Ministry of Social Development.

## Amounts borrowed

### Total borrowing

Since 1992, students have borrowed a total of \$17,155 million.<sup>21</sup> The total amount borrowed and the number of borrowers each year are shown in Figure 14. 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 38 percent between 1999 and 2000 (from \$566 million to \$782 million).

<sup>20</sup> Under the 50/50 repayment rules, 50 percent of the compulsory repayment was credited to the base interest charged, with any excess written off. The other 50 percent, together with any voluntary repayment, was credited to the inflation adjustment interest (CPI) charged and principal.

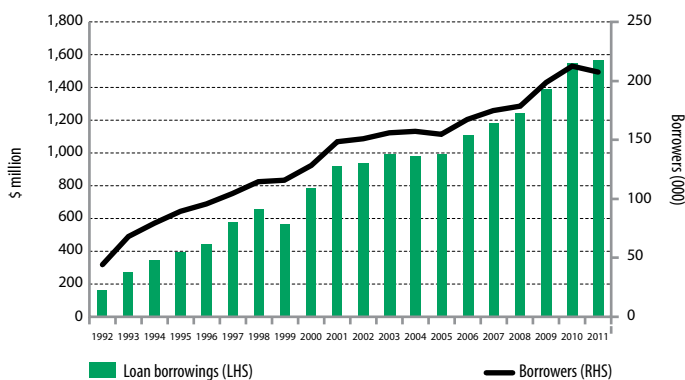
<sup>21</sup> This is net of refunds/repayments to StudyLink.

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 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 students borrowing 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 \$1,582 million from the loan scheme, reflecting a reduction in tertiary education enrolments.

**Figure 14** Total loan borrowings by year



Source: Ministry of Social Development and Ministry of Education.

### Average and median borrowing

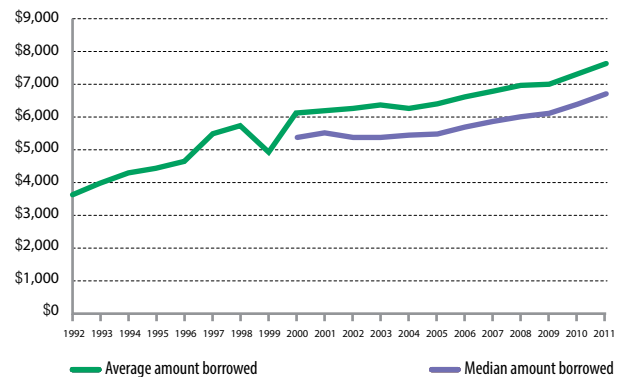
Figure 15 illustrates the average amount borrowed from 1992 to 2011 and the median amount borrowed from 2000 to 2011.

In 2011, the average amount borrowed was \$7,633, an increase of 4.6 percent (\$335) on the previous year. This compares with an increase of \$307 from 2009 to 2010 and \$38 from 2008 to 2009. The median amount borrowed in 2011 was \$6,709, an increase of 5.2 percent from 2010, 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;<sup>22</sup> and of other changes that restricted the purposes for which finance from the loan scheme could be used,<sup>23</sup> 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 policy<sup>24</sup> implemented in 2001 meant that tuition fees charged by most tertiary education providers have remained stable since 2001. From 2004, fees were regulated by the fee and course costs maxima policy.<sup>25</sup> Under this policy, 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 2010 and 2011, average borrowing rose in response to fee increases.

**Figure 15** Average amount borrowed 1992-2011 and median amount borrowed 2000-2011



Source: Ministry of Social Development and Ministry of Education.

Note: 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 2011:

- 94 percent borrowed to pay fees
- 69 percent borrowed to help meet course-related costs
- 49 percent borrowed towards meeting their living costs
- 21 percent borrowed to pay fees only
- 74 percent of those eligible to borrow fees did so.

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

- Since 2000, the total amount drawn to pay for fees has been 62 percent of all money drawn from the loan scheme. In 2011, \$1,055 million was used to pay for fees; this amounted to 67 percent of the amount drawn in 2011.
- In 2011, money used to pay for course-related costs was 8.9 percent of all money drawn in that year.
- In 2011, money used to pay for living costs was 24 percent of all money drawn in 2011.

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 2000-2011. Over this period, the average amount borrowed to pay for fees increased by 43 percent, from \$3,817 in 2000 to \$5,441 in 2011.

22 The entitlement was changed back to \$1,000 in 2000.

23 Living costs were paid in fortnightly instalments instead of lump sums and students' association fees were no longer payable from the loan scheme (this last change was rescinded in 2000).

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

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

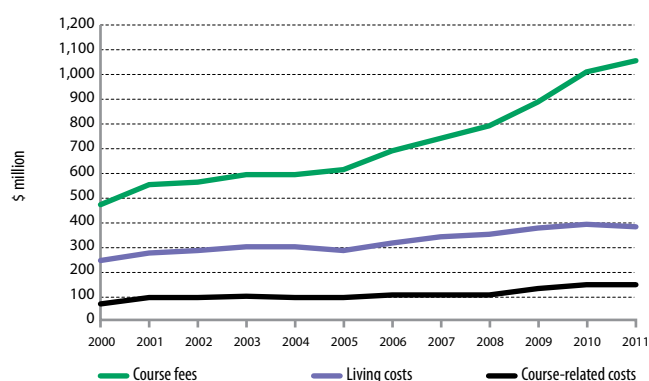
**Table 2** Average and median amounts borrowed by component

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Course fees (\$)</b>												
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
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
<b>Living costs (\$)</b>												
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
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
<b>Course-related costs (\$)</b>												
Average	896	935	940	936	938	943	950	948	955	987	992	990
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

Source: Ministry of Social Development.

Students are entitled to borrow up to \$1,000 for course-related costs. From 1 April 2010 to 31 March 2011, students could borrow up to \$163.38 per week for living costs, less any student allowances they receive; this limit increased to \$169.51 per week from 1 April 2011 to 31 March 2012. Since the beginning of 2007, fees can be borrowed for government-funded courses only.

The average borrowed for living costs fell slightly by 3.2 percent in 2011. This is likely a consequence of increased student allowances.

**Figure 16** Total amounts drawn by loan component

Source: Ministry of Social Development.

### Living costs and allowances

Students are helped to meet their living costs by the provision of student loans and student allowances. The two schemes are interconnected. For the 2011/12 tax year, full-time students could borrow up to \$169.51 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 \$172.51 for the 2012/13 tax year.

In 2011:

- 19 percent of all borrowers borrowed living costs under the loan scheme and also received student allowances. In 2010, this group was only 16 percent of all borrowers
- 39 percent of people receiving student allowances used the loan scheme to supplement their living costs. This is an increase compared with 36 percent in 2010.

Table 3 presents the number of living costs borrowers and recipients of student allowances, and the average living costs and allowances received in 2011.

**Table 3** Student allowances compared with student loan living costs borrowings in 2011

	Number of students	Average allowances	Average living costs loan	Average allowances and living costs loan
Student allowances only	60,320	\$7,149		\$7,149
Student allowances and living costs loan	38,951	\$6,111	\$1,740	\$7,850
Living costs loan only	62,020		\$4,948	\$4,948

Source: Ministry of Social Development.

On average, in 2011:

- those who received only student allowances received \$7,149
- those who received student allowances and used the living costs entitlement under the loan scheme borrowed \$1,740 from the loan scheme and received \$6,111 in student allowances – meaning they were paid a combined total of \$7,850 from both schemes
- those who relied solely on the living costs entitlement under the loan scheme borrowed \$4,948 on average.

The number of students borrowing a loan and/or receiving student allowances is illustrated by Figure 17. 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.

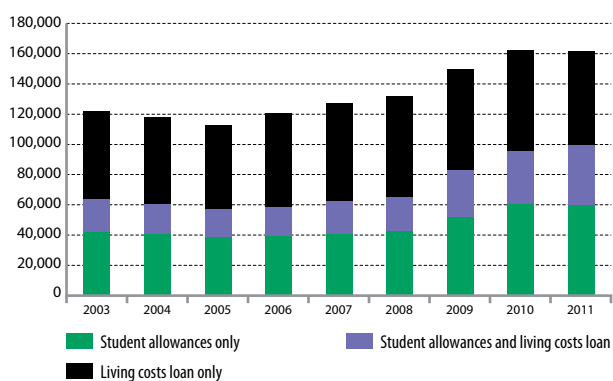
The significant increase in the number of students receiving a student allowance in 2009 was a result of three factors. The first was the reduction in the age limit for parental income testing to establish eligibility for an allowance from 25 to 24 years. The second was a 10 percent increase in the parental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

In 2011, the number of borrowers fell for the first time since 2005. This is largely because the gradual recovery from the economic downturn has encouraged students to return to the workforce.

In 2011:

- 161,291 students in total either borrowed the student loan living costs component or received student allowances, or both; this is a 0.9 percent fall from the 2010 level (1,430 fewer students)
- 60,320 students received student allowances only, a fall of 1.4 percent, or 872 fewer recipients, from the 2010 level
- 38,951 students received student allowances and also borrowed living costs, an increase of 12 percent, or 4,198 students, over the 2010 level
- 62,020 students borrowed living costs only, a decrease of 7.1 percent from 2010, or 4,756 fewer borrowers.

**Figure 17** Students borrowing living costs loans and receiving student allowances



Source: Ministry of Social Development.

## Provider type

Table 4 shows the number of students who borrowed course fees from 2007 to 2011, 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 2011, 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 30 percent in 2011. In part, that reflects the fall-off in the fee discounting that had been common in polytechnics.

In comparison, there has been a slight decline in the proportion of borrowers from universities and private training establishments. The proportion of borrowers from universities decreased from 56 percent in 2007 to 54 percent in 2011. Private training establishments represented 20 percent of course fee borrowers in 2007. In 2011, 16 percent of borrowers were from private training establishments; this shows a steady decline in borrowers from this provider type.

The average course fees borrowed by provider type are shown in Figure 18. Universities and private training establishments had a year-on-year increase in the average course fees borrowed. Universities recorded an increase of 7.4 percent (\$392) in fees borrowed, as the balance of enrolments shifted to qualifications with higher fees and because of fee increases. Polytechnic students' average fee borrowings rose by 9.8 percent (\$400). The main reason for the increase in fee borrowing at polytechnics was the trend towards more full-time enrolments in response to the recession of 2009–2012. The average course fees borrowed by students at private training establishments increased by 6.3 percent (\$360) and 0.4 percent (\$16) for wānanga students.

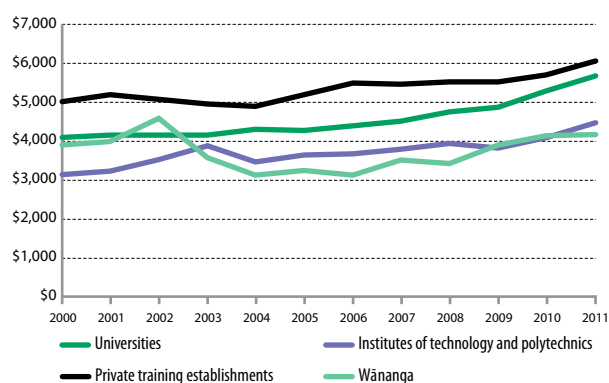
**Table 4** Students who borrowed course fees by provider type

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

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 percent.
2. Universities include college of education students.

**Figure 18** 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 2007 to 2011. In 2011, 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 0.1 percent in 2011, an additional 144 borrowers from 2010. Postgraduate borrowers were essentially unchanged from 2010. Diploma and certificate courses fell, with 5,111 fewer borrowers in 2011, a fall of 6.2 percent from 2010. The shift in the balance of borrowers reflected the enrolment trends in 2011. In 2011, 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	2007		2008		2009		2010		2011	
		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	645	\$5,628	665	\$5,954	748	\$6,427	802	\$6,901	819	\$7,131
	Male	604	\$6,083	645	\$6,131	692	\$7,110	744	\$6,938	729	\$7,101
	<b>Total</b>	<b>1,249</b>	<b>\$5,850</b>	<b>1,310</b>	<b>\$6,041</b>	<b>1,440</b>	<b>\$6,755</b>	<b>1,546</b>	<b>\$6,919</b>	<b>1,548</b>	<b>\$7,117</b>
Masters, honours, postgraduate certificates and postgraduate diplomas	Female	6,347	\$5,930	7,234	\$6,241	8,986	\$6,981	10,265	\$7,492	10,053	\$7,844
	Male	4,453	\$7,011	7,783	\$7,527	9,141	\$7,953	10,160	\$8,591	9,877	\$8,919
	<b>Total</b>	<b>10,800</b>	<b>\$6,450</b>	<b>15,017</b>	<b>\$6,908</b>	<b>18,127</b>	<b>\$7,471</b>	<b>20,425</b>	<b>\$8,039</b>	<b>19,930</b>	<b>\$8,377</b>
Bachelors degrees, graduate certificates and diplomas	Female	50,999	\$7,017	55,623	\$7,164	60,293	\$7,438	65,274	\$7,743	65,780	\$8,100
	Male	35,332	\$7,408	35,309	\$7,601	38,466	\$7,872	41,431	\$8,243	41,069	\$8,590
	<b>Total</b>	<b>86,332</b>	<b>\$7,172</b>	<b>90,932</b>	<b>\$7,334</b>	<b>98,759</b>	<b>\$7,607</b>	<b>106,705</b>	<b>\$7,937</b>	<b>106,849</b>	<b>\$8,289</b>
Diplomas	Female	12,433	\$5,735	15,528	\$5,715	16,064	\$6,032	16,855	\$6,202	14,998	\$6,644
	Male	8,057	\$7,724	10,416	\$8,468	11,456	\$8,371	11,763	\$9,011	11,318	\$10,203
	<b>Total</b>	<b>20,490</b>	<b>\$6,527</b>	<b>25,944</b>	<b>\$6,820</b>	<b>27,520</b>	<b>\$7,006</b>	<b>28,618</b>	<b>\$7,357</b>	<b>26,316</b>	<b>\$8,174</b>
Certificates	Female	27,471	\$5,537	29,748	\$5,501	29,492	\$5,528	30,972	\$5,555	29,236	\$5,642
	Male	18,839	\$5,742	19,848	\$5,599	21,844	\$5,841	23,348	\$6,008	22,275	\$5,900
	<b>Total</b>	<b>46,310</b>	<b>\$5,618</b>	<b>49,596</b>	<b>\$5,540</b>	<b>51,336</b>	<b>\$5,661</b>	<b>54,320</b>	<b>\$5,750</b>	<b>51,511</b>	<b>\$5,754</b>
Other	Female	9,078	\$6,256	649	\$7,158	816	\$5,729	469	\$6,951	642	\$6,176
	Male	5,074	\$8,312	641	\$9,996	740	\$6,403	402	\$6,791	431	\$6,606
	<b>Total</b>	<b>14,152</b>	<b>\$7,161</b>	<b>1,290</b>	<b>\$8,568</b>	<b>1,556</b>	<b>\$6,050</b>	<b>871</b>	<b>\$6,877</b>	<b>1,073</b>	<b>\$6,349</b>
<b>Overall</b>		<b>173,791</b>	<b>\$6,792</b>	<b>178,533</b>	<b>\$6,953</b>	<b>198,738</b>	<b>\$6,991</b>	<b>212,485</b>	<b>\$7,298</b>	<b>207,330</b>	<b>\$7,633</b>

Source: Ministry of Social Development. Ministry of Education qualification classifications.

Notes:

1. Some borrowers were enrolled in qualifications at more than one level.
2. This data is provisional.

**Table 6** Demographic characteristics of student loan borrowers

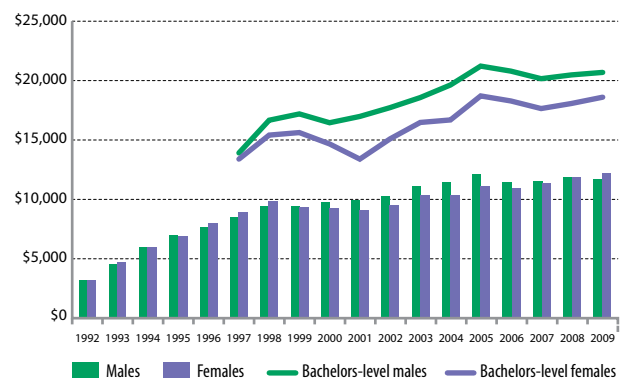
New borrowers <sup>26</sup>	
<b>Number</b>	The number of new borrowers in 2011 was 57,024, falling by 10.2 percent from 63,535 in 2010.
<b>Gender</b>	Females represented 55 percent of new borrowers and outnumbered males by 5,928. The proportion of new borrowers who were female was 56 percent in 2010 (women outnumbering men by 7,707).
<b>Age</b>	The average age of new borrowers was 24 years in 2011 and the median was 19. This fell from the previous year, and was due to a significant fall in the 27 to 50 years (down 3,443, or 23 percent) and over 50 years (down 945, or 35 percent) demographics in 2011.
<b>Ethnicity</b>	Of new borrowers in 2010, 64 percent identified themselves as European, 21 percent as Māori, 11 percent as Asian, 17 percent as Pasifika and 3 percent as MELAA. <sup>27</sup> The composition has remained relatively stable since 2006. <sup>28</sup>
Borrowers overall	
<b>Gender differences</b>	In 2011, the number of females accessing the Student Loan Scheme was 121,555 compared with 85,775 males. The average amount borrowed by females increased in 2011 by \$329, or 5 percent (from \$6,962 in 2010 to \$7,291). The average amount borrowed by men increased by \$342 on average (an increase of 4 percent from \$7,775 in 2010 to \$8,117).
<b>Age</b>	Between 2010 and 2011, the number of borrowers in the over 50 group fell from 8,553 to 7,568, a decrease of 12 percent. The 27-50 years demographic also fell, by 4.7 percent, from 60,751 borrowers in 2010 to 57,905 in 2011. The 20 and under age group (the largest demographic group) also experienced a fall, down 2.0 percent, from 66,584 in 2010 to 65,257 in 2011. The 21-26 age group in 2011 was effectively unchanged from 2010. In 2011, 68 percent (141,857) of all student loan borrowers were under the age of 27. Those borrowers aged 27-50 represented 28 percent of borrowers, while the over-50 age group constituted just 3.7 percent of all borrowers.
<b>Ethnicity</b>	From 1997 to 2010, 49 percent of borrowers identified themselves as European, 22 percent of borrowers as Māori, 17 percent of borrowers as Asian, 8.8 percent of borrowers as Pasifika, and 4 percent of borrowers as Middle Eastern/Latin American/African. In 2011, 52 percent of borrowers identified themselves as European, 12 percent of borrowers as Māori, 13 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 19 gives the median leaving balances of males and females in the leaving cohorts from 1992 to 2009. Between 1999 and 2007, men left with larger median loan balances than women. However, in 2009 the median leaving balance among women was higher than for men.

The greatest volume of borrowing has tended to be by students at bachelors level.<sup>29</sup> Figure 19 also tracks the loan balances of those who studied at this level and left between 1997 and 2009. 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 men and women can be explained by 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 19** Median loan balances for 1992-2009 leavers by gender – all borrowers and those who studied at bachelors level 1997-2009



Source: Statistics New Zealand, integrated dataset.

Note: 2009 is the latest leaving cohort available.

<sup>26</sup> Those entering the loan scheme for the first time in 2011.

<sup>27</sup> A new ethnic group has been added from 2007 for those identifying themselves as Middle Eastern, Latin American or African.

<sup>28</sup> Students are able to select more than one ethnicity where information is provided. As a result, the sum of the borrowers will be more than the total number of borrowers and the percentage they represent will total to more than 100 percent.

<sup>29</sup> This includes certificates and diplomas at level 7 on the New Zealand Qualifications Framework.

## 3.2 Loan balances

### Consolidation of balances from 1 April 2012

On 1 April 2012, major changes were made to the way that loans are administered, affecting the way borrowers access information about their loan, and the way repayments are treated (see section 1.3 Student support changes in 2012). Before 1 April 2012, loans were made by StudyLink during the academic year and transferred to Inland Revenue in March of the following year.<sup>30</sup> Since then, loans made by StudyLink have been transferred to Inland Revenue on a daily basis. Borrowers can now look up a consolidated balance of their loan, whereas previously they viewed their current year's borrowing through StudyLink and all other years' balances through Inland Revenue.

The above also has an impact on some of the trend data below.

### Nominal value of balances

The nominal value of all loans at 30 June 2012 was \$12,969 million, an increase of \$899 million, or 7 percent, over last year. The nominal value includes all obligations held by borrowers, such as loan principal, interest and penalties.

Over the reporting year to 30 June 2012, the total loan balances outstanding were increased by:

- lending made by StudyLink
- interest applied to overseas-based loans, penalties on overdue repayments, and fees.

They were reduced by:

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

The nominal value is the basis for other calculations such as the carrying value<sup>31</sup> and average and median balances.

Figure 20a shows the aggregate nominal balance of loans held by Inland Revenue, while the average and median values are shown in Figure 20b.

**Figure 20a** Aggregate nominal balances of student loans at 30 June

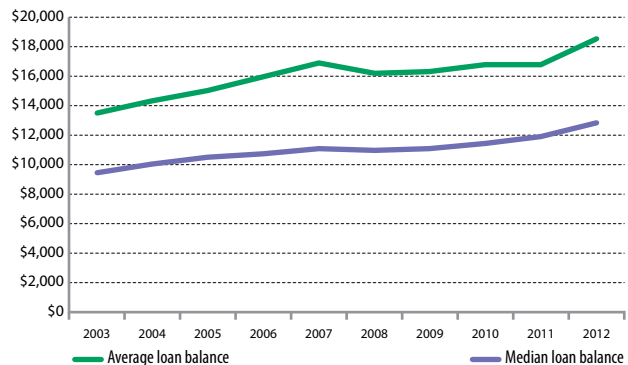


Source: Inland Revenue and Ministry of Social Development.

Note: The data for the consolidated balances to June 2011 is from loans held in separate systems by the Ministry of Social Development (MSD) and Inland Revenue (IR). From April 2012, all loan information was transferred from MSD to IR on a daily basis, so for June 2012 nominal balances are from data held by IR for all borrowers.

The aggregate nominal balance of loans has risen because more people have borrowed each year and because lending in each year has exceeded repayments.

**Figure 20b** Average and median loan balances at 30 June



Source: Inland Revenue and Ministry of Social Development.

While average balances have continued to rise steadily, there was a sharper lift in 2012, caused by the change in the administration of loans on 1 April 2012, when the daily transfer of loan balances was implemented.

The number of borrowers by range of loan balance is presented in Table 7.

More than 40 percent of loan balances are under \$10,000.

**Table 7** Range of loan balances at 30 June 2012

Range of loan balances	Borrowers	%	Cumulative %
\$1-1,999	52,150	7.4%	7.4%
\$2,000-3,999	57,034	8.1%	15.6%
\$4,000-5,999	60,447	8.6%	24.2%
\$6,000-7,999	65,444	9.3%	33.5%
\$8,000-9,999	53,307	7.6%	41.1%
\$10,000-14,999	102,066	14.6%	55.7%
\$15,000-19,999	74,550	10.6%	66.3%
\$20,000-24,999	58,987	8.4%	74.7%
\$25,000-29,999	43,174	6.2%	80.9%
\$30,000-34,999	33,282	4.7%	85.6%
\$35,000-39,999	25,649	3.7%	89.3%
\$40,000-44,999	18,582	2.6%	91.9%
\$45,000-49,999	14,630	2.1%	94.0%
\$50,000-54,999	10,359	1.5%	95.5%
\$55,000-59,999	7,529	1.1%	96.6%
\$60,000-79,999	15,044	2.1%	98.7%
\$80,000-99,999	5,209	0.7%	99.5%
\$100,000-119,999	2,176	0.3%	99.8%
\$119,999-139,999	816	0.1%	99.9%
> \$139,999	797	0.1%	100.0%
<b>Total</b>	<b>701,232</b>	<b>100.0%</b>	

Source: Inland Revenue.

30 If a borrower withdrew from a course, providers repaid the unused portion of the loan back to StudyLink and therefore the loan was not transferred to Inland Revenue. Now, with near-real time data transfer from StudyLink to Inland Revenue, if a withdrawal occurs, StudyLink reverses the loan that was previously transferred.

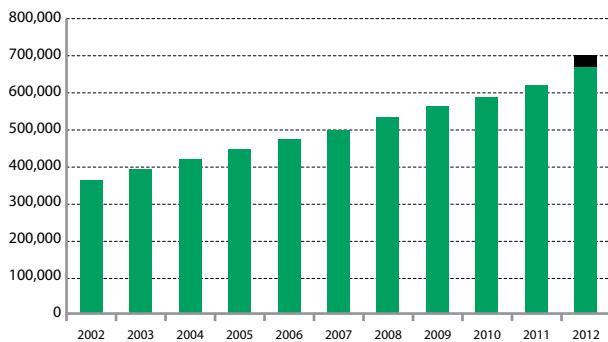
31 Refer to chapter 4 for a definition of carrying value.

## Number of borrowers

At 30 June 2012, there were 701,232 student loan borrowers. This compares with about 640,000 last year (see Figure 21). Of the 640,000 on 30 June 2012, 621,000 had accounts with Inland Revenue in that year. The increase of about 80,000 borrowers whose accounts are held by Inland Revenue consists of:

- nearly 50,000 new borrowers in 2012, who are now included as part of the daily data transfer from StudyLink to the IR
- just over 30,000 borrowers, who account for the difference between the consolidated and 'IR only' dataset up to 2011.

**Figure 21** Borrowers with Inland Revenue at 30 June



Source: Inland Revenue.

Note: The figure for 2012 is not comparable with earlier years. It includes around 50,000 borrowers whose loans were subject to the new transfer regime. These borrowers are shown in black.

**Table 8** Information on holders of student loans, 1997-2011

		% of borrowers	% of total loan balance	Forecast median repayment times
<b>Ethnicities</b>	Europeans	49.4	52.3	6.1
	Māori	21.7	19.1	7.6
	Pasifika	8.7	8.7	7.6
	Asians	12.3	13.1	7.4
	Other	4.1	4.5	6.7
<b>Gender</b>	Males	42.5	45.1	6.4
	Females	57.5	54.9	6.9
<b>Qualification</b>	Doctorates	0.7	1.3	5.7
	Masters	2.6	4.3	6.2
	Honours/ Postgrad cert/dip	5.4	7.9	5.9
	Bachelors	35.2	44.2	6.7
	Diplomas	13.9	13.4	6.4
	Level 4 Certificates	11.9	8.6	6.3
	Level 1-3 Certificates	21.6	14.4	6.7

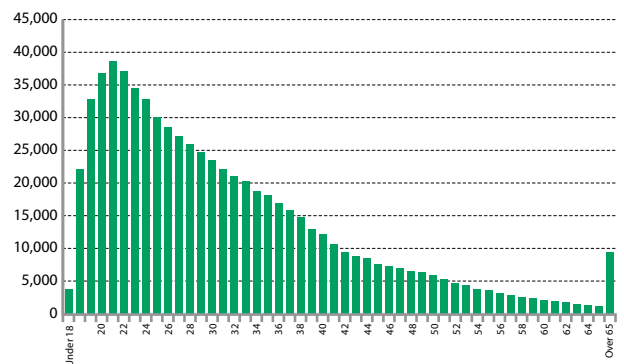
Source: Statistics New Zealand, integrated dataset.

Notes:

1. This table contains data on those who borrowed after 1997 and had a student loan at 31 March 2011.
2. The forecast repayment times are for borrowers who left study in 2008. Further details on forecast repayment times can be found in Tables 16-24 of this report. Therefore the repayment times relate to a different borrower population from that represented in the split of borrowers. Some borrowers had unknown ethnicity and unknown level of study – those borrowers are not shown in the table.
3. Repayment times are calculated in years.

Figure 22 shows borrowers by age group. With the addition to the dataset of new borrowers from 1 April 2012 onwards, there has been a significant increase in borrowers in the 18-20 age category compared with previous years.

**Figure 22** Borrowers with Inland Revenue at 30 June 2012 by age group



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 held by Inland Revenue and total nominal balances

	2010	2011	2012
<b>Number of borrowers</b>			
<b>Borrowers based:</b>			
– in NZ	502,362	529,434	600,137
– overseas	85,137	91,724	101,095
<b>Total</b>	<b>587,499</b>	<b>621,158</b>	<b>701,232</b>
<b>Nominal balances</b>			
<b>Borrowers based:</b>	<b>\$ million</b>	<b>\$ million</b>	<b>\$ million</b>
– in NZ	7,743	8,402	10,299
– overseas	2,087	2,329	2,670
<b>Total</b>	<b>9,830</b>	<b>10,731</b>	<b>12,969</b>

Notes:

1. Shaded data for 2010 and 2011 is not directly comparable with 2012 – it is 'Inland Revenue only', while 2012 data includes those balances transferred from StudyLink after 1 April 2012.
2. There were 51,245 new borrowers and balances transferred from StudyLink to Inland Revenue after 1 April 2012. Their nominal balances were \$307 million.

**Table 9b** Average and median value of loans

	2010	2011	2012	% change
<b>Average loan</b>				
<b>Average loan</b>	<b>\$16,731</b>	<b>\$17,276</b>	<b>\$18,494</b>	<b>7.05%</b>
<b>Median loan</b>				
<b>Borrowers based:</b>				
– in NZ	\$10,657	\$11,097	\$12,006	8.19%
– overseas	\$17,901	\$18,632	\$19,218	3.15%
<b>All borrowers</b>	<b>\$11,399</b>	<b>\$11,880</b>	<b>\$12,849</b>	<b>8.16%</b>

Note: Shaded data for 2010 and 2011 is not directly comparable with 2012 – it is 'Inland Revenue only', while 2012 data includes those balances transferred from StudyLink after 1 April 2012.

## 3.3 Repayment performance

### Administrative changes made in April 2012

As noted in the previous section, major changes to the administration of loans were introduced on 1 April 2012 that enabled a consolidated view of loans through daily data transfers between StudyLink and Inland Revenue. These changes and other initiatives have improved the way borrowers can interact with Inland Revenue and also encourage greater compliance – especially among overseas-based borrowers.

### Payments through the PAYE system

For borrowers in New Zealand, student loans are repaid through the tax system. Over 70 percent is collected through the PAYE (pay as you earn) system, in which employers deduct payments from salaries and wages on the basis of a declaration by the employee that they have a student loan. Deductions of 10 cents in the dollar<sup>32</sup> are made if the borrower's earnings are over the repayment threshold.<sup>33</sup>

Important changes to this system were implemented in April 2012:

- Pay period assessment: borrowers were previously assessed by tax year, which often required a year-end 'square-up' for overpaid or underpaid amounts. Repayments are now deducted on the basis of each pay period of salary or wage earners, and this is considered final unless there is a significant overdeduction or underdeduction.
- Mandatory use of the 'SL' tax code: the 'SL' tax code must be used by all borrowers, irrespective of their income. Exemptions apply for:
  - borrowers studying full-time and working – they can apply for a repayment deduction exemption if they are full-time students and expect to earn under the repayment threshold in the tax year. They do not have to use the 'SL' code
  - borrowers with two jobs – they can apply for a quarterly special deduction rate for secondary earnings if they earn less than the pay period threshold in their main job.

These changes have put into place a more efficient repayment process that brings greater transparency and improves the borrower's ability to manage their loan.

### Payments directly from borrowers

Other repayments come directly from borrowers. These borrowers have other income, for example, self-employed people, and those overseas. Borrowers in New Zealand repay at a rate of 10 cents for every dollar of taxable income above the repayment threshold. Borrowers may also make voluntary repayments to speed up repayment of their loan. Those overseas are required to make repayments based on the size of their loans, up to a maximum of \$3,000 per year. New Zealand-based borrowers have interest-free loans, but borrowers who are overseas-based<sup>34</sup> are charged interest.

32 From 1 April 2013, the rate will be 12 cents in the dollar.

33 The threshold was \$19,084 for the tax year from 1 April 2011 to 31 March 2012 and will remain unchanged until 2015.

34 Overseas-based borrowers are those who have been away from New Zealand for 184 consecutive days or more. Interest is charged on their loans.

## Improving the compliance of overseas-based borrowers

From 1 April 2012, borrowers who go overseas have to apply for a repayment holiday, rather than receive it automatically. The holiday has also been reduced from three years to one year and an alternative contact person in New Zealand must also be provided.

Inland Revenue is also making progress with an initiative that addresses the significant growth of overdue repayments among borrowers overseas. The Overseas-Based Borrower Compliance Initiative (OBBCI) targets about 56,000 borrowers, primarily in Australia and the United Kingdom, and is built on the success of the earlier pilot programme that focused on 1,000 defaulting borrowers in Australia.

The initiative uses:

- direct campaigns to contact the target group of borrowers about paying their student loan
- online advertisements on Facebook, Google Adwords, Linked In, KEA and other popular New Zealand websites to target New Zealanders abroad who will be accessing these websites from overseas
- ways to make it easier for borrowers overseas to pay using direct links to online services such as PayWay, OrbitRemit and credit card payments.

Inland Revenue also intends to use private sector debt collection services to track and trace borrowers, collect debt, 'process serve', and start legal action against non-compliant defaulting borrowers living overseas.

Since starting this initiative in October 2011, 7,612 borrowers in Australia and the United Kingdom have been approached, which has led to \$19.4 million being collected in the year to June 2012.

## Repayments in 2011/12

### Factors affecting repayment streams

Repayments are affected by:

- the growth of the borrower base
- the proportion of borrowers who do not have a repayment obligation (for example, they are in full-time study, or have an income that is below the repayment threshold) and those who do (for example, in work and earning over the threshold)
- economic conditions affecting employment status and income growth
- the number of borrowers overseas and the proportion on repayment holidays
- compliance initiatives to increase collection of repayments and recover overdue amounts
- incentives such as the repayment bonus
- changes in social attitudes to debt.

### Trends

In the year to June 2012, repayments rose by 11.2 percent overall (see Table 10). Most of the repayments were made through the PAYE system (69 percent). Note that the payments in Table 10 do not include payments to StudyLink.

**Table 10** Loan repayments to Inland Revenue

Repayments	2007/08	2008/09	2009/10	2010/11	2011/12
	\$ million				
PAYE	394.4	452.1	473.9	491.6	528.0
From borrower	155.7	167.0	170.5	199.0	239.7
<b>Total</b>	<b>550.1</b>	<b>619.1</b>	<b>644.4</b>	<b>690.6</b>	<b>767.7</b>
	Annual % change				
PAYE	–	14.6%	4.8%	3.7%	7.4%
From borrower	–	7.3%	2.1%	16.7%	20.5%
<b>Total</b>	–	<b>12.5%</b>	<b>4.1%</b>	<b>7.2%</b>	<b>11.2%</b>

Source: Inland Revenue.

The rise in the growth rate of PAYE repayments reflects:

- the recovery in earnings and employment after the recession of 2008
- the increase in the number of borrowers repaying through the PAYE system
- better compliance through follow-up on the correct use of the 'SL' tax code
- the fixing of the repayment threshold at \$19,084.

A further analysis of the payment stream from borrowers is provided in Table 11.

**Table 11** Analysis of repayments from borrowers

Repayments	2009/10	2010/11	2011/12	% change
	\$ million			
From borrower overseas:				
– on repayment holiday	43.1	35.9	43.5	21.2%
– with repayment obligation	28.9	52.6	70.4	33.8%
NZ self-employed, etc	98.5	110.5	125.8	13.8%
<b>Total</b>	<b>170.5</b>	<b>199.0</b>	<b>239.7</b>	<b>20.5%</b>

Source: Inland Revenue.

Repayments received directly from borrowers increased by 20.5 percent overall. The main factors that affected this payment stream were:

- the campaign to improve compliance among overseas borrowers (the OBBCI) referred to above
- the bonus for voluntary repayments
- the increase in the number of borrowers who now have a repayment obligation.

## Analysis of borrowers by tax status

Inland Revenue data for the 2009/10 and 2010/11 tax years in Table 12 gives insight into repayment trends based on the borrower's residence and tax status, and hence their obligation to repay.

Tax year information about income and repayments for 2010/11 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 over the number of New Zealand-based and overseas-based borrowers. However, because tax affairs can be settled for back years, especially

for self-employed borrowers who have had an extension of time to file their return, the data for recent tax years may change slightly. For this reason, Table 12 does not present data for the 2011/12 tax year.

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 30 percent lower than the recorded repayments over 12 months.<sup>35</sup>

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

- those with no immediate repayment obligation – people who are in study and with an income below the threshold, or not in study, but have income under the repayment threshold, or are overseas and on a repayment holiday
- those with a repayment obligation – people who receive salaries or wages, or self-employed, with income above the repayment threshold, or overseas-based and not on a repayment holiday.

Comparison of the 2009/10 and 2010/11 tax years shows that:

- there was a significant increase in the proportion of borrowers with a repayment obligation, mainly because a large number of borrowers have come to the end of their repayment holiday. This increased the number of overseas-based borrowers with a repayment obligation from 42 percent in the 2009/10 tax year to 64 percent in the 2010/11 year
- the self-employed group of borrowers grew by 17 percent, also increasing the size of the group with a repayment obligation and having a flow-on effect to repayments.

**Table 12** Profile of student loan balances and repayments by repayment obligation in 2009/10 and 2010/11

	2009/10 tax year						2010/11 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		
	<b>No repayment obligation</b>						<b>No repayment obligation</b>						<b>No repayment obligation</b>		
<b>NZ-based</b>															
No income	33,000	\$504		\$5		33,000	\$527		\$4		0%	5%	-20%		
Salary or wages	231,000	\$3,429		\$19		243,000	\$3,752		\$21		5%	9%	11%		
Self-employed	35,000	\$569		\$7		40,000	\$666		\$9		14%	17%	29%		
<b>Overseas-based</b>															
Repayment holiday	49,000	\$1,124		\$36		33,000	\$717		\$25		-33%	-36%	-31%		
<b>Sub-total</b>	<b>348,000</b>	58%	<b>\$5,626</b>	56%	<b>\$67</b>	13%	<b>349,000</b>	55%	<b>\$5,662</b>	52%	<b>\$59</b>	10%	0%	1%	-12%
	<b>With repayment obligation</b>						<b>With repayment obligation</b>						<b>With repayment obligation</b>		
<b>NZ-based</b>															
Salary or wages	177,000	\$2,800		\$350		181,000	\$2,920		\$359		2%	4%	3%		
Self-employed	36,000	\$621		\$82		42,000	\$736		\$100		17%	19%	22%		
<b>Overseas-based</b>															
Assessment	36,000	\$939		\$27		59,000	\$1,572		\$47		64%	67%	74%		
<b>Sub-total</b>	<b>249,000</b>	42%	<b>\$4,360</b>	44%	<b>\$459</b>	87%	<b>282,000</b>	45%	<b>\$5,228</b>	48%	<b>\$506</b>	90%	13%	20%	10%
<b>Total</b>	<b>597,000</b>	100%	<b>\$9,986</b>	100%	<b>\$526</b>	100%	<b>631,000</b>	100%	<b>\$10,890</b>	100%	<b>\$565</b>	100%	6%	9%	7%

Source: Inland Revenue.

Notes:

1. 2009/10 tax year = April 2009 to March 2010; 2010/11 tax year = April 2010 to March 2011.
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
  - loan balances for this group at that time
  - repayments made by them during the tax year.
3. Only borrowers with an outstanding balance greater than zero at the end of the tax year are included. Hence payments on loans fully repaid during the tax year are not included.

<sup>35</sup> Cash repayments may be allocated to the current tax period, but also to prior periods (for overdue amounts) or future periods.

## 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.<sup>36</sup> Table 13 shows data for bonuses for this two-and-a-half year period. Note that the bonus can be recorded retrospectively to tax years. The repayment bonus scheme will end on 31 March 2013.

**Table 13** Repayment bonus payments from April 2009 to June 2012

	Number of borrowers	Voluntary repayments	Bonus	Average bonus
		\$ million	\$ million	\$
Interim bonus	50,664	138.137	13.814	273
Finalising bonus	26,425	240.380	24.038	910
<b>By tax year ending 31 March</b>				
<b>2009/10</b>				
– NZB	23,600	70.736	7.074	300
– OBB	8,366	59.604	5.960	712
<b>Total</b>	<b>31,966</b>	<b>130.340</b>	<b>13.034</b>	<b>408</b>
<b>2010/11</b>				
– NZB	25,108	81.673	8.167	325
– OBB	8,954	60.095	6.009	671
<b>Total</b>	<b>34,062</b>	<b>141.768</b>	<b>14.177</b>	<b>416</b>
<b>2011/12</b>				
– NZB	6,998	55.381	5.538	791
– OBB	3,151	41.332	4.133	1,312
<b>Total</b>	<b>10,149</b>	<b>96.713</b>	<b>9.671</b>	<b>953</b>
<b>2012/13 (3 months)</b>				
– NZB	546	4.967	0.497	910
– OBB	366	4.730	0.473	1,292
<b>Total</b>	<b>912</b>	<b>9.697</b>	<b>0.970</b>	<b>1,063</b>
<b>NZB – total</b>	<b>56,252</b>	<b>212.757</b>	<b>21.276</b>	<b>378</b>
<b>OBB – total</b>	<b>20,837</b>	<b>165.761</b>	<b>16.576</b>	<b>796</b>
<b>Total</b>	<b>77,089</b>	<b>378.518</b>	<b>37.852</b>	<b>491</b>

Source: Inland Revenue.

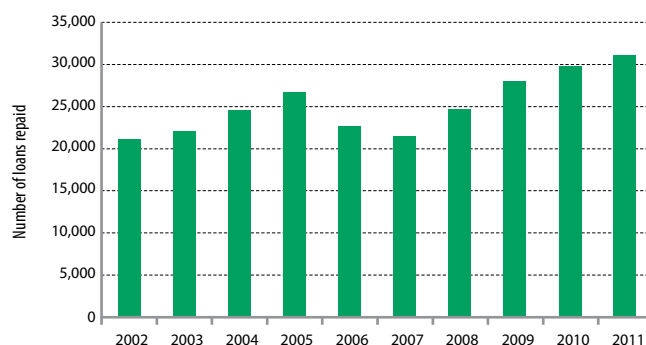
Note: Interim bonus = bonus for a payment before full repayment of a loan;  
finalising bonus = bonus for a payment on full repayment of a loan.  
NZB = New Zealand-based borrower; OBB = overseas-based borrower.

## Loans fully repaid

At the time this report was produced, over 341,000 borrowers had repaid their loan since the loan scheme began and 31,052 borrowers had repaid their loans in the year to June 2011.<sup>37</sup> Inland Revenue has collected a total of \$7,071 million in repayments since the loan scheme began.

Figure 23 shows the number of loans repaid in full to Inland Revenue at 30 June. 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.<sup>38</sup> 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 (which was introduced in the 2009/10 tax year).

**Figure 23** Loans fully repaid to Inland Revenue at 30 June



Source: Inland Revenue.

## Overdue repayments

### Trends in overdue repayments

Table 14 presents a summary of overdue repayments by borrower residency status. The divergence in the volume of arrears between New Zealand-based and overseas-based borrowers has become more pronounced in 2012 than in previous years.

**Table 14** Overdue student loan repayments at 30 June

Overdue repayments	2011	2012	%
	\$ million	\$ million	change
<b>Borrowers based:</b>			
<b>Overdue amount</b>			
– in New Zealand	\$122.8	\$102.6	-16.4%
– overseas	\$288.9	\$409.7	41.8%
<b>Total</b>	<b>\$411.7</b>	<b>\$512.3</b>	<b>24.5%</b>
<b>Borrowers based:</b>			
<b>Number of borrowers</b>			
– in New Zealand	49,803	38,577	-22.5%
– overseas	50,264	53,471	6.4%
<b>Total</b>	<b>100,067</b>	<b>92,048</b>	<b>-8.0%</b>

Source: Inland Revenue.

New Zealand-based borrowers have become progressively more compliant as a result of campaigns to make sure they are using the right tax code and with reminders to pay tax on time. As well as proactive approaches, the use of online services has helped to keep borrowers up to date with their balances and any changes that may affect them. The capitalisation of small debts of \$344 or under has also meant that fewer cases are considered to be in arrears.

The large increase in overdue repayments among overseas-based borrowers is due to a significant peak in some borrowers reaching the end of their repayment holiday and going into default. It is also affected by the accumulation of penalties by borrowers who have been consistently non-compliant over a long time.

The increase in default among overseas-based borrowers was mitigated by the Overseas-Based Borrower Compliance Initiative (OBBCI). This has made inroads into the amount overdue and improved repayment behaviour.

<sup>36</sup> 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. Voluntary repayments made to StudyLink did not qualify for a repayment bonus.

<sup>37</sup> When loans are finalised, they can be backdated to previous years and there is often a time lag before definitive data on fully repaid loans becomes available.

<sup>38</sup> 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.

However, overseas-based borrowers still represent an increasingly disproportionate share of the amount overdue. In 2012, they:

- represented 14 percent of all borrowers (2011: 15 percent)
- represented 58 percent of all borrowers with overdue payments (2011: 52 percent)
- had 80 percent of all overdue repayment (2011: 70 percent).

Improving compliance by those overseas continues to be an area of focus.

### Debt over five years old

An important target group of the OBBCI is the segment of borrowers who have made no progress on repaying their loans over the last five years. This group of 33,000 borrowers has arrears of about \$284 million, or 55 percent of all overdue repayments (including penalties and interest).

New Zealand-based borrowers form only a small part of this group: about 3,100 borrowers, or 10 percent. Nearly half of this group are receiving an income-based benefit and cannot make repayments. Others are being followed up by Inland Revenue to recover the arrears.

The majority, however, about 90 percent, are overseas-based borrowers. They have \$284 million overdue (including \$83 million in penalties and \$3 million in interest), which is 55 percent of the total overdue amount.

### 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. Table 15 gives details of these write-offs for the last three years.

**Table 15** Write-off due to bankruptcy or death

Write-offs	2009/10	2010/11	2011/12
	\$ million		
Bankrupt	\$15	\$10	\$10
Deceased	\$11	\$9	\$12
	Number of borrowers		
Bankrupt	1,150	935	674
Deceased	892	786	930

Source: Inland Revenue.

## 3.4 Forecasts of loan repayment

This section looks at the repayment phase of loans. It gives information on 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.

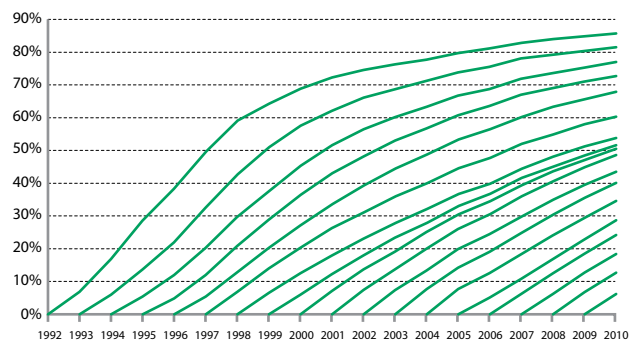
To calculate repayment times we use the Student Loans Integrated Model. While there are always limitations on the power of models to predict future behaviour, this model has proved reliable in its forecasting to date.

### Repayment times and rates

As at 30 June 2012, a total of \$7,071 million had been collected in repayments by Inland Revenue since the loan scheme was established in 1992.<sup>39</sup>

Of the students who left study in 1992, 72 percent had repaid their loan in full by 2000, and 86 percent by 2010. This cohort had lower borrowing; however, in comparison with those in later years, 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 24** 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.

<sup>39</sup> This excludes \$109 million received by MSD, most of which are refunds that result when a borrower changes his or her course of study.

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 incomes<sup>40</sup> (introduced in 2000)
- fee stabilisation policies that have operated since 2001
- interest-free student loans for New Zealand-based borrowers (introduced in 2006).

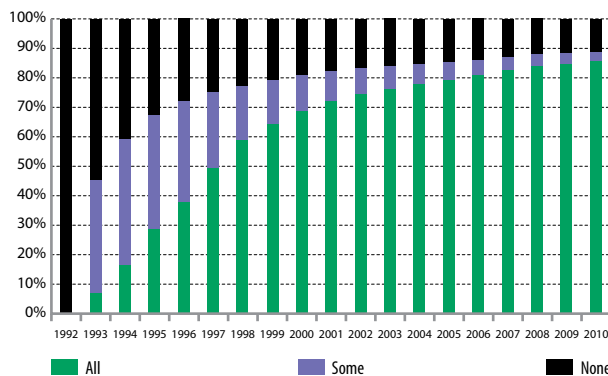
Repayment rates also reflect the strength of the labour market. Of the groups whose repayments are shown in Figure 24, those who left study in 2004 and 2007 faced relatively high demand for skilled graduates and their repayment rates reflect the fact that they earned more than those who left in 1995 and 1998, who left 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, 18 percent of students from the 2004 cohort and 19 percent of the 2006 cohort had repaid their loan in full.

Information from data collected shows that 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 25a shows that, although around 89 percent of students who left study in 1992 with a student loan had fully repaid by 2010, 2 percent had made partial payment owing and 9 percent made no progress toward repayment at all.

**Figure 25a** Proportion of borrowers who left study in 1992 who had repaid all, some or none of their student loans by the end of 2010

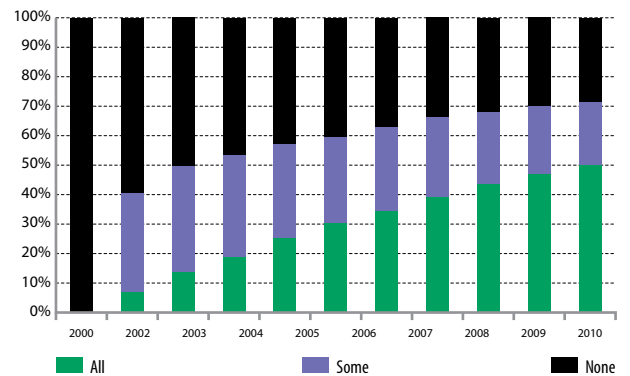


Source: Statistics New Zealand, integrated dataset.

Figure 25a 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, 6 percent of borrowers who left study in 1992 had repaid their loan in full, while 60 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 25b 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 25b** Proportion of borrowers who left study in 2000 who had repaid all, some or none of their student loans by the end of 2010

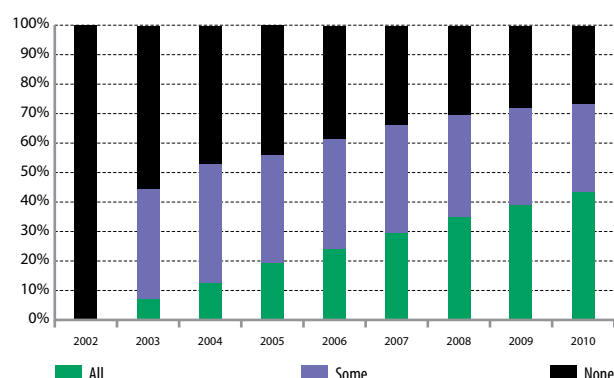


Source: Statistics New Zealand, integrated dataset.

Figures 25a and 25b 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 following study. But the proportion who had repaid nothing began to reduce at a slower rate over the last three years covered in Figure 25b. This picks up borrowers who are based overseas or are earning below the repayment threshold.

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

**Figure 25c** Proportion of borrowers who left study in 2002 who had repaid all, some or none of their student loans by the end of 2010



Source: Statistics New Zealand, integrated dataset.

Figure 25c shows that, by 2010, 44 percent of the 2002 leavers had repaid in full.

## Forecasts of repayment times

This section looks at expected repayment times for different groups of borrowers. The approach taken in these forecasts 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).

The forecasts are affected by two main factors – policy changes and modelling changes.

### Policy changes

In 2006, the interest-free student loans policy was introduced and an amnesty on student loan penalties extended to certain overseas-based borrowers. This was followed in 2007 by a number of changes to policy on overseas-based borrowers, including a one-year extension on the penalties amnesty, the introduction of the repayment holiday option, and a revised repayment obligation. Most recently, in Budget 2012, the government changed the repayment obligation for New Zealand-based borrowers from 10 cents in the dollar of income over the repayment threshold to 12 cents, with effect from 1 April 2013. And the government is broadening the definition of income for student loans purposes to reduce anomalies.

**Table 16** Forecast repayment times for the 2005 and 2006 leaving cohorts

Leaving cohort	a SLIM 2012 model 2012 annual report method			b SLIM 2011 model 2012 annual report method			c SLIM 2011 model 2011 annual report method		
	25th percentile	Median	75th percentile	25th percentile	Median	75th percentile	25th percentile	Median	75th percentile
2006	3.3	7.2	11.9	3.8	8.3	14.1	2.6	6.7	12.8
2007	3.5	6.9	11.6	4.2	8.2	14.1	2.8	6.7	12.7

Source: Ministry of Education, Student Loans Integrated Model.

Notes:

1. Repayment times are calculated in years.
2. Forecast repayment times differ from year to year as each forecast uses the most recent information and forecast model available at the time.

The modifications to repayment policy have resulted in changes to repayment behaviour. The interest-free policy for New Zealand-based borrowers and the option of taking a repayment holiday mean that borrowers are now less likely to get into 'negative repayment', a situation where the loan balance increases once borrowing has finished. Negative repayment often occurs when borrowers take time out from the workforce or travel overseas for extended periods.

The change to the repayment obligation has a very significant effect on repayment times – speeding up the forecast repayment time.

### Modelling changes

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. Modelling changes made in SLIM 2012, and a change in the method of constructing the leaving cohort, have particularly affected the forecasts of repayment times of borrowers who spend some time based overseas.

Given the extent of policy and modelling changes in SLIM 2012, we compare some SLIM 2012 forecasts with the 2011 forecasts of repayment times and discuss how and why the forecasts have changed.

Table 16 gives three forecasts of repayment times:

- a. forecasts made from SLIM 2012, using the new method of constructing the leaving cohort
- b. forecasts made from SLIM 2011, also using the new method of constructing the leaving cohort
- c. forecasts constructed from SLIM 2011, as in the 2011 annual report.

The difference between a and b is partly a modelling change but largely a result of policy changes. The difference between b and c is due to the revision in the method of constructing the leaving cohort. Table 16 sets out some comparative data on the three forecasting approaches, setting out the median repayment time and the 25th and 75th percentile times to full repayment.<sup>41</sup>

41 Percentiles divide a set of ordered data into hundredths. A percentile is a measurement of data below which a portion of data falls. For example, 25 percent of data falls below the 25th percentile; 75 percent of data falls below the 75th percentile. The median is the 50th percentile.

Table 16 makes clear that:

- the modelling and methodology changes have led to longer forecasts of repayment times (that is, comparing b with c), with the forecast median repayment time increasing by around 1.5 years
- the policy changes have reduced repayment times (that is, comparing a with b), with forecast median repayment times for this group reducing by more than one year.

Appendix 1 contains more information about the student loan forecasting and costing 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 2012.

#### Gender

Before the introduction of interest-free loans, women used to repay slightly more quickly than men, despite the fact that women earn less on average on graduation than men with equivalent qualifications. Table 17 shows that, since 2006, men have repaid slightly more quickly.

**Table 17** Forecast repayment times for borrowers who left study in 1999, 2003, 2006 and 2008 by gender

Leaving cohort	Gender	Repayment time from leaving year		
		25th percentile	Median	75th percentile
1999	Males	3.3	8.1	17.6
	Females	2.6	7.6	17.3
	All	2.9	7.8	17.4
2003	Males	3.0	7.4	13.5
	Females	2.6	7.4	13.5
	All	2.8	7.4	13.5
2006	Males	3.1	6.8	11.6
	Females	3.5	7.4	12.2
	All	3.3	7.2	11.9
2008	Males	3.4	6.4	10.8
	Females	3.7	6.9	11.2
	All	3.6	6.7	11.0

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

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 and 2003 groups, certificate-level borrowers had the highest median repayment time, but among later leavers (2006 onwards) the median time for those who studied at certificate level fell below bachelors. In 2008, the median time at certificate level was the second lowest (behind postgraduate).

There are two reasons for this. First, one of the factors that influences 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 2008 by level of last study

Leaving cohort	Study levels	Repayment time from leaving year		
		25th percentile	Median	75th percentile
1999	Certificates	3.1	8.0	16.5
	Diplomas	2.8	7.4	16.8
	Bachelors	2.7	7.8	18.3
	Postgraduate	1.7	4.7	13.0
	All	2.9	7.8	17.4
2003	Certificates	3.1	7.7	13.1
	Diplomas	2.8	7.5	13.7
	Bachelors	2.6	7.3	13.8
	Postgraduate	1.4	4.5	11.7
	All	2.8	7.4	13.5
2006	Certificates	3.5	7.1	11.6
	Diplomas	3.0	7.0	11.9
	Bachelors	3.5	7.2	12.1
	Postgraduate	2.3	6.0	11.3
	All	3.3	7.2	11.9
2008	Certificates	3.6	6.5	11.1
	Diplomas	3.4	6.4	10.6
	Bachelors	3.6	6.7	10.8
	Postgraduate	2.5	5.9	10.3
	All	3.6	6.7	11.0

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

Notes:

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



## Ethnicity

In all analysed leaving cohorts, borrowers of European ethnicity are forecast to have the shortest median repayment time, while Pasifika borrowers have the longest. For the 2003, 2006 and 2008 leaving cohorts, Māori and Pasifika borrowers have longer median repayment times than Asian and Other ethnicities.

**Table 19** Forecast repayment times for the 1999, 2003, 2006 and 2008 leaving cohorts by ethnicity

Leaving cohort	Ethnicities	Repayment time from leaving year		
		25th percentile	Median	75th percentile
1999	Europeans	2.5	6.2	14.3
	Māori	3.5	9.6	18.3
	Pasifika	5.7	12.6	23.8
	Asians	2.9	12.4	-
	All	2.9	7.8	17.4
2003	Europeans	2.1	6.0	11.9
	Māori	4.0	9.3	14.6
	Pasifika	5.4	10.2	16.8
	Asians	2.1	7.8	17.8
	All	2.8	7.4	13.5
2006	Europeans	2.8	6.4	10.9
	Māori	4.4	8.3	12.9
	Pasifika	4.6	8.4	13.5
	Asians	3.2	7.6	14.3
	All	3.3	7.2	11.9
2008	Europeans	3.2	6.1	9.9
	Māori	4.3	7.6	11.9
	Pasifika	4.3	7.6	12.4
	Asians	3.6	7.4	16.1
	All	3.6	6.7	11.0

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

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 the 2008 leaving cohort by loan size

Loan size \$000	Proportion of leavers	Repayment time from leaving year		
		25th percentile	Median	75th percentile
<5	23%	1.0	2.6	5.1
5-10	22%	3.3	5.5	8.6
10-15	14%	4.4	7.0	10.5
15-20	10%	4.9	7.8	11.6
20-25	8%	5.7	8.6	12.8
25-30	6%	6.4	9.5	14.2
30-35	5%	7.1	10.2	15.4
35-40	4%	7.5	10.5	15.1
40-45	3%	8.1	11.1	16.6
45-50	2%	8.6	11.4	16.3
50-55	1%	9.2	12.6	17.7
55-60	0.9%	9.6	12.9	18.3
60-65	0.7%	10.8	14.1	19.3
65-70	0.5%	10.3	14.3	20.4
>75	2%	11.8	16.6	22.3

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

Notes:

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

## 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 2008. The comparison of the forecast repayment times by these two groups is shown in Table 21 below.

**Table 21** Forecast median and quartile repayment times for borrowers who left study in 2008

Repayment time from leaving year			
2008 leaving cohort	25th percentile	Median	75th percentile
Always NZ-based	2.9	5.5	8.7
Not always NZ-based	7.5	11.8	19.3
All	3.6	6.7	11.0

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

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 5.5 years and three-quarters in 8.7 years after study. By contrast, the median repayment time for those borrowers who spend some time overseas, or are projected to go overseas in future years, is projected to be nearly 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 characteristics of the repayment times for borrowers who left study in 2008 and remain in New Zealand in the projected years, with those borrowers who spend time overseas.

### Gender

Females have slightly longer median repayment times than males in the 2008 leaving cohort, whether they are New Zealand-based or overseas-based.

**Table 22** Forecast repayment times for borrowers who left study in 2008 by gender

Repayment time from leaving year				
2008 leaving cohort	Gender	25th percentile	Median	75th percentile
Always NZ-based	Males	2.7	5.2	8.3
	Females	3.0	5.7	8.9
	All	2.9	5.5	8.7
Not always NZ-based	Males	7.3	11.6	19.3
	Females	7.6	11.9	19.3
	All	7.5	11.8	19.3

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

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 2008 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 certificate level have the longest repayment times compared with other qualification levels.

**Table 23** Forecast repayment times for borrowers who left study in 2008 by level of last study

Repayment time from leaving year				
2008 leaving cohort	Study levels	25th percentile	Median	75th percentile
Always NZ-based	Certificates	3.0	5.4	8.6
	Diplomas	2.7	5.3	8.5
	Bachelors	2.9	5.6	8.5
	Postgraduate	1.7	4.6	7.6
	All	2.9	5.5	8.7
Not always NZ-based	Certificates	7.7	12.6	–
	Diplomas	7.3	11.4	17.4
	Bachelors	7.3	11.1	16.1
	Postgraduate	6.8	11.1	16.9
	All	7.5	11.8	19.3

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

Notes:

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

## Ethnicity

Europeans in the 2008 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 15 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 2008 by ethnicity

2008 leaving cohort	Ethnicities	Repayment time from leaving year		
		25th percentile	Median	75th percentile
Always NZ-based	Europeans	2.6	5.0	7.9
	Māori	3.6	6.4	9.8
	Pasifika	3.5	6.3	10.0
	Asians	2.3	5.2	8.8
	All	2.9	5.5	8.7
Not always NZ-based	Europeans	6.7	10.6	15.6
	Māori	8.3	12.8	20.9
	Pasifika	8.4	12.8	20.9
	Asians	8.5	15.9	–
	All	7.5	11.8	19.3

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

Notes:

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



# 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 2012 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 2012 saw an increase of \$286 million in the value of the asset, while there was a reduction in the cost of lending for the year 2012/13 from 44.69 cents per dollar lent to 39.09 cents.

### 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 2012 was **\$12,969 million**.  
(2011: \$12,070 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 a weighted average discount rate based on historical rates that are fixed for each annual cohort of borrowers at the time they first borrow. The fair value has been reported in the accounts since 2003.

The **fair value** as at 30 June 2012 was **\$8,527 million**.<sup>42</sup>  
(2011: \$7,221 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.<sup>43</sup>

The **carrying value** as at 30 June 2012 was **\$8,291 million**.  
(2011: \$7,459 million)

#### Initial write-down<sup>44</sup>

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 2012, the value of student loans was assessed as \$8,291 million. This is \$286 million greater than the value in the accounts before the valuation occurred. This gain of \$286 million is recognised in the scheme's financial schedules.

### Movements in the carrying value over the year

The sources of movements in the carrying value in 2011/12 are 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)
- discounted for the initial write-down of that new lending
- reduced by repayments that are made during the year

42 See also student loan fair value on page 58 of this report.

43 For a fuller description see section 5.4 Statement of accounting policies on page 56 of this report.

44 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.

- 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

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

Source: Student Loan Scheme Financial Schedules.

New lending over the year amounted to \$1,586 million and repayments were \$876 million, so the net cash paid out was \$710 million. Over the year, the nominal loan balances increased by \$899 million from \$12,070 million to \$12,969 million.

Last year on 30 June 2011, the carrying value was 61.8 percent of the nominal value. Following the valuation this year (and the consequent increase in value), the ratio of carrying value to nominal value increases to 63.9 percent, representing a 3.4 percent increase in value.

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

Factors that contributed to the increase in the value of the student loan portfolio during the 2011/12 financial year include:

- The decision to lift the repayment obligation from 10 cents in the dollar above the income threshold to 12 cents increases the scheme’s value by around \$252 million, while other policy changes have a net positive effect of \$17 million on the valuation.
- Macroeconomic effects, where changes to forecasts of salary inflation and loan interest rates led to a decrease in value of \$85 million. The largest contributor to this decrease was lower interest rates charged on loans held by borrowers overseas, while a more pessimistic outlook for wage growth also affected the value.
- Differences between the changes forecast last year and the new forecasts, based on actual observations over the last year, led to an increase in value of \$26 million. Changes in the composition of the borrower population increased the value by \$24 million. But a revision of assumptions about mortality and bankruptcy rates, based on new data analysis, reduced the value by \$36 million.
- The annual revision and update of the modelling caused the value to increase by \$57 million.

- The remaining impairment increased the value by \$33 million. This represents the impact of one further year’s experience in the scheme, and its effect on the model.

Together these factors amount to an increase of \$286 million and have the combined effect of increasing the carrying value from 61.8 percent of the nominal value to 63.9 percent of the nominal value.

### Fair value change over the year

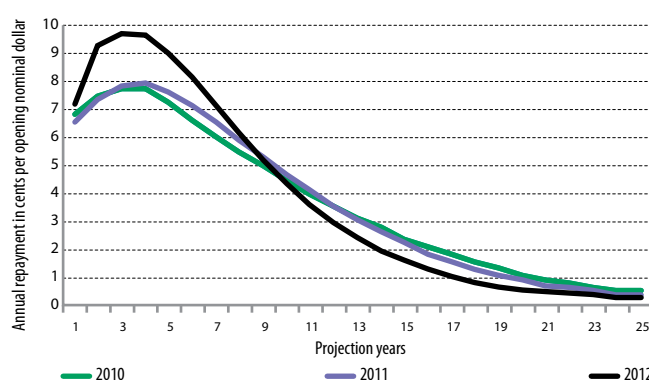
As part of the annual valuation, the valuers undertake a measurement of the fair value, which is disclosed in a note to the accounts. This increased during the year by \$1,306 million due to significant decreases in the discount rates used in the valuation.

The fair value has increased from 59.8 percent to 65.8 percent of the nominal value (refer to Table 26).

The fair value depends on the interest rates which are used to calculate the discount rate for lending, as well as the factors (like policy changes and macroeconomic changes) that affect the carrying value. Last year, the representative discount rate was 7.10 percent and this year it is 6.03 percent. This change has increased the fair value by \$436 million – 3.3 percent of the nominal value.

Figure 26 graphs a forecast of loan repayments generated by current loans. It gives the number of cents repaid each year for each dollar currently on loan.<sup>45</sup> It illustrates how the timing of projected repayments has changed – repayments are now forecast to occur earlier. This is seen by the large increase in early year repayments in the 2012 forecast, which is a consequence of the increase in the repayment obligation made in Budget 2012. There is a corresponding fall in the projection from the ninth year.

Compared with 2011, loan repayments are now expected to occur on average 11.5 months earlier. There was a reduction in the timing of repayments of four months between 2010 and 2011.

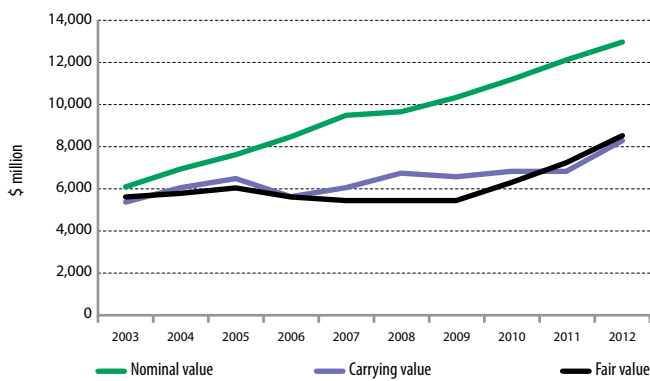
**Figure 26** Comparison of projected repayments

Source: Student Loan Scheme Financial Schedules.

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.

45 Technically, we are recording cents per year per dollar of opening nominal loan balance.

**Figure 27** Value of the Student Loan Scheme at 30 June



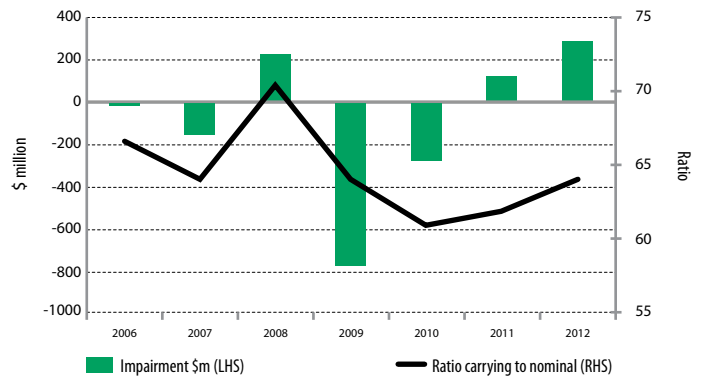
Source: Ministry of Education.

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.
3. The fair value was first determined in 2003.

Figure 28 shows how the impairment has moved over time, and the ratio of the carrying value to the nominal value – a key measure of the financial health of the loan scheme asset. It also shows an improving trend in the financial health of the scheme since 2009.

**Figure 28** The loan scheme's impairment and the ratio of carrying value to nominal value at 30 June



Source: Ministry of Education.

Notes: Refer to notes for figure 27.

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

		2005	2006	2007	2008	2009	2010	2011	2012
		\$ million							
Values	Nominal value	7,499	8,370	9,413	9,573	10,259	11,145	12,070	12,969
	Carrying value	6,465	5,569	6,011	6,741	6,553	6,790	7,459	8,291
	Fair value	5,994	5,537	5,443	5,521	5,464	6,261	7,221	8,527
		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
	Fair value to nominal value	79.9	66.2	57.8	57.7	53.3	56.2	59.8	65.8

Source: Student Loan Scheme Financial Schedules.

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.



## 4.2 Historical and forecast cost of the scheme

Table 27 below shows the details of the nominal and carrying value movements over the five-year period from 1 July 2005 to 20 June 2012.

**Table 27 Nominal and Carrying Value Movements from 1 July 2005 to 30 June 2012**

			2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Notes			\$ million						
<b>Nominal value</b>	Opening balance	1	7,499	8,370	8,920	9,573	10,259	11,145	12,070
	New lending		1,046	1,176	1,201	1,350	1,525	1,564	1,586
	Establishment fee	4	8	9	9	10	11	12	12
	Administration fee	5							20
	Repayment		-551	-555	-629	-710	-754	-802	-876
	Interest	2, 7				14	119	142	133
	Penalties	2				42	16	45	50
	Voluntary repayment bonus						-5	-17	-16
	Death write-off		-4	-2	-10	-9	-11	-9	-12
	Bankruptcy write-off		-11	-9	-16	-11	-15	-10	-10
	Interest and penalties (2005/06 – 2007/08)	2	383	-68	98				
	Other	6							12
<b>Closing balance</b>			<b>8,370</b>	<b>8,920</b>	<b>9,573</b>	<b>10,259</b>	<b>11,145</b>	<b>12,070</b>	<b>12,969</b>
<b>Carrying value</b>	Open balance		6,465	5,569	6,011	6,741	6,553	6,790	7,459
	New lending		1,046	1,176	1,201	1,350	1,525	1,564	1,586
	Initial write-down on new borrowing		-328	-488	-487	-532	-728	-713	-702
	Initial write-down		-1,415						
	Establishment fee		8	9	9	10	11	12	12
	Repayment		-551	-555	-629	-710	-754	-802	-876
	Interest unwind		358	451	406	473	463	484	526
	Impairment		-13	-151	231	-779	-280	124	286
	<b>Closing carrying value</b>		<b>5,569</b>	<b>6,011</b>	<b>6,741</b>	<b>6,553</b>	<b>6,790</b>	<b>7,459</b>	<b>8,291</b>

Source: Ministry of Education 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 available only for the 2008/09 and later fiscal years. Prior to this, these amounts have been aggregated.
- The no interest for New Zealand-based borrowers policy came into effect on 1 April 2006.
- The establishment fee is the amount charged by MSD to a borrower each time he or she takes 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 charged only if an MSD establishment fee has not been charged in the same tax year. This was first charged in 2011/12.
- Prior to 2008/09, the balancing item includes penalties and loan interest charged. In 2011/12, the 'other' reflects adjustments over the period.
- The interest in 2008/09 is low because in that year \$96 million was reversed due to overcharging interest on borrower accounts in prior years.

Table 27 shows that, over the last six years, the scheme has:

- lent out \$8.4 billion to students
- received \$4.3 billion in repayments from students and former students
- written down new lending over the period by \$3.6 billion
- experienced an aggregate impairment of \$0.6 billion
- booked \$2.8 billion in interest unwind income.

In this way, an asset that was worth \$6.0 billion in 2007 had grown to be worth \$8.3 billion in 2012.

## Expenses of the scheme

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

**Table 28** Cash movements for the year ending 30 June

	2007	2008	2009	2010	2011	2012
	\$ million					
New lending	1,176	1,201	1,350	1,525	1,564	1,586
Repayments	-555	-629	-710	-754	-802	-876
Net cash out	621	572	640	771	762	710

Source: Student Loan Scheme Financial Schedules.

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

	2007	2008	2009	2010	2011	2012
	\$ million					
Write-down on new lending	484	483	529	723	708	696
Interest unwind	-451	-406	-473	-463	-484	-526
Establishment fee at fair value	-5	-5	-6	-6	-7	-7
Impairment	151	-231	779	280	-124	-286
Net expense	179	-159	829	534	93	-122

Source: Student Loan Scheme Financial Schedules.

Notes:

1. The write-down on new lending excludes the write-down on the administration fee added to borrowers' loan balances at the time they first draw on their loans each year.
2. The interest unwind is shown as a negative number as it represents income.

**Table 30** Average cost of lending a dollar in the year ending 30 June

	2008	2009	2010	2011	2012	2013
	Cents					
Cost per dollar	40.25	39.15	47.39	45.25	44.62	39.09

Source: Ministry of Education.

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 expense. Part is treated as an expense. The part that is expensed is effectively 'written off' from an accounting point of view. It reflects the fact that some of the sum lent won't ever 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 cost of lending is influenced by factors like the repayment rate and the interest rate.

For 2012/13, the cost of lending has been determined to be 39.09 cents per dollar lent. This is a reduction of 5.60 cents on the cost in the 2011/12 year. The reduction derives in part from the increase in the repayment obligation from 10 cents to 12 cents of each dollar of income above the repayment threshold. It also reflects forecasts of lower interest rates.

These tables indicate that, in 2011/12, \$1,586 million was lent out. Repayments amounted to \$876 million, meaning that the net cash outlay was \$710 million, a reduction of 6.8 percent on the previous year and of 7.9 percent on the peak year of 2009/10.

The new lending incurred an expense through an initial write-down of \$696 million. The interest unwind led to an income of \$526 million. The valuation of the scheme at 30 June 2012 produced a positive change in value of \$286 million. The combination of these factors was a net gain of \$122 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 \$1,175 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 Crown's cost of holding the Student Loan Scheme asset

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 necessarily 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 which represents the associated capital costs of the Student Loan Scheme to the Crown is given by the discount rate of 6.6 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 (3.28 percent), the Risk Premium (2.75 percent), and the costs of collection/administration of the scheme (0.57 percent).

The proxy of the Crown's cost of holding the asset on 30 June 2012 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	\$ 8,527 million
Discount rate for the asset	6.6%
Cost of capital associated with the Student Loan Scheme	\$563 million for the financial year 2012/13

Source: The Treasury.

## Forecast expenses of the scheme

The annual valuation also assesses the value to which new lending should be written down for the following financial year. In 2010/11, the initial write-down was 45.25 cents in the dollar. In 2011/12, this decreased to 44.69 cents. In 2012/13, the rate falls to 39.09 cents. One way of looking at this is that, of every dollar the Crown lends, 60.91 cents is treated as an asset and 39.09 cents as an expense.

One of the main reasons for the change in the cost of new lending is the increase in the repayment rate from 10 cents in the dollar of income above the threshold to 12 cents. That led to a forecast of increased repayment speed, meaning the loans are expected to be discounted less. The second reason for the fall is a reduction in the average discount rate for new lending, reflecting a forecast of lower interest rates.

The forecast expenses of the Student Loan Scheme over that period are shown in Table 33.

**Table 32** Forecast of cash movements for the year ending 30 June

	Actual		Forecast		
	2012	2013	2014	2015	2016
	\$ million		\$ million		
New lending	1,586	1,531	1,577	1,583	1,626
Repayments	-877	-840	-1,054	-1,137	-1,208
Net cash out	709	691	523	446	418

Source: Budget and Economic Fiscal Update 2012 (BEFU 2012) and Ministry of Education.

**Table 33** Forecast of costs of the scheme for the year ending 30 June

	Actual		Forecast		
	2012	2013	2014	2015	2016
	\$ million		\$ million		
Write-down on new lending	696	599	593	586	600
Interest unwind income	-526	-594	-640	-679	-714
Establishment fee at fair value	-7	-7	-8	-8	-8
Impairment	-286	0	0	0	0
Net expense	-122	-3	-55	-100	-121

Source: Ministry of Education.

Note:

- The table shows negative net expenses.
- New lending and repayment numbers are from BEFU 2012. The costs of scheme numbers have been reworked from the BEFU 2012 to reflect the valuation results as at 30 June 2012.
- 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.

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. The net cash the government must find to continue the scheme is forecast to decrease from \$709 million in 2011/12 to \$418 million in 2015/16. The cost view of the scheme sees significant increases in interest unwind income over the forecast period and an increase in repayments.

**Table 34** Forecast average cost of lending a dollar in the year ending 30 June

	Actual		Forecast		
	2012	2013	2014	2015	2016
	Cents		Cents		
Cost per dollar	44.62	39.09	37.59	37.05	36.93

Source: Ministry of Education.

## 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		
	2012	2013	2014	2015	2016
	\$ million		\$ million		
<b>Values</b>					
Nominal value	12,969	13,831	14,514	15,101	15,677
Carrying value	8,291	8,985	9,563	10,109	10,648
	Cents per dollar of nominal value				
<b>Ratios</b>					
Carrying value to nominal value	63.9	65.0	65.9	66.9	67.9

Source: Ministry of Education.

Note: New lending and repayment numbers are from BEFU 2012. The cost of scheme numbers have been reworked from the BEFU 2012 to reflect the valuation results as at 30 June 2012.

The carrying value to nominal value ratio is decreasing because, as time passes, better-quality (higher-value) debt is being repaid, leaving the portfolio with a higher proportion of poor-quality debt. The carrying value is reflecting this lower-quality mix, while the nominal value simply states how much is owed, without moderation by the likelihood or timeliness of repayment.

## 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

	2007/08	2008/09	2009/10	2010/11	2011/12
	\$ million				
Ministry of Social Development	17.0	17.0	13.8	17.0	16.4
Inland Revenue	31.5	27.8	28.8	39.3	31.5
Ministry of Education	0.6	0.6	0.7	0.8	0.8
Statistics New Zealand	0.7	0.7	0.7	0.7	0.7
<b>Gross agency cost</b>	<b>49.8</b>	<b>46.1</b>	<b>44.0</b>	<b>57.8</b>	<b>49.4</b>

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 for 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.

# CHAPTER FIVE

STUDENT LOAN SCHEME FINANCIAL  
SCHEDULES FOR THE YEAR ENDED  
30 JUNE 2012



## 5.0 Financial schedules for the year ended 30 June 2012

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 the Inland Revenue Department (IRD) 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 2012 of \$8,291 million (\$7,459 million at 30 June 2011).

## 5.1 Schedule of revenue and expenditure

**Table 37** Schedule of revenue and expenditure for the year ended 30 June 2012

Actual 2011 \$ million		Actual 2012 \$ million	Main Estimates 2012 \$ million	Supplementary Estimates 2012 \$ million
	<b>Revenue</b>			
484.4	Interest unwind	525.9	533.6	537.4
12.0	Establishment fees	12.0	12.5	12.1
<b>496.4</b>	<b>Total revenue</b>	<b>537.9</b>	<b>546.1</b>	<b>549.5</b>
	<b>Expenditure</b>			
-124.0	Impairment reversal	-286.0	110.0	-134.4
713.2	Fair value write-down on new borrowings	701.6	707.5	725.0
<b>589.2</b>	<b>Total expenditure</b>	<b>415.6</b>	<b>817.5</b>	<b>590.6</b>
<b>-92.8</b>	<b>Net surplus (deficit)</b>	<b>122.3</b>	<b>-271.4</b>	<b>-41.1</b>

- The accompanying accounting policies and notes on pages 56-58 form part of these financial schedules.
- 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 consolidated audited Financial Statements of the Government, for the year ended 30 June 2012.
- Details of the Consolidated Movements Schedule for the year ended 30 June 2012 are shown in Note 1, section 5.5.

## 5.2 Schedule of assets

**Table 38** Schedule of assets as at 30 June 2012

Actual 2011 \$ million		Actual 2012 \$ million	Main Estimates 2012 \$ million	Supplementary Estimates 2012 \$ million
	<b>Current assets</b>			
787.0	Student loans	930.0	819.0	840.0
<b>787.0</b>	<b>Total current assets</b>	<b>930.0</b>	<b>819.0</b>	<b>840.0</b>
	<b>Non-current assets</b>			
6,672.3	Student loans	7,360.9	7,002.7	7,352.1
<b>6,672.3</b>	<b>Total non-current assets</b>	<b>7,360.9</b>	<b>7,002.7</b>	<b>7,352.1</b>
<b>7,459.3</b>	<b>Total assets</b>	<b>8,290.9</b>	<b>7,821.7</b>	<b>8,192.1</b>

- The accompanying accounting policies and notes on pages 56-58 form part of these financial schedules.
- 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 consolidated audited Financial Statements of the Government, for the year ended 30 June 2012.
- Details of the Consolidated Movements Schedule for the year ended 30 June 2012 are shown in Note 1, section 5.5.



## 5.3 Schedule of cash flows

**Table 39** Schedule of cash flows for the year ended 30 June 2012

Actual 2011 \$ million		Actual 2012 \$ million	Main Estimates 2012 \$ million	Supplementary Estimates 2012 \$ million
<b>Cash flows from investing activities</b>				
	<i>Cash was provided from:</i>			
801.5	Repayments received	876.5	833.5	858.7
	<i>Cash was disbursed for:</i>			
-1,564.1	New borrowings	-1,585.8	-1,589.7	-1,632.4
<u>-762.6</u>	<b>Net cash outflow from investing activities</b>	<u>-709.3</u>	<u>-756.2</u>	<u>-773.7</u>
<u><b>-762.6</b></u>	<b>Net student loan cash outflow</b>	<u><b>-709.3</b></u>	<u><b>-756.2</b></u>	<u><b>-773.7</b></u>

- The accompanying accounting policies and notes on pages 56-58 form part of these financial schedules.
- 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 consolidated audited Financial Statements of the Government, for the year ended 30 June 2012.
- Details of the Consolidated Movements Schedule for the year ended 30 June 2012 are shown in Note 1, section 5.5.

## 5.4 Statement of accounting policies for the year ended 30 June 2012

### Reporting entity

The 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 Student Loan Scheme is administered jointly by the Ministry of Education, the Inland Revenue Department 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 2010/11 *Estimates of Appropriations (Main Estimates)* for year one and the information supporting the 2011/12 *Supplementary Estimates of Appropriations* (Supp. Estimates) and any transfer made by Order in Council under section 26A of the Public Finance Act 1989. The budget figures provided are extracted from the details of the Estimates of Appropriation for Inland Revenue and the Ministry of Social Development, as applicable. The totals shown are the combined totals for the applicable agencies.

### 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 if 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 6.4 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.

### Changes in operational processes

From 1 April 2012, StudyLink lending transactions have been transferred to Inland Revenue on a daily basis rather than the previous annual basis. As a result, Inland Revenue holds the total nominal debt and carrying value of the scheme; previously each agency held a portion of nominal debt and carrying value.

Inland Revenue is now responsible for meeting the initial fair value write-down expense on new lending and Vote Revenue holds the appropriation for this. Inland Revenue calculates the initial fair value write-down on lending net of refunds.

## 5.5 Notes to the financial schedules

### Note 1: Consolidated movements schedule for the year ended 30 June 2012

**Table 40** Consolidated movements schedule for the year ended 30 June 2012

Consolidated Actual 2011 \$ million		Consolidated Actual 2012 \$ million	Inland Revenue 2012 \$ million	Ministry of Social Development 2012 \$ million
<b>11,145.1</b>	<b>Opening nominal balance</b>	<b>12,069.7</b>	<b>10,730.9</b>	<b>1,338.8</b>
1,564.1	New borrowings	1,585.8	0.0	1,585.8
0.0	Borrowings transferred	0.0	2,840.8	-2,840.8
-801.5	Repayments	-876.5	-767.7	-108.8
141.7	Interest	132.7	132.7	0.0
12.0	Administration and establishment fees	32.4	20.4	12.0
44.6	Penalties	50.2	50.2	0.0
-19.8	Deaths and bankruptcies	-22.3	-22.3	0.0
-16.5	Voluntary repayment bonus	-16.3	-16.3	0.0
0.0	Other movement in nominal balance	13.0	0.0	13.0
<b>12,069.7</b>	<b>Closing nominal balance</b>	<b>12,968.7</b>	<b>12,968.7</b>	<b>0.0</b>
-4,610.4	Adjustment due to initial fair value recognition and impairment	-4,677.8	-4,677.8	0.0
<b>7,459.3</b>	<b>Total carrying value</b>	<b>8,290.9</b>	<b>8,290.9</b>	<b>0.0</b>
<b>6,789.5</b>	<b>Opening carrying value</b>	<b>7,459.3</b>	<b>6,690.2</b>	<b>769.1</b>
-801.5	Repayments made in current year	-876.5	-767.7	-108.8
12.0	Establishment fees on loans made in current year	12.0	0.0	12.0
1,564.1	Amount borrowed in current year	1,585.8	0.0	1,585.8
-713.2	Fair value write-down on new borrowings	-701.6	-103.2	-598.4
0.0	Borrowings transferred	0.0	2,840.8	-2,840.8
0.0	Fair value write-down on borrowings transferred	0.0	-1,129.7	1,129.7
124.0	Impairment reversal	286.0	286.0	0.0
484.4	Interest unwind	525.9	474.5	51.4
<b>669.8</b>		<b>831.6</b>	<b>1,600.7</b>	<b>-769.1</b>
<b>7,459.3</b>	<b>Student loans carrying value</b>	<b>8,290.9</b>	<b>8,290.9</b>	<b>0.0</b>

## Note 2: Recognition

### Student loan nominal value

The nominal balance is the total of all 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 death and bankruptcy. 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.

The main factor relating to the \$286 million impairment reversal in 2012 was policy changes.

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, 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 41** Significant assumptions

	30 June 2012	30 June 2011
<b>Carrying value</b>		
Effective interest rate	7.20%	7.11%
Interest rate applied to loans for overseas borrowers	6.4%-6.6%	6.6%-6.7%
Consumer Price Index	1.8%-2.5%	2.5%-2.8%
Future salary inflation	3.2%-3.5%	3.5%-3.8%
<b>Fair value</b>		
Fair value (\$m)	8,527.0	7,221.0
Discount rate	6.03%	7.10%
Impact on fair value of a 1% increase in discount rate (\$m)	-396.0	-416.0
Impact on fair value of a 1% decrease in discount rate (\$m)	432.0	475.0

Source: Inland Revenue.

Notes:

- The effective interest rate is a weighted average rate across all cohorts.
- 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 2011 and contains information on borrowings, repayments, income, educational factors, and socioeconomic factors amongst others and has been analysed and incorporated into the valuation model. The integrated data has been supplemented by less detailed, but more recent, data to value student loans at balance date.

Given the lead time required to compile and analyse the detailed integrated data and its availability for use in the valuation model, it is expected that there will always be a 15-month lag between the integrated dataset and the valuation reported in the annual financial schedules.

### 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 2012. 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 2012 has been determined to be \$8,527 million (\$7,221 million at 30 June 2011).

Fair value will differ from carrying value due to changes in market interest rates, as the carrying value is not adjusted for such changes, whereas the fair value was calculated using a discount rate that was current at 30 June 2012.

At that date the fair value was calculated on a discount rate of 6.03 percent (7.10 percent at 30 June 2011), whereas a weighted average discount rate of 7.20 percent (7.11 percent as at 30 June 2011) was used for the carrying value. The difference between fair value and carrying value does not represent an impairment of the asset.

## Note 3: Reconciliation of impairment allowance account

**Table 42** Reconciliation of impairment allowance account

Impairment allowance account	30 June 2012	30 June 2011
	\$ million	\$ million
Balance at beginning of year	1,238	1,362
Impairment reversal recognised on receivables	-286	-124
<b>Balance at end of year</b>	<b>952</b>	<b>1,238</b>

Source: Inland Revenue.

## Independent Auditor's Report

### To the readers of the Student Loan Scheme's financial schedules for the year ended 30 June 2012

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 on her behalf.

We have audited the financial schedules of the Scheme on pages 53 to 58, that comprise the schedule of assets as at 30 June 2012, the schedule of revenue and expenditure and schedule of cash flows for the year ended on that date and the accounting policies and the notes to the financial schedules that include other explanatory information.

#### Opinion

In our opinion the financial schedules of the Scheme on pages 53 to 58:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect the Scheme's:
  - schedule of assets as at 30 June 2012; and
  - schedule of revenue and expenditure and schedule of cash flows for the year ended on that date.

Our audit was completed on 2 November 2012. 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 would affect a reader's 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. 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 schedule of assets, schedule of revenue and expenditure and cash flows.

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

## 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 New Zealand Institute of Chartered Accountants.

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

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## 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.

### 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-down before they can receive a student loan
- be enrolled in an approved qualification<sup>46</sup> 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 loan<sup>47</sup>
- 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 post graduate study (up to an additional 1 EFTS)
  - undertake doctoral study (up to an additional 3 EFTS)
- applicants need to pass at least half of their course load (EFTS) over a set period to retain their student loan eligibility.<sup>48</sup>

Student loan eligibility changes that will take effect in 2013 and 2014 are described in chapter 1.

<sup>46</sup> 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.

<sup>47</sup> 'No asset procedure' debtors are able to access the Student Loan Scheme. However, 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.

<sup>48</sup> 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.



## 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.<sup>49</sup>

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

From 1 April 2009, living costs were indexed by inflation from 1 April, following a one-off increase from \$150 to \$155 per week from 1 January 2009. In the 2011/12 tax year, students could borrow up to \$169.51 per week. For the 2012/13 tax year, students can borrow up to \$172.51 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 as 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

The collection of loan repayments is handled by Inland Revenue.

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 on those of borrowers who are defined as being based in New Zealand.

### 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, deductions of 10 cents in every dollar were made from the amount over the threshold.

From 1 April 2012, deductions of 10 cents in every dollar are made from income earned over the pay period threshold (for example, if a borrower is paid weekly, the annual repayment threshold is divided by 52 weeks). On 1 April 2013, the deduction rate will rise to 12 cents in the dollar. These deductions are generally considered as meeting a borrower's repayment obligation for that pay period.

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.

### 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 10 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 is 6.4 percent per annum.

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 balances. 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.

<sup>49</sup> Information on student allowances is available on the StudyLink website [www.studylink.govt.nz](http://www.studylink.govt.nz).

## Repayment holiday

Since April 2007, overseas-based borrowers were automatically given a repayment holiday for a maximum of three years. Borrowers do not have to make repayments during this period, although their loans still attract 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 now need to apply for a repayment holiday and provide a contact person in New Zealand. The repayment holiday has been 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 deductions from salary or wages by using a special repayment code, by automatic payment, online banking, with credit or debit cards, or, if borrowers are overseas, by making 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). 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 more than \$550.

The voluntary repayment bonus was repealed as part of the government's 2012 Budget initiatives. Bonus payments will still apply for the tax year ending 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 penalties or late payment interest on the unpaid amount may be charged. Up to March 2012, these late payment charges were called 'late payment penalties', but from April 2012 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 April 2012, the rate of late payment interest was 0.843 percent per month.

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.<sup>50</sup>

Those 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.

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

<sup>50</sup> 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/](http://www.ird.govt.nz/studentloans/).

SLIM is based on a large number of categorical and regression tree models developed from the integrated dataset. The 2012 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	<p>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.</p> <p>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 2015 onwards.</p>
Discount rates	<p>The carrying value of student loans is based on discount rates that are set for each cohort of new borrowers at the time they first borrow. These incorporate a risk-free component and a risk premium calculated each year for each new cohort of borrowers.</p> <p>As with the CPI, the risk-free rates are as prescribed by the Treasury. The risk margin was determined by the consulting actuaries as 2.75 percent.</p> <p>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 6.6 percent.</p>
Income of borrowers	<p>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.</p>
Transitions between being a student, employment and overseas	<p>Modelled from the recent experience of the loan scheme's participants.</p>
Voluntary repayments	<p>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.</p>
Repayment threshold	<p>\$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.</p>
Resident underpayments	<p>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.</p>
Bankruptcy	<p>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.</p>
Mortality	<p>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.</p>

## Appendix 2: Glossary

### Academic year

The academic year is from 1 January to 31 December.

### Administration fee

A \$40 fee charged by Inland Revenue for each year a borrower has a loan balance with Inland Revenue (except in those 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.

### 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/](http://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.

### 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 the following year.

## 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-based 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 2011/12 tax year is referred to as the 2012 tax year, ending on 31 March 2012.

## 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 for the period for which they are New Zealand-based. 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, subject to certain conditions. From 1 April 2007, these conditional 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](http://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.

## Non-resident borrower

A borrower who is not living in New Zealand in terms of section OE 1 of the Income Tax Act 1994. From 1 April 2007, this term has been replaced by 'overseas-based borrowers'. Overseas-based borrowers are all borrowers who are not eligible for an interest-free student loan.

## 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 are overseas for 184 consecutive days (about six months) or for more than 31 days during the 184-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.

## 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 184 consecutive days (about six months) 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 will have to pay 10 cents for every dollar earned over the threshold (increasing to 12 cents from 1 April 2013). The repayment threshold was \$19,084 in the 2011/12 income year and will be held at this level until 31 March 2014.

## Resident borrower

Until 31 March 2007, this referred to a person who was resident in New Zealand in terms of section OE 1 of the Income Tax Act 1994.

From 1 April 2007, this term was changed and borrowers are now referred to as New Zealand-based borrowers – this definition includes all borrowers who qualify for an interest-free student loan.

## Student allowances

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

## Student Loan Accounts Manager (SLAM)

The party contracted by the Ministry of Education to manage loan accounts before the transfer of the loan scheme to Work and Income (now StudyLink, a service of the Ministry of Social Development).

## 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, Step Up Scholarships and the unemployment benefit (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 6.6 percent for 2010/11 and 2011/12. 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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