MINISTRY OF EDUCATION
Te Tāhuhu o te Mātauranga

STUDENT LOAN SCHEME

Annual Report
OCTOBER 2011

Incorporating the Financial Statements to 30 June 2011

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

October 2011

Foreword

I am pleased to present the 2011 Student Loan Scheme Annual Report and the 2010/11 Financial Statements. It has been almost two decades since student loans for tertiary study were established with the sole purpose of providing improved access to tertiary education by sharing the costs between students and government.

Tertiary education is a crucial part of New Zealand's culture and economy. Engaging in tertiary education provides individuals with opportunities to develop their skills and knowledge base. A well-educated population supplies New Zealand with the resources required to fulfil the changing needs of the New Zealand population, nationally and on a global stage.

Since its establishment in 1992, about 958,000 New Zealanders have used the loan scheme. This equates to about 26 percent of the population of New Zealand in 2010 who were aged 15 or over. The number of New Zealanders who have accessed the scheme each year has grown from 44,000 in 1992 to 212,485 in 2010. This rise indicates that more people are studying at tertiary level and are using the loan scheme as a suitable means to help fund their tertiary education. In the 2010 academic year, 74 percent of students eligible to borrow from the loan scheme did so, borrowing a total amount of $1,551 million. More than 306,000 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 and to New Zealanders, ensuring that the scheme is being properly managed and meeting its primary objective – that tertiary education is accessible to all New Zealanders.

In 2010, the governance of the Student Loan Scheme changed. Two ministers were made responsible for the Student Loan Scheme. The Prime Minister appointed me as lead official to provide direction and work across formal agency boundaries and I have assigned one of my deputy secretaries to take leadership of the loan scheme work.

This year, the structure of the report and some of the information provided has changed. There is more of a focus on the scheme's performance and the outcomes being delivered. Additional information on the demographic characteristics of borrowers can be found on the Education Counts website www.educationcounts.govt.nz. The report details the events in 2010, and how this compares with earlier years, and outlines future changes. The report includes the financial statements for the fiscal year to 30 June 2011 and an independent audit opinion.

The report is based on information and data held by the Ministry of Social Development, the Inland Revenue Department, 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 2010 and the financial situation in the 2010/11 fiscal year. The report also provides forecasts of future loan participation and expenditure.

The Student Loan Scheme Annual Report provides an understanding of participation in tertiary study in New Zealand, and how government investment continues to assist those who are pursuing a better future for themselves and New Zealand by engaging in tertiary education.

Karen Sewell

Karen Sewell
Secretary for Education

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HIGHLIGHTS

STUDENT LOAN SCHEME PORTFOLIO

As at 30 June 2011:

- The nominal value of loan balances was $12,070 million. (Refer to chapter 4.0.)
- The carrying value of the loan scheme – calculated using International Financial Reporting Standards – was $7,459 million. (Refer to chapter 4.0.)
- The carrying value ratio increased from 60.9 percent of the nominal value to 61.8 percent of the nominal value ratio. (Refer to chapter 4.0.)
- The fair value of the loan scheme was approximately $7,221 million. (Refer to chapter 4.0.)
- The amount of write down shifted from about 45.3 cents in the dollar lent in 2010 to 44.7 cents in the dollar lent in 2011. (Refer to chapter 4.2.)
- 621,000 people had a student loan with Inland Revenue for collection. (Refer to chapter 3.2.)

Since the loan scheme began:

- Students have borrowed a total of $15,486 million. (Refer to chapter 3.1.)
- $7,098 million has been collected in loan repayments. (Refer to chapter 3.3.)
- More than 306,000 loans have been fully repaid. (Refer to chapter 3.3.)

During 2010/11:

- $801.5 million in loan repayments was received by Inland Revenue and the Ministry of Social Development, $47.3 million more than last year. (Refer to chapter 5.3.)

OUTCOMES OF THE STUDENT LOAN SCHEME

- Research shows that people with tertiary qualifications have lower unemployment, higher incomes and increased wellbeing. (Refer to chapter 2.2.)
- The number of domestic students in tertiary education in 2010 was 420,000 compared with 245,000, the number enrolled in 1994. (Refer to chapter 1.1.)
- The participation rate for Māori of all ages was 19 percent in 2010, up slightly from 2008. The participation rate of all Pasifika students in 2010 was 16 percent, up from 15 percent in 2008. (Refer to chapter 1.1.)
- The total number of students completing formal qualifications reached 117,000 in 2010, an increase of 10 percent from 2008. (Refer to chapter 1.1.)

ABOUT STUDENTS BORROWING FROM THE STUDENT LOAN SCHEME IN 2010

- 212,485 students (74 percent of eligible students) borrowed from the loan scheme. (Refer to chapter 3.1.)
- Of these, 63,535 were new borrowers (based on provisional Ministry of Social Development data), representing 30 percent of all borrowers. (Refer to chapter 3.1.)
- The average amount borrowed was $7,298 and the median amount borrowed was $6,375. (Refer to chapter 3.1.)

OF THOSE WHO ACCESSED THE LOAN SCHEME

Between 1997 and 2010:

- About 56 percent were female. (Refer to chapter 3.2.)
- 49 percent were European, 22 percent were Māori, 11 percent were Asian and 9 percent were Pasifika. (Refer to chapter 3.2.)
- 35 percent had studied at a university or college of education, 33 percent at a polytechnic, 27 percent at a private training establishment and 5 percent at a wānanga. (Refer to chapter 3.2.)
- 53 percent had studied at non-degree level, 29 percent at bachelors level and 7 percent at postgraduate level. (Refer to chapter 3.2.)

As at 30 June 2011:

- The average loan held by Inland Revenue was $17,276 and the median loan balance was $11,880. (Refer to chapter 3.2.)
- 71 percent of repayments were collected through the PAYE tax system in the 2010/11 tax year. (Refer to chapter 3.3.)
- 13 percent of repayments made for the 2009/10 tax year were by borrowers with no repayment obligation. (Refer to chapter 3.3.)

REPAYMENT TIMES FOR BORROWERS

- The median repayment time for those who finished study in 1999 was 7.6 years. (Refer to chapter 3.4.)
- The median repayment time for those who finished study in 2003 is expected to be 6.6 years. (Refer to chapter 3.4.)
- The median repayment time for those who finished study in 2006 is expected to be 6.7 years. (Refer to chapter 3.4.)
- The median repayment time for those who left study in 2006 and remained in New Zealand was 5.2 years. (Refer to chapter 3.4.)

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

Introduction

The purpose of this annual report is to inform Parliament and the New Zealand public about the performance of the Student Loan Scheme and related trends. Information is also provided regarding the loan scheme's financial performance from 1 July 2010 to 30 June 2011.

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 enable 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 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.

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 historical data reported in the 2011 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 2010.

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). Middle Eastern/Latin American/African 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.

The three stages of the loan process

The term 'borrower' is used in three ways in this report. These correspond to the three stages that a typical borrower goes through in the Student Loan Scheme.

The first stage occurs when a borrower enters the Student Loan Scheme for the very first time. In this report these borrowers are referred to as 'new' borrowers, as the details of their loan are not yet with Inland Revenue.

Once a new borrower has entered the loan scheme they become part of a larger group of 'in-study' borrowers. This group includes all new borrowers as well as those who have entered the loan scheme previously and are still drawing a student loan while studying. The number of borrowers in this group will be the total number of students who have drawn from the Student Loan Scheme in a particular year.

In February following each academic year, the borrower's loan balance with StudyLink is transferred to Inland Revenue. The borrower now enters the stage of the process in which the loan is repayable if their income is above the threshold. The total number of borrowers in this group will be all those borrowers who have a student loan balance with Inland Revenue. Some of these will be students who are still studying as well as those who have previously studied, including some borrowers who are currently overseas.

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 latest TES was published in December 2009[1] and provides priorities for the sector 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 likely to move away 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.

The Strategy highlights priority groups of learners and types of study. It sets out a number of areas in which the government expects the system to improve. For each type of tertiary education organisation, it describes a set of core roles and several specific government expectations.

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 tertiary education through tuition subsidies and a range of student support, including 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[2] provided they meet the general eligibility and performance criteria; for the eligibility criteria see Appendix 1. The other main component of the student support system is the Student Allowances Scheme, which is only available to students who meet income-based and age-related eligibility criteria.

1.1 How the Student Loan Scheme fits into the wider tertiary system

The Student Loan Scheme helps to enable a wide range of people to access tertiary education, gaining skills and knowledge that benefit them as well as enabling them to contribute to New Zealand's social and economic progress. It does this in the following ways:

– The scheme enables access to tertiary education by providing a vehicle for the costs of tertiary education to be shared between the government, students and their families.

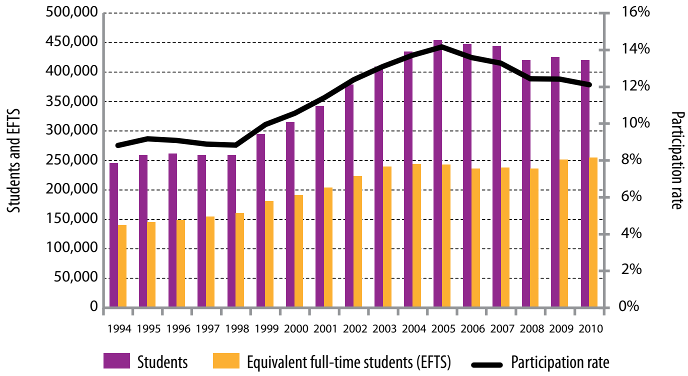
– It helps people gain qualifications and skills, thereby enabling them to contribute better to the workforce and hence, the economy.

Access to and participation in tertiary education

Participation in tertiary education in New Zealand has increased significantly since the loan scheme was introduced in 1992. The student support system has maintained and improved the affordability of tertiary education, and helped our tertiary education system to become diverse, inclusive and more accessible.

Figure 1 shows student numbers and equivalent full-time student numbers, and the participation rate in tertiary education from 1994 to 2010. 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.

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 has increased by 71 percent since 1994 (from 245,000 to 420,000). A major factor contributing to this growth is enrolments in private training establishments since 1999. The significant increase in the level of participation from 1998 to 2005 has abated since 2006. 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. In 2010, there was a slight decline in domestic enrolments from 2009, a decrease of 1.3 percent or 5,650 students from 2009. There were, however, an additional 4,013 equivalent full-time students, an increase of 2 percent from 2009 numbers.

1 The Tertiary Education Strategy can be found at: www.minedu.govt.nz/NZEducation/EducationPolicies/TertiaryEducation/PolicyAndStrategy/TertiaryEducationStrategy.aspx.

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

Table 1 Participation by domestic students in tertiary education

Main statistics on tertiary education participation and funding				
Participation and completion		**2008**	**2009**	**2010**
Participation of domestic students in tertiary education	Number (000s)	421	425	420
	Rate (all ages)	12.4%	12.4%	12.1%
	Rate (18-19 years old)	45.6%	47.6%	48.4%
	Rate (20-24 years old)	32.8%	34.0%	34.4%
	Rate – Māori	19.2%	19.5%	19.4%
	Rate – Pasifika	14.7%	15.4%	15.8%
Students completing qualifications	Non-degree (000)	71	80	82
	Bachelors (000)	24	25	24
	Postgraduate (000)	12	12	12
	Total (000)	106	116	117
Government-funded places		**2008**	**2009**	**2010**
Student Achievement Component EFTS	Funded (000)	223	231	235
	Actual (000)	226	243	245
Government expenditure		**2008/09**	**2009/10**	**2010/11**
Expenditure ($ million)	Student loans (capital)	$1,350	$1,525	$1,564
	Student allowances	$444	$570	$620
	Tuition subsidies	$2,146	$2,277	$2,280
	Total	$3,941	$4,373	$4,464
	Total as % of GDP	2.1%	2.3%	2.2%

Source: Ministry of Education, the Tertiary Education Commission and the Treasury.

Notes:

1. Tuition subsidies includes: Student Achievement Component, Performance-Based Research Fund and Tertiary Education Organisation Component – Capability Fund.
2. Government expenditure is exclusive of GST.
3. 2010/11 figures for tuition subsidies are estimated actuals.

Important points:

– In the tertiary education system, 420,000 domestic students were enrolled in 2010, a fall of 0.1 percent on the number enrolled in 2009.

– The overall participation rate in tertiary education was 12.1 percent in 2010, down from 12.4 percent in 2009. However, in the 18 to 19 years and 20 to 24 years age groups, the participation rate continued to increase in 2010, reaching 48.4 percent and 34.4 percent, respectively. The participation rate for Māori of all ages was 19.4 percent in 2010, up slightly from 19.2 percent in 2008. The participation rate of all Pasifika students in 2010 was 15.8 percent, up from 14.7 percent in 2008.

– The total number of students completing formal qualifications reached 117,000 in 2010, an increase of 9.7 percent from 2008.

– The number of government-funded equivalent full-time student (EFTS) places increased by 1.6 percent in 2010 to reach 235,000. The number of government-funded EFTS is now 5.5 percent higher than in 2008.

– The amount spent by the government on student loans reached $1,564 million in 2010/11. This compares with expenditure of $620 million on student allowances and $2,280 million on tuition subsidies.

– Between 2008 and 2010, the largest growth in government tertiary education expenditure was in student allowances (41 percent), followed by student loans (17 percent) and tuition subsidies (6.2 percent). These three expenditure categories combined amounted to 2.2 percent of GDP in 2010/11, compared with 2.1 percent in 2007/08.

1.2 What the Student Loan Scheme sets out to achieve

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 well-being of New Zealand.

Student support should:

– ensure that government's investment in tertiary education is financially sustainable and well managed as an asset

– ensure that tertiary education is affordable for students and should mitigate severe financial hardship during study

– be consistent with the wider social assistance and tax systems, and with other government policy objectives.

1.3 Current issues

An important concern for student loans is the cost of the loan scheme and in particular, its impact on the government's balance sheet. Each dollar lent costs the government 44.7 cents (refer to chapter 4, page 41).

The focus of student loan changes in recent years has therefore been to make the scheme more cost effective and ensure that it is financially sustainable and well managed as an asset.

In particular, the government has a central focus on :

– ensuring that borrowers are meeting their obligations, by improving repayment behaviour and so enhancing the value of the Student Loan Scheme. The issue:

  – largely relates to overseas-based borrowers, who have much lower repayment compliance and slower repayment times than domestic borrowers (refer to chapter 3, pages 30 and 35)

  – involves increasing borrowers' awareness of their repayment obligations and ensuring that contact is maintained between borrowers and Inland Revenue (see 1.4, page 10 and chapter 3, page 30).

– improving the return on the country's investment in supporting students through their tertiary education. A number of the new policy changes set out in 1.4 below aim to do this by reducing lending that is of low benefit to the scheme.

The agencies continue to focus on ensuring 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 have launched a web page that brings together all the information people would need to know about taking out a loan, www.studylink.govt.nz/student-loans/index.html.

1.4 Student support changes in Budget 2011

This section provides an overview of the policy changes announced in 2011 and information on when they take effect. Some of these policy changes will require legislation which is currently before Parliament.

Eligibility changes

Removing course-related cost entitlements for part-time, full-year students

From 1 January 2012, part-time, full-year students will no longer be able to borrow through the Student Loan Scheme for course-related costs. They will be entitled to borrow for compulsory fees only. Part-time, full-year is defined as being in study for a minimum of 32 weeks in one year and with a course load of less than 0.8 equivalent full-time student (EFTS) units.

Restricting student loan eligibility for borrowers aged 55 and over to tuition fees only

From 1 January 2013, people aged 55 and over will not be eligible to borrow for living and course-related costs from the Student Loan Scheme. All current students over the age limit at the date of announcement (19 May 2011), or who will reach the age limit before the date of implementation, are eligible to borrow after the 1 January 2013 implementation to complete the qualification in which they are enrolled on announcement (but only that qualification and not any related follow-on qualifications), or until 1 January 2015, whichever comes first.

Restricting student loan eligibility for those with an overdue student loan repayment obligation

From 7 February 2013, borrowers who have overdue payments amounting to $500 or more and have been in default for one or more years will not be eligible to access the Student Loan Scheme.

This proposal relates to borrowers who are in default from February 2012 and affects new lending from 7 February 2013.

Borrowers who successfully apply for hardship to Inland Revenue will not be affected by this policy.

Requiring a contact person for all new loan applications

Beginning 1 January 2013, borrowers of the Student Loan Scheme will be required to provide details of a contact person.

Extending the exemption to the two-year stand-down for new permanent residents to sponsored family members of 'protected persons'

The two-year stand-down exemption will be extended to the sponsored family members of protected persons for both student loans and allowances.

When a student applies for a student loan or allowance for study starting on or after 1 January 2012 and provides evidence that they were granted permanent residency via sponsorship by a family member holding protected persons status, they will be exempt from the two-year stand-down.

Repayment policy changes

Holding repayment threshold to $19,084 until 2015

This policy suspends inflation adjustments to the student loan repayment threshold until 31 March 2015. The repayment threshold was set at $19,084 from 1 April 2009 and will remain at that level until 31 March 2015.

Adding back losses to income for student loan repayment purposes

From 1 April 2012, New Zealand-based borrowers will no longer be able to use business and investment losses to reduce their student loan repayment obligation.

One-year application-based repayment holiday

The automatic three-year repayment holiday for borrowers who go overseas is being reduced to one year. Borrowers will also be required to apply to Inland Revenue for the repayment holiday and provide or confirm contact details for an alternative New Zealand contact. Borrowers who do not do so will not receive a repayment holiday.

The one-year holiday will be for borrowers leaving New Zealand from 1 April 2012. Borrowers who are already overseas on 1 April 2012 will receive the lesser of one year or the period remaining of their existing holiday.

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

1.5 Student loan legislation

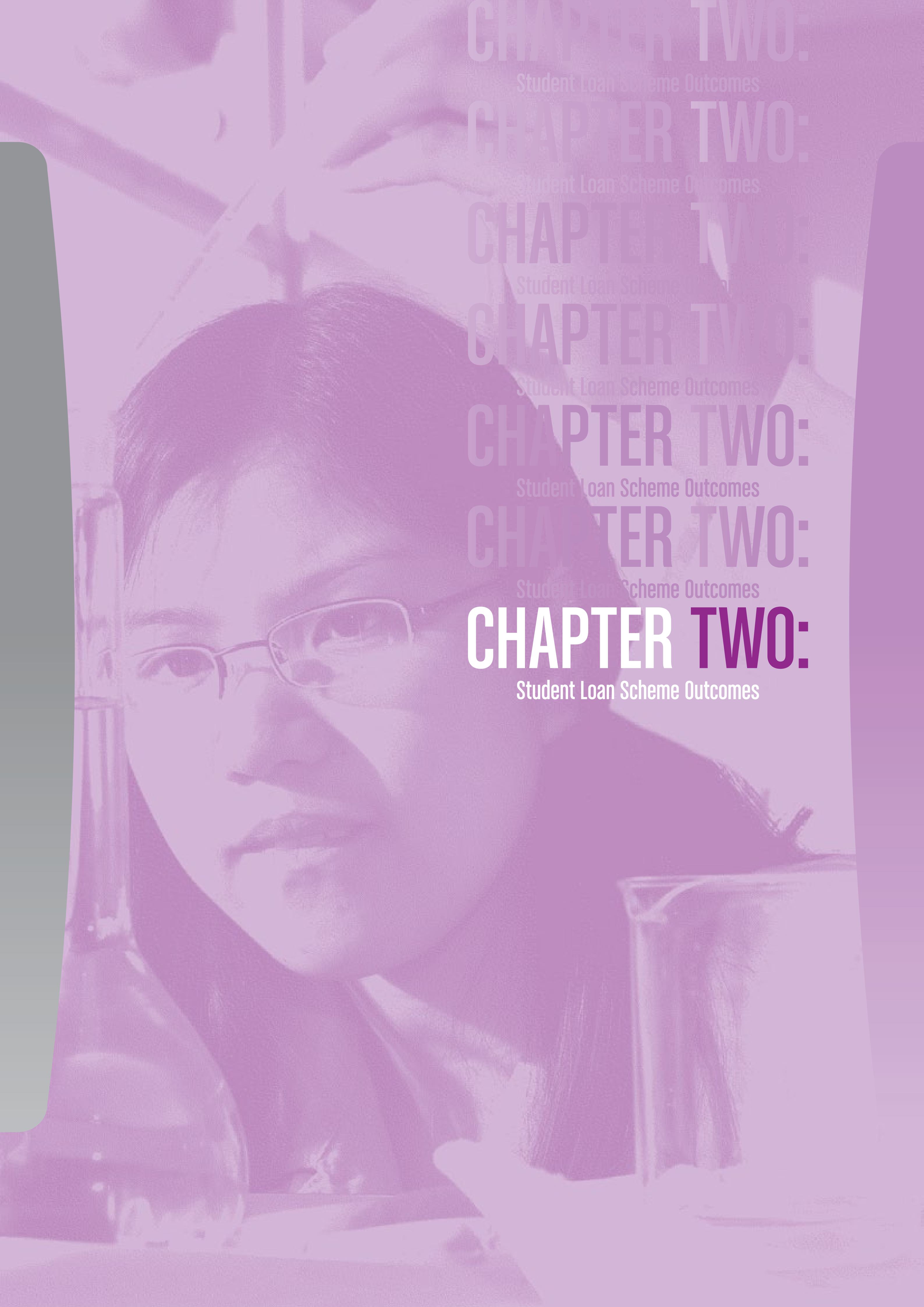
Student Loan Scheme Act 2011

The Student Loan Scheme Act 2011 was enacted in August 2011. The Act reforms the way student loans are administered in order to make the scheme more efficient and sustainable through system alterations, amendments to Inland Revenue's business model and legislative changes.

For example, the Act:

- places greater emphasis on improving services to borrowers and will allow them to self-manage their loans electronically
- changes the current annual assessment of income (for repayment assessment purposes) for salary and wage earners to a 'pay-period' assessment of income
- simplifies the current penalty rules that apply when borrowers fail to make loan repayments when they should
- strengthens the Commissioner of Inland Revenue's ability to recall a loan in cases of serious non-compliance
- exempts student loan contracts from the requirements of the Credit Contracts and Consumer Finance Act 2003
- puts in place the new $40 student loan administration fee that was decided as part of Budget 2010.

Further details of the Act can be found on the New Zealand legislation website www.legislation.govt.nz.



CHAPTER TWO:

Student Loan Scheme Outcomes

2.0 Introduction

The student support system aims 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.

The two primary outcomes sought from the scheme are:

– enhanced human capital and labour skills
– a long-term, affordable loan scheme for students 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 are currently working on a new 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.

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[3] have shown that qualifications gained in the New Zealand tertiary education system lead to greater earnings. This obviously benefits the individuals with those qualifications. But 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.[4]

The Student Loan Scheme contributes to those 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.

Skills

There are two ways of looking at the relationship between the tertiary education system and the skills in the population:

– through a direct measure of skills
– using the qualifications level of the population as a proxy for skills.

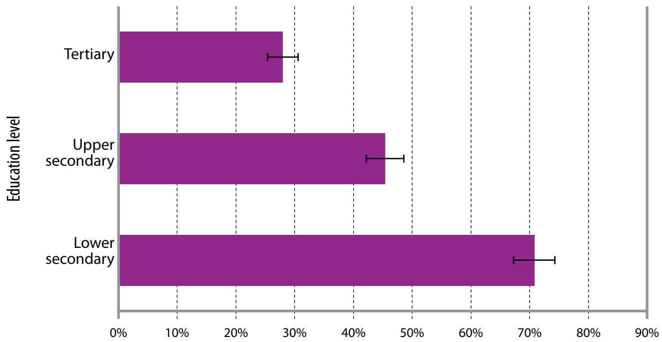
Measures of skills

The 2006 Adult Literacy and Life Skills (ALL) Survey measured the skills of a random sample of 7,000 New Zealanders by testing their literacy, numeracy and problem-solving skills.

People who gained higher qualifications through the New Zealand education system had higher skill levels.

Figure 2 shows the relationship between skill levels and education levels.

Figure 2 Percentage of the New Zealand population with low literacy by education level



Source: New Zealand results of the Adult Literacy and Life Skills Survey. Ministry of Education calculations.

Note: The bars represent margins of error (at the 95 percent confidence level). The term 'tertiary' education means education that is above level 3 on the New Zealand Qualifications Framework.

The skill margin enjoyed by those with tertiary education qualifications is even sharper if we restrict our focus to only those who received their tertiary education in New Zealand.

Qualifications

In chapter 1, we reported that enrolments of domestic students in 2010 were around 420,000. This is around 43 percent higher than in 1999. 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 2010, 50 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.

Enhancing human capital

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 can't 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.

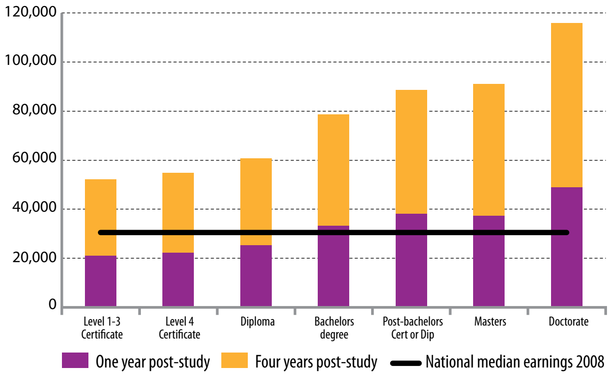
The Household Labour Force Survey data shows that those who complete a bachelors degree or higher have, on average, a weekly income that is more than 2.5 times the amount that someone without qualifications can expect to receive. Statistics from Statistics New Zealand's Employment Outcomes of Tertiary 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.

3 Mahoney, P. (2011) *What do men and women earn after study?*; 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*, Wellington: Ministry of Education; Nair, B. (2007) *Measuring the returns on investment in tertiary education three and five years after study*, Wellington: Ministry of Education; Maani, S. and Maloney, T. (2004) *Returns to post-school qualifications*, Department of Labour.

4 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.

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 focused on a sub-group of these leavers whom researchers have called 'young leavers'.[5] 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, and 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.

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 – even if relatively low premiums are paid to lower-level qualifications.

However, high youth unemployment suggests that there is a group of people who miss out on these benefits and, hence, who don't contribute well to the economy. This is a major challenge for the system.

2.2 A long-term, affordable loan scheme for students and taxpayers

Sharing the costs of tertiary education

The shared benefits of education

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

In addition to the economic benefits of education, there is also a range of non-economic benefits associated with having a higher qualification. Research shows that success in education is associated with greater quality of life, better health and other benefits for individuals. Higher qualifications are also associated with social cohesion and with a lower proportion of the population 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 society at large.

Sharing the costs

Since tertiary education benefits both the society and economy, it is appropriate that there is a measure of sharing of the costs.

The loan scheme has enabled the government to share the costs of funding tertiary education with students and their families and hence to provide funding for more places in tertiary education organisations. Without 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 27 percent in 2010.

While the government's share was nominally 73 percent in 2010, in practice it is larger than that. This is because much of the student share is met through 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 84 percent.

One way that students meet their share of the costs of tertiary education is through paid work during the year. In its triennial survey of student income and expenditure, the New Zealand Union of Students' Associations[6] reported that full-time students worked an average of 12 hours a week in 2010. This is a decrease from 2007, when full-time students worked an average of 14 hours a week. The new average of work is slightly less than the numbers of hours worked in some other countries such as the United Kingdom[7] and the United States.[8]

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

6 Colmar Brunton (2010) *Student Income and Expenditure Survey 2010 – report of findings*, Auckland: Colmar Brunton.

7 NatWest Student Living Index 2010.

8 US Bureau of Labor Statistics.

Many students also receive financial support from their families. One in six respondents to the New Zealand Union of Students' Associations 2010 income and expenditure survey received financial gifts from their parents. Although this represents an increase from the one in five who received financial gifts from their parents in 2007, the average amount received by students fell in 2010.

The costs of the loan scheme to students

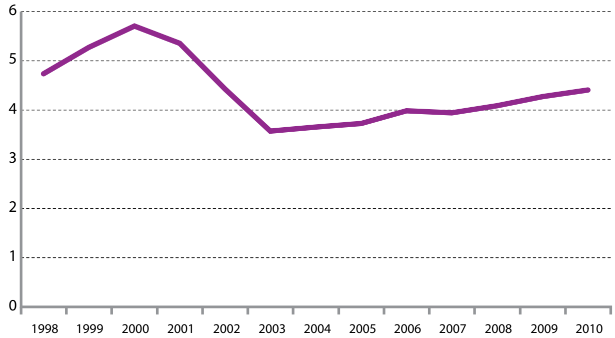
There are three ways of assessing the cost of tertiary education to students:

- 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 accessibility of tertiary education. Given the fact that around 70 percent of eligible 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 4 shows 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 4 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. Interpretation Ministry of Education.

Figure 4 shows that tertiary education became more affordable as a consequence of fee stabilisation measures taken in the first half of the last decade. In 2010, it took 4.4 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 balance rose by 25 percent between 2000 and 2008.

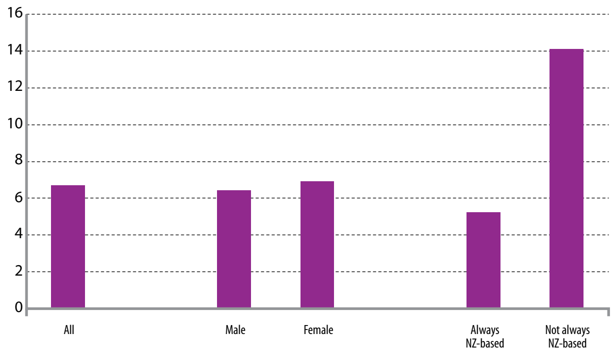
Figure 5 Median loan balance on leaving study

Source: Statistics New Zealand, integrated dataset.

When we look at all loans held by Inland Revenue on 30 June 2011, 43 percent are under $10,000.

Repayment times are moderate for those who remain in New Zealand after completing study. Figure 6 gives the forecast median repayment times for different groups of borrowers.

Figure 6 Forecast median repayment times in years for those who left study in 2006



Source: Statistics New Zealand, integrated dataset.

There is little difference in repayment times between men and women but the repayment time for those who spend some time overseas before repaying is 2.7 times the repayment time for those who remain based in New Zealand.

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 a financial return; rather it is intended as a cost-effective means of enhancing access to tertiary education. As a consequence, the scheme policy includes 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 conditions. If incomes are rising, so will repayments, but in a period of stagnant employment more people will earn below the repayment threshold and won't 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.

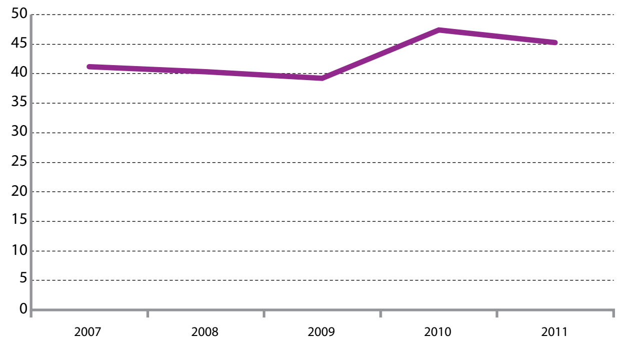
The third group of factors that affect the value relate to borrower behaviour. If many borrowers choose to go overseas once they finish their studies, this affects the value of the scheme because it is more difficult to collect repayments.

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

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

The cost of lending a dollar via the Student Loan Scheme was 45.25 cents on 30 June 2011. This was down by 4.5 percent on the figure from a year earlier. Figure 7 shows the trend in the cost to the government of lending under the Student Loan Scheme.

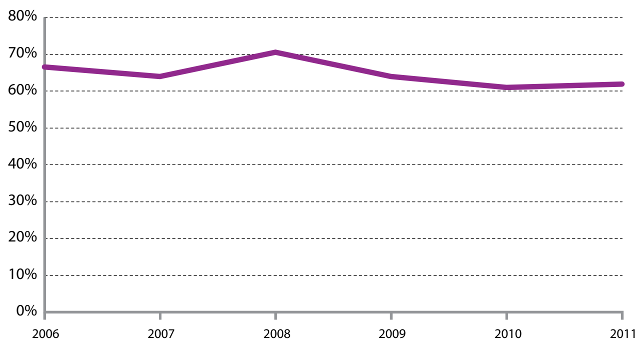
Figure 7 Cost of lending – cents per dollar lent



Source: Ministry of Education, Student Loans Integrated Model.

The value of the scheme in the Crown's accounts was 61.8 percent of the total amount of money on loan (which is called the nominal value). This is up from 60.9 percent in 2010, but is lower than the value of 70 percent achieved in 2008. This is shown in Figure 8 below.

Figure 8 Ratio of carrying value of the Student Loan Scheme to nominal value at 30 June, 2006-2011



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 the 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 27 percent – but that figure doesn't 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 45 cents.

The government has an aim of managing its costs in the loan scheme and the cost of lending fell by 4.5 percent in the year to 30 June 2011.

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 are unlikely to repay.

The Student Loan Scheme is a targeted scheme with income-contingent repayments. It was part of the design of the scheme that there would be some people who might not be able to repay their loans – for example, if they leave the labour force, because of illness, disability or because they devote themselves to unpaid work. But the government expects the great majority of borrowers to repay their loans within a reasonable timeframe. The rules that govern borrowers who are overseas provide incentives for borrowers overseas to return to New Zealand. Improved collection processes are also expected to reduce the number of borrowers who don't 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, and the government has sought to respond to this with its voluntary repayment bonus scheme.

Borrowers who remain in New Zealand have shorter repayment times than is often thought. Half of those who left study in 2006 and stay in New Zealand until repayment manage to settle their loan in 5.2 years, while three quarters repay within 14.1 years. But borrowers who spend time outside of the country have much longer repayment times. Looking at the 2006 leavers, the median repayment time is 6.7 years.

The Organisation for Economic Co-operation and Development provides information on repayment rates in student loan schemes in some of its member countries. It reported[9] 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.

Who ends up not 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 when their income falls below the repayment threshold.

An analysis of those borrowers who last studied in 1997 showed that those who had made no progress at all in reducing the size of their loans in the first three years following study:

- are more likely to have left study without completing a qualification – 31 percent had made no progress, compared with 20 percent of those who had completed their qualifications
- are more likely to have taken lower-level qualifications – 29 percent of those who studied below degree level had made no progress, compared with 23 percent who studied at bachelors level or higher
- are equally likely to be male and female – 27 percent of men had made no progress, compared with 26 percent of women
- are more likely to be Māori or Pasifika than of any other ethnic group – 34 percent of all Māori borrowers and 43 percent of Pasifika borrowers had made no progress, compared with 20 percent for those of European ethnicity.

Are there other unintended outcomes?

Some surveys[10] have claimed that students may be encouraged to go overseas after their studies and deterred from returning due to their student loans. Furthermore, it has been claimed their loans may discourage home ownership or cause them to delay having children.

Around 40 percent of couple families comprising partners aged 18 to 24 have student loan debt. This falls to 30 percent among those aged 25 to 34 and to 10 percent at ages 35 to 44. The corresponding figures for mortgage debt are 50 percent, 70 percent and 75 percent.[11]

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

Two Ministry of Education studies have examined the relationship between the size of a student loan and the likelihood of being overseas. The first is a statistical analysis[13] 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[14] on the relationship between the size of a student loan and the likelihood of going overseas concluded that borrowers who are overseas leave 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 return from overseas compared with those who remain overseas. The authors found little difference in the demographic and study-related characteristics of these two groups.

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

2.4 Conclusion

The 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. 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.

9 Organisation for Economic Co-operation and Development (2008) *Education at a glance: OECD indicators 2008*, Paris: OECD. Refer to Table B5.1e.

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

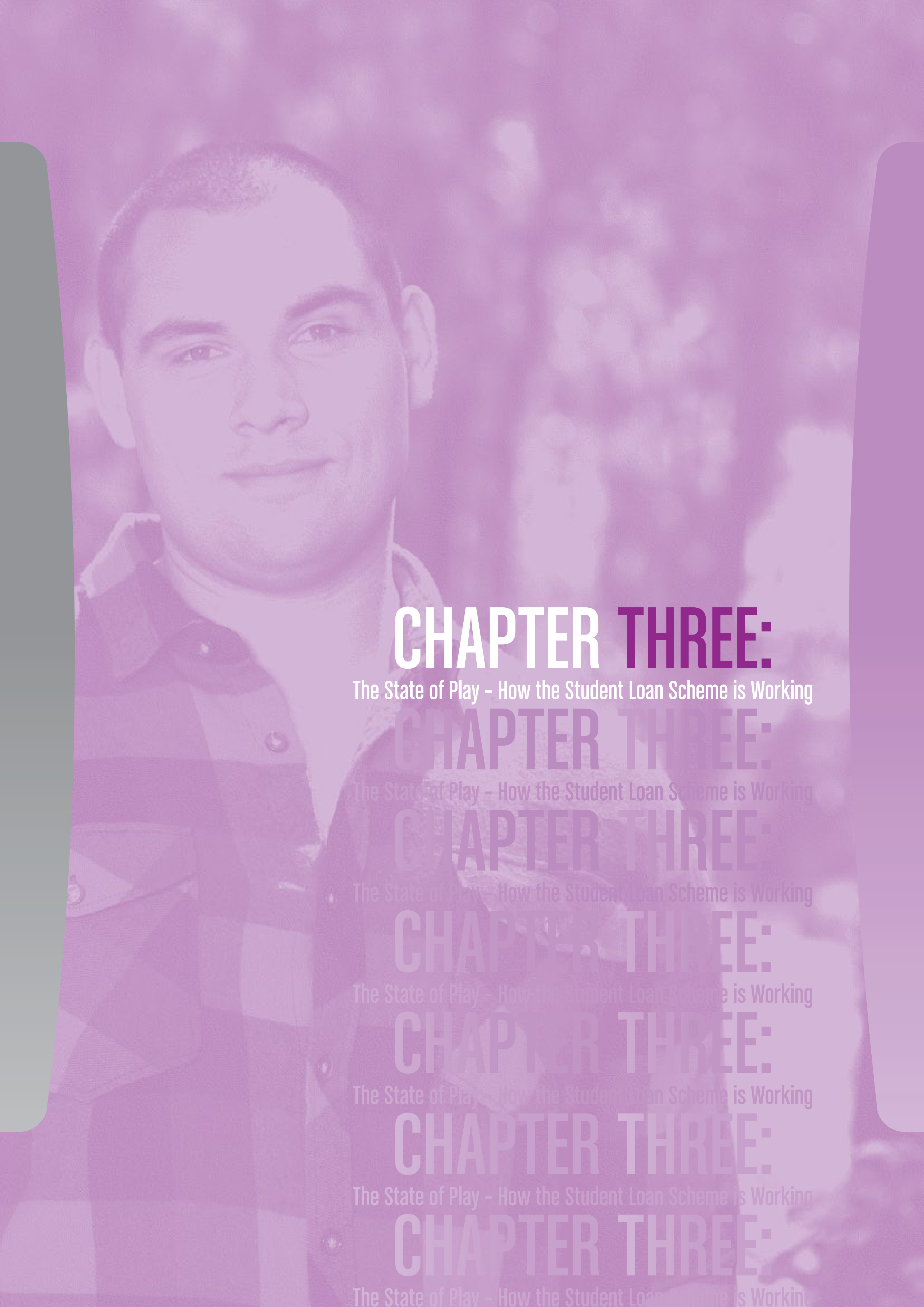
11 Legge, J. and Heynes, A. (2009) Beyond reasonable debt: a background report on the indebtedness of New Zealand families, *Social Policy Journal of New Zealand*, 35.

12 Yu, P., Kippen, R. and Chapman, B. (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.

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

14 Smyth, R. and Spackman, D. (forthcoming) *Going abroad*. Wellington: Ministry of Education.

15 Kemp, S., Horward, J. and Fergusson, D. (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

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3.0 The Student Loan Scheme – borrowing and repayments

Changes to student support policy and social and economic conditions affect borrowing behaviour. Participation in tertiary education by domestic students has declined since 2005. Despite this decrease, the number of eligible students actually borrowing from the loan scheme has steadily increased between 2005 and 2010. This period saw the introduction of the interest-free loans policy and the economic recession from 2008 to 2009. These events impacted on the Student Loan Scheme in several ways:

- The rate of participation decreased but the number of full-time students increased.
- The number of new borrowers from the 27-50 years age group increased.
- Postgraduate qualifications (like masters, honours and postgraduate certificates/diplomas) increased significantly, rising by 12.7 percent in 2010, which led to an additional 2,298 borrowers from 2009.
- The growth rate of repayments through the PAYE system declined sharply since 2008/09.

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 due to 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.[16]

This chapter has information about:

- the students borrowing through the loan scheme in 2010 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.

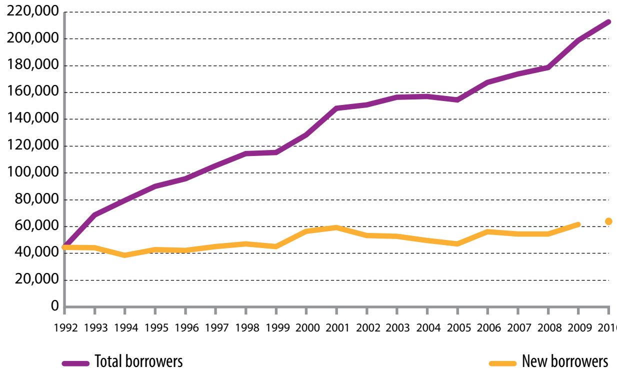
3.1 Borrowing in 2010

Uptake and uptake rates in 2010

Since the scheme began, about 958,000 people have taken out a student loan. This represents about 26 percent of the New Zealand population aged 15 or over.[17] In 2010, 212,485 students borrowed under the loan scheme. This was an increase of 6.9 percent on the 198,738 borrowers in 2009. This increase can likely be attributed to the ongoing impact of the interest-free loans policy introduced in 2006. Student loan borrowers in 2010 represented about 6 percent of the estimated population living in New Zealand aged 15 and over.

Figure 9 shows the growth in borrower numbers and in the number of new borrowers since 1992.

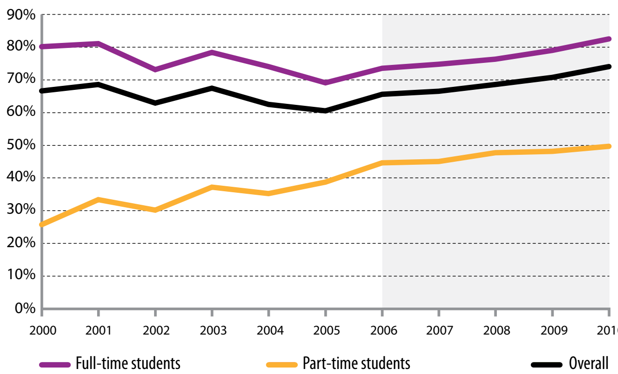
Figure 9 Number of borrowers and new borrowers in each academic year



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

Note: 2010 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 2010 data. The two sets of data are derived from different datasets and therefore are not directly comparable.

Figure 10 Student loan uptake rates



Source: Ministry of Social Development and Ministry of Education.

Note: Overall uptake rate reflects the mix of full-time and part-time borrowers.

Figure 10 presents the proportion of students eligible to borrow who do so. In 2010, the overall uptake rate was 74 percent of eligible students. This is an increase on the 71 percent uptake in 2009. In 2007, the overall uptake was 67 percent, 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,[18] further increases from 2006 onwards as a result of the interest-free loan policy and additional rises as the economy went into recession in 2009.

While the rate of full-time eligible students accessing the loan scheme has gone from 75 percent in 2007 to 83 percent in 2010, there has been only minor growth since 2007 in the uptake rates of part-time students (from 45 percent in 2007 to 50 percent in 2010). 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.

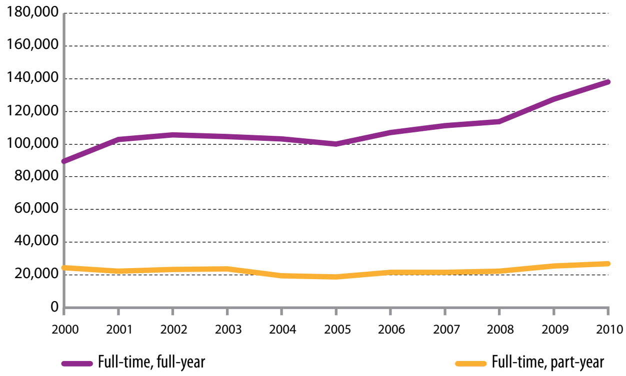
16 For more information on access to and participation in tertiary education in New Zealand refer to chapter 1.1.

17 Statistics New Zealand estimates that the population of New Zealand at 31 December 2010 who were aged 15 and over was 3.498 million.

18 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.

Figures 11a and 11b present the number of borrowers by study status from 2000 to 2010. Figure 11a shows full-time, part-year students have remained comparatively stable from 2000 to 2010. Full-time, full-year student numbers steadily increased between 2005 and 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.

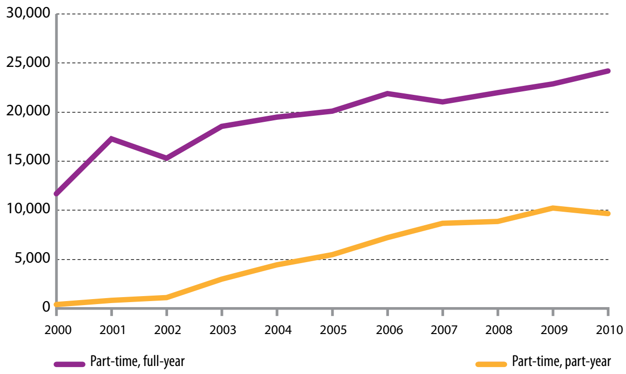
Figure 11a Number of borrowers with full-time study status



Source: Ministry of Social Development.

Figure 11b indicates that there has been a steady rise over the last eight years in the number of part-time, full-year borrowers, from 15,270 in 2002 to 24,153 in 2010. The number of part-time, part-year borrowers has also increased significantly, from 381 in 2000 to 9,617 in 2010. This is mainly a result of policy changes aimed at increasing access to the Student Loan Scheme for part-time, part-year students.

Figure 11b Number of borrowers with part-time study status



Source: Ministry of Social Development.

Amounts borrowed

Total borrowing

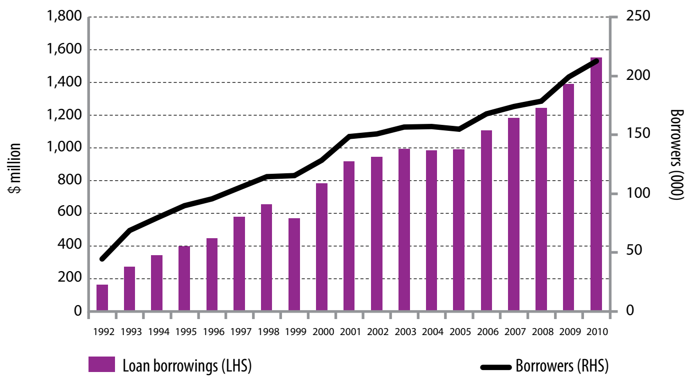
Since 1992, students have borrowed a total of $15,486 million. The total amount borrowed and the number of borrowers each year are shown in Figure 12. As the loan scheme developed and enrolments in tertiary education increased during the 1990s, the total amount borrowed per year grew significantly. This 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).

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-resident 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. These 212,485 students borrowed a total of $1,551 million from the loan scheme in 2010.

Figure 12 Total loan borrowings by year



Source: Ministry of Social Development and Ministry of Education.

Average and median borrowing

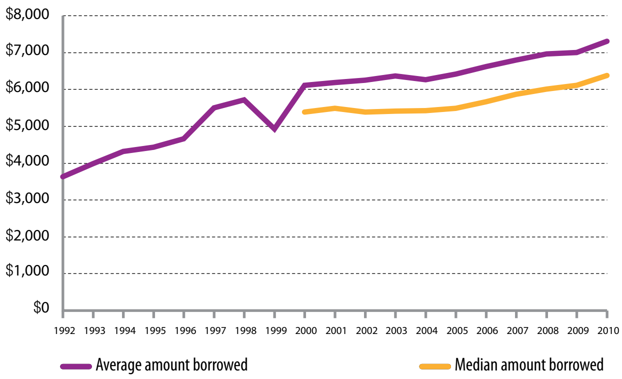
Figure 13 illustrates the average amount borrowed from 1992 to 2010 and the median amount borrowed from 2000 to 2010.

In 2010, the average amount borrowed was $7,298, an increase of 4 percent ($307) on the previous year. This compares with an increase of $38 from 2008 to 2009 and $161 from 2007 to 2008. The median amount borrowed in 2010 was $6,375, an increase of 4.5 percent from 2009, one driver of this increase in borrowing was 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[19] and of other changes that restricted the purposes for which finance from the loan scheme could be used,[20] 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[21] 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.[22] 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.

Figure 13 Average amount borrowed 1992-2010 and median amount borrowed 2000-2010



Source: Ministry of Social Development and Ministry of Education.

Note: The median amount borrowed was 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 2010:

- 93 percent borrowed to pay fees
- 68 percent borrowed to help meet course-related costs
- 48 percent borrowed towards meeting their living costs
- 22 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 is 62 percent of all money drawn from the loan scheme. In 2010, $1,007 million was used to pay for fees; this amounted to 65 percent of the amount drawn in 2010.
- In 2010, money used to pay for course-related costs was 9.2 percent of all money drawn in 2010.
- In 2010, money used to pay for living costs was 25 percent of all money drawn in 2010.

The increase in the proportion of money drawn to pay for fees is largely because entitlements were not frozen for fees but were for course-related costs while living costs entitlements were frozen until 2008.

Table 2 presents the average, median and total amounts drawn by loan components for the period 2000 to 2010. Over this period, the average amount borrowed to pay for fees increased by 33 percent, from $3,817 in 2000 to $5,076 in 2010.

Table 2 Average and median amounts borrowed by component 2000-2010

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

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

20 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.)

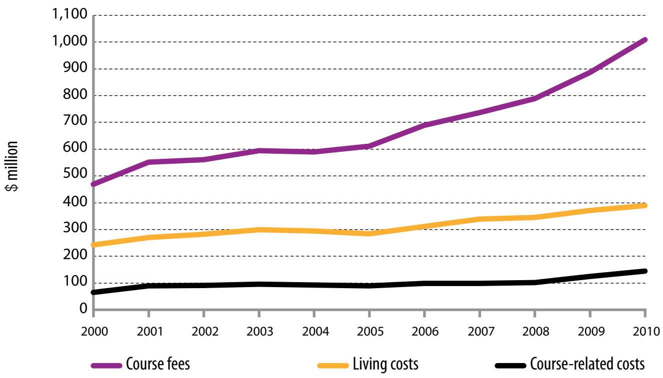
21 See the glossary in Appendix 2 for details of the fee stabilisation policy.

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

Students are entitled to borrow up to $1,000 for course-related costs. From 1 April 2009 to 31 March 2010, students could borrow up to $160.24 per week for living costs, less any student allowances they receive; this limit increased to $163.38 per week from 1 April 2010 to 31 March 2011. Since the beginning of 2007, fees can be borrowed for government-funded courses only.

The total amounts drawn for both living costs and course-related costs rose slightly in 2010. A number of factors might have contributed to these increases, including the rise in student enrolments and the increase in the living costs entitlement.

Figure 14 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 2010/11 tax year, full-time students could borrow up to $163.38 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 $169.51 for the 2011/12 tax year.

In 2010:

- 16 percent of all borrowers borrowed living costs under the loan scheme and also received student allowances; in 2009, this group was 15 percent of all borrowers
- 36 percent of people receiving student allowances used the loan scheme to supplement their living costs; this is a slight decrease compared with 37 percent in 2009.

Table 3 presents the number of living costs borrowers and recipients of student allowances, and the average living costs and allowances received in 2009.

Table 3 Student allowances compared with student loan living costs borrowings in 2010

	Number of students	Average allowances	Average living costs loan	Average allowances and living costs loan
Student allowances only	61,192	$7,094		$7,094
Student allowances and living costs loan	34,753	$5,855	$1,858	$7,712
Living costs loan only	66,776		$4,860	$4,860

Source: Ministry of Social Development.

On average, in 2010:

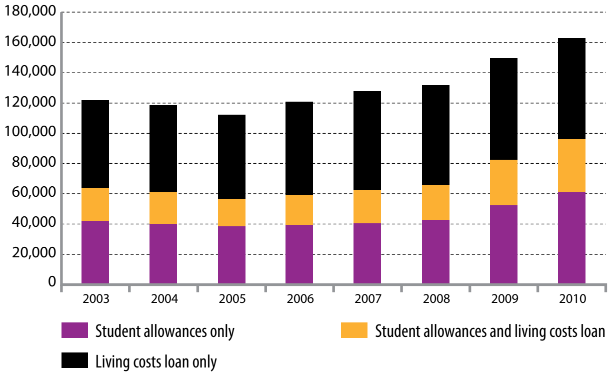
- those who received only student allowances received $7,094
- those who received student allowances and used the living costs entitlement under the loan scheme borrowed $1,858 from the loan scheme and received $5,855 in student allowances – meaning they were paid a combined total of $7,712 from both schemes
- those who relied solely on the living costs entitlement under the loan scheme borrowed $4,860 on average.

The number of students borrowing a loan and/or receiving student allowances is illustrated in Figure 15. 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, but rose sharply in 2009 and 2010. By 2010, the number of students benefiting from student allowances and/or borrowing loans was more than 50,000 above the 2005 level. The significant increase in the number of students receiving a student allowance since 2009 was a consequence 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 (increasing the threshold to $50,318.22). The third was the economic downturn that resulted in higher unemployment and hence lower family incomes.

In 2010:

- 162,721 students in total either borrowed the student loan living costs component or received student allowances, or both; this is a 9 percent increase over the 2009 level (13,158 additional students)
- 61,192 students received student allowances only, an increase of 17 percent, on 2009 levels (8,858 additional recipients)
- 34,753 students received student allowances and also borrowed living costs, an increase of 15 percent on 2009 levels (4,454 additional students)
- 66,776 students borrowed living costs only, a very slight decrease of 0.2 percent or 154 less borrowers over 2009.

Figure 15 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 2006 to 2010, 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 2006 and 2010, the proportion of course fee borrowers enrolled in institutes of technology and polytechnics has increased gradually; in particular, the proportion of borrowers from institutes of technology and polytechnics has grown from 24 percent in 2006 to 29 percent in 2010. 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 55.2 percent in 2009 to 54.2 percent in 2010. Private training establishments represented 22 percent of course fee borrowers in 2006. In 2010, 17 percent of borrowers were from private training establishments; this shows a steady decline in borrowers from this provider type.

Table 4 Students who borrowed course fees by provider type 2006-2010

	2006		2007		2008		2009		2010	
	Borrowers	%	Borrowers	%	Borrowers	%	Borrowers	%	Borrowers	%
Universities	83,552	53	89,530	56	92,797	56	102,467	55	107,631	54
Institutes of technology and polytechnics	38,077	24	39,514	25	41,589	25	50,220	27	57,546	29
Private training establishments	34,485	22	32,101	20	32,400	20	33,879	18	33,837	17
Wānanga	2,826	2	2,819	2	2,654	2	2,795	2	3,205	2
Total	**156,236**		**160,855**		**166,112**		**185,745**		**198,575**	

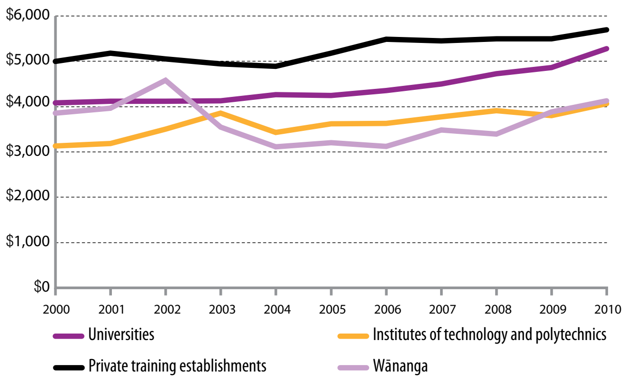
Source: Ministry of Social Development.

Notes:

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

The average course fees borrowed by provider type are shown in Figure 16. Across the different types of providers, both universities and private training establishments had a year-on-year increase in the average course fees borrowed. Universities recorded an increase of 8.8 percent ($425), while private training establishments increased by 3.7 percent ($201). The average course fees borrowed by students at institutes of technology and polytechnics increased by 6.9 percent ($261) and 6.4 percent ($248) for Wānanga students.

Figure 16 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 2006 to 2010. In 2010, the number of borrowers enrolled in bachelors-level and postgraduate qualifications increased. The most significant increase was in postgraduate qualifications, which rose by 12.7 percent in 2010; this was an additional 2,298 borrowers from 2009. Diploma and certificate courses continued to have a rise in borrowers with an additional 4,082 borrowers in 2010, a rise of 5 percent from 2009. There was a drop in the number of borrowers from other non-degree programmes from 1,556 in 2009 to 871 in 2010, a decrease of 44 percent on the 2009 number. In 2010, across all qualification levels, 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 2006-2010

		2006		2007		2008		2009		2010	
Qualification level	Gender	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	573	$5,390	645	$5,628	665	$5,954	748	$6,427	802	$6,901
	Male	581	$5,433	604	$6,083	645	$6,131	692	$7,110	744	$6,938
	Total	**1,154**	**$5,411**	**1,249**	**$5,850**	**1,310**	**$6,041**	**1,440**	**$6,755**	**1,546**	**$6,919**
Masters, honours, postgraduate certificates and postgraduate diplomas	Female	6,088	$5,657	6,347	$5,930	7,234	$6,241	8,986	$6,981	10,265	$7,492
	Male	4,287	$6,201	4,453	$7,011	7,783	$7,527	9,141	$7,953	10,160	$8,591
	Total	**10,375**	**$5,882**	**10,800**	**$6,450**	**15,017**	**$6,908**	**18,127**	**$7,471**	**20,425**	**$8,039**
Bachelors degrees, graduate certificates and diplomas	Female	48,729	$6,764	50,999	$7,017	55,623	$7,164	60,293	$7,438	65,274	$7,743
	Male	33,583	$7,181	35,332	$7,408	35,309	$7,601	38,466	$7,872	41,431	$8,243
	Total	**82,312**	**$6,934**	**86,332**	**$7,172**	**90,932**	**$7,334**	**98,759**	**$7,607**	**106,705**	**$7,937**
Diplomas	Female	12,959	$5,368	12,433	$5,735	15,528	$5,715	16,064	$6,032	16,855	$6,202
	Male	8,177	$7,943	8,057	$7,724	10,416	$8,468	11,456	$8,371	11,763	$9,011
	Total	**21,136**	**$6,364**	**20,490**	**$6,527**	**25,944**	**$6,820**	**27,520**	**$7,006**	**28,618**	**$7,357**
Certificates	Female	30,621	$5,477	27,471	$5,537	29,748	$5,501	29,492	$5,528	30,972	$5,555
	Male	19,591	$5,745	18,839	$5,742	19,848	$5,599	21,844	$5,841	23,348	$6,008
	Total	**50,212**	**$5,581**	**46,310**	**$5,618**	**49,596**	**$5,540**	**51,336**	**$5,661**	**54,320**	**$5,750**
Other	Female	4,642	$6,683	9,078	$6,256	649	$7,158	816	$5,729	469	$6,951
	Male	3,101	$7,395	5,074	$8,312	641	$9,996	740	$6,403	402	$6,791
	Total	**7,743**	**$6,968**	**14,152**	**$7,161**	**1,290**	**$8,568**	**1,556**	**$6,050**	**871**	**$6,877**
Overall		**167,420**	**$6,610**	**173,791**	**$6,792**	**178,533**	**$6,953**	**198,738**	**$6,991**	**212,485**	**$7,298**

Source: Ministry of Social Development (qualification classifications from the Ministry of Education).

Notes:

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

Table 6 Demographic characteristics of student loan borrowers

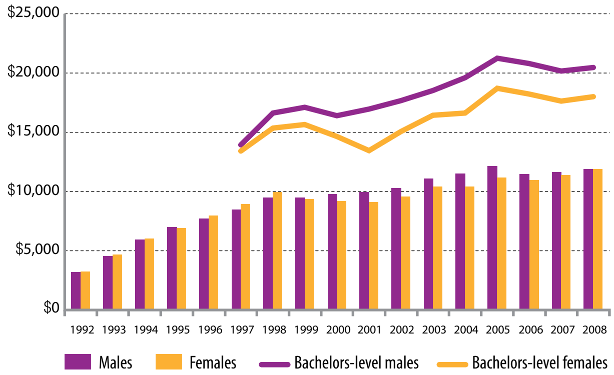
New borrowers[24]
Number The number of new borrowers in 2010 was 63,535, increasing by 3.7 percent from 61,266 in 2009. **Gender** Females represented 56 percent of new borrowers and outnumbered males by 7,717. The proportion of new borrowers who were female was also 56 percent in 2009 (women outnumbering men by 7,940). **Age** The average age of new borrowers was 25 years in 2010 and the median was 20 (this has remained stable since 2007). However, there was a significant rise in the 27-50 years demographic, which increased by 23 percent in 2010 (from 12,300 in 2009 to 15,070 in 2010). **Ethnicity** Of new borrowers in 2009, 63 percent identified themselves as European, 20 percent as Māori, 17 percent as Asian and 11 percent as Pasifika. The composition has remained relatively stable since 2006.[25]
Borrowers overall
Gender differences In 2010, the number of females accessing the Student Loan Scheme was 124,637 compared with 87,848 males. The average amount borrowed by men increased in 2010 by $383 on average (an increase of 5 percent from $7,392 in 2009 to $7,775). The average amount borrowed by females increased slightly by 4 percent (from $6,706 in 2009 to $6,962). **Age** Between 2009 and 2010, the number of borrowers in the 18-26 age group increased from 134,825 to 143,181, an increase of 6 percent. The 27-50 demographic also grew by 8.6 percent, from 55,951 borrowers in 2009 to 60,751 in 2010. The over-50 age group also experienced an increase of 7.4 percent, from 7,962 in 2009 to 8,553 in 2010. The 18-20 age group is the largest demographic each year from 2000 to 2010. In 2010, 67 percent (143,181) of all student loan borrowers were under the age of 27. Those borrowers aged 27 to 50 represented 28.6 percent (60,751) of borrowers. The over-50 age group totalled around 8,553 and constituted 4 percent of all borrowers. **Ethnicity** From 2000 to 2009, 64 percent of borrowers identified themselves as European, 20 percent of borrowers as Māori, 17 percent of borrowers as Asian, 10 percent of borrowers as Pasifika, and 3 percent of borrowers as Middle Eastern /Latin American/African.

Leaving balances

Figure 17, drawn from the integrated dataset on student loans and allowances, gives the median leaving balances of males and females in the leaving cohorts from 1992 to 2008. With the exception of 1995, women have left study with higher median loan balances than men, despite the fact that they tend to borrow less on an annual basis. From 1999 onwards, this trend reversed with men leaving study with higher loan balances than women.

The greatest volume of borrowing has tended to be by students at bachelors level.[23] Figure 17 also tracks the loan balances of those who studied at this level and left between 1997 and 2008. 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 across gender groups is 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 17 Median loan balances for 1992-2008 leavers by gender – all borrowers and those who studied at bachelors level 1997-2008



Source: Statistics New Zealand, integrated dataset.

Note: 2008 is the latest leaving cohort available.

3.2 Student loan balances with Inland Revenue

Inland Revenue manages the repayment process for student loans. Loans are made to students by StudyLink during the academic year and are transferred to Inland Revenue early in the following year. In this section of the report we refer only to loans that have been transferred to Inland Revenue. The financial report in chapter 5 combines both Inland Revenue and StudyLink information on loans and repayments.

Nominal value of balances

The nominal value of all loans for collection with Inland Revenue as at 30 June 2011 was $10.7 billion, an increase of $0.9 billion (9.2 percent) over the previous year. The nominal value includes all obligations held by borrowers, such as loan principal, interest and penalties. The net change in the balance from year to year reflects:

- the addition of loans from the previous year transferred from StudyLink, interest applied to overseas-based loans and penalties on overdue repayments
- the reduction of loan balances as payments are received from borrowers
- loans written off due to death or bankruptcy.

The nominal value is the basis for other calculations such as the carrying value[26] and average and median balances. For details of the valuation of the portfolio, refer to the financial statements for the scheme in chapter 5.

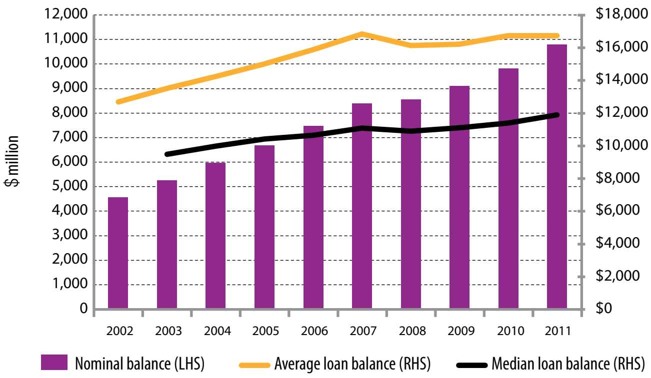
Figure 18 shows the value of total loans held by Inland Revenue and their average and median values. The number of borrowers by range of loan balance is presented in Table 7.

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

24 Those entering the loan scheme for the first time in 2010.

25 A new ethnic group has been added from 2007 for those identifying themselves as Middle Eastern, Latin American or African. In 2009, this new group made up 3 percent of new borrowers (refer to page 6). This group showed an increase in actual new borrower numbers from 1,314 in 2007 to 1,779 in 2009.

Figure 18 Nominal value of student loans and average loan balances from 2002 and median loan balances from 2003 held by Inland Revenue at 30 June



Source: Inland Revenue.

Note: The calculation method for nominal balances was changed in 2008. In previous years, accrued interest was included in the total, but from 30 June 2008 onwards it has been excluded. This means that nominal balances from 2008 onwards are not directly comparable with earlier years.

Table 7 Range of loan balances held by Inland Revenue at 30 June 2011

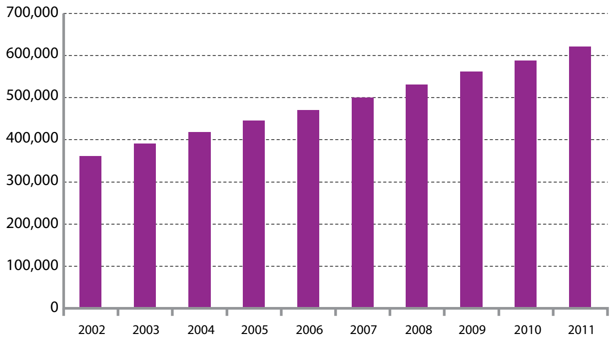
Range of loan balances	Borrowers	%	Cumulative %
$1-1,999	50,923	8.2%	8.2%
$2,000-3,999	54,839	8.8%	17.0%
$4,000-5,999	60,663	9.8%	26.8%
$6,000-7,999	57,685	9.3%	36.1%
$8,000-9,999	45,930	7.4%	43.5%
$10,000-14,999	96,432	15.5%	59.0%
$15,000-19,999	63,698	10.3%	69.3%
$20,000-24,999	48,941	7.9%	77.1%
$25,000-29,999	35,870	5.8%	82.9%
$30,000-34,999	27,331	4.4%	87.3%
$35,000-39,999	20,754	3.3%	90.6%
$40,000-44,999	14,918	2.4%	93.0%
$45,000-49,999	11,313	1.8%	94.9%
$50,000-54,999	8,140	1.3%	96.2%
$55,000-59,999	5,756	0.9%	97.1%
$60,000-79,999	11,328	1.8%	98.9%
$80,000-99,999	3,979	0.6%	99.6%
$100,000-119,999	1,500	0.2%	99.8%
$119,999-139,999	617	0.1%	99.9%
> $139,999	541	0.1%	100.0%
Total	621,158	100.0%	

Source: Inland Revenue.

Number of borrowers

At 30 June 2011, there were about 621,000 student loan borrowers, compared with 587,500 last year. Figure 19 shows the growth in the number of borrowers who had loans with Inland Revenue. On average an additional 26,000 borrowers had their loans with Inland Revenue for collection each year since 2002. In the year to 30 June 2011, the borrower base with Inland Revenue for collection grew by 5.7 percent (2009/10: 4.6 percent).

Figure 19 Borrowers with Inland Revenue at 30 June



Source: Inland Revenue.

Table 8 Information on student loans and allowances from the integrated dataset

		% of borrowers	% of total loan balance	Forecast median repayment times
Ethnicity	European	49.0	52.3	6.0
	Māori	22.1	18.8	8.0
	Pasifika	8.8	8.6	8.0
	Asian	10.6	12.1	7.2
	Other	4.0	4.4	7.3
Gender	Male	43.7	46.9	6.4
	Female	56.3	53.1	6.9
Qualification	Doctorates	0.4	0.8	5.2
	Masters	2.4	3.8	5.9
	Honours/ Postgrad cert/dip	4.5	6.6	5.8
	Bachelors	28.8	37.4	7.2
	Diplomas	14.4	13.3	6.3
	Level 4 Certificates	11.7	8.0	6.1
	Level 1-3 Certificates	27.1	16.9	6.6

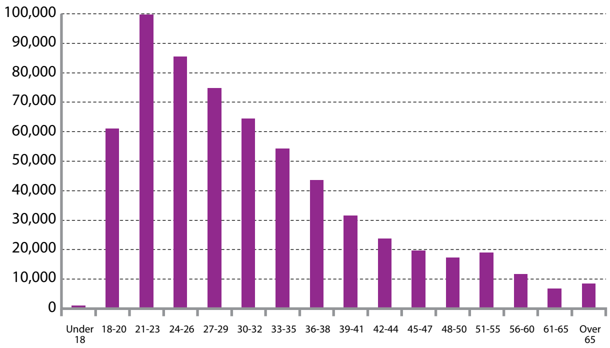
Source: Statistics New Zealand, integrated dataset.

Notes:

1. This table contains data on those who borrowed after 1997 and had a student loan at 31 March 2010.
2. The forecast repayment times are for borrowers who left study in 2006. Further details on forecast repayment times can be found in Tables 17-24 of this report. Therefore the repayment times relate to a different borrower population to 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.

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

Figure 20 Borrowers with Inland Revenue at 30 June by age group



Source: Inland Revenue.

Table 9 Summary of student loans with Inland Revenue at 30 June

	2009	2010	2011	% change
		Number of borrowers		
Borrowers based:				
– in NZ	479,462	502,362	529,434	5.40%
– overseas	82,337	85,137	91,724	7.70%
Total	**561,799**	**587,499**	**621,158**	**5.70%**
		Nominal balances		
Borrowers based:	$ million	$ million	$ million	
– in NZ	7,199	7,743	8,402	8.51%
– overseas	1,910	2,087	2,329	11.63%
Total	**9,109**	**9,830**	**10,731**	**9.17%**
		Average loan		
Average loan	$16,213	$16,731	$17,276	3.26%
		Median loan		
Borrowers based:				
– in NZ	$10,396	$10,657	$11,097	4.13%
– overseas	$17,125	$17,901	$18,632	4.08%
All borrowers	**$11,090**	**$11,399**	**$11,880**	**4.22%**
		Overdue repayments		
		Number of borrowers		
Borrowers based:				
– in NZ	80,328	57,921	49,803	-14.00%
– overseas	34,070	34,491	50,264	45.70%
Total	**114,398**	**92,412**	**100,067**	**8.30%**
		Amount overdue		
Borrowers based:	$ million	$ million	$ million	
– in NZ	192	142	123	-13.40%
– overseas	114	183	289	57.90%
Total	**306**	**325**	**412**	**26.70%**

Source: Inland Revenue.

3.3 Repayment performance

Factors affecting repayment streams

Most loans are repaid through the tax system. Employers deduct payments from salaries and wages on the basis of a declaration by the employee that they have a student loan, and the amount is transferred to Inland Revenue. Deductions are made if the borrower's earnings are over the repayment threshold.[27] Self-employed people have to file returns and make payments during the year. The repayments are 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.

New Zealand-based borrowers have interest-free loans, but borrowers who are overseas-based[28] are charged interest and have repayment obligations based on the size of their loan. Most borrowers take up the option of a repayment holiday and interest is still charged on their loan, but there is no repayment obligation. Currently repayment holidays are available automatically for up to three years while overseas. Significant changes to this policy were, however, announced in Budget 2011 (see Appendix 1).

More information about the relative number of borrowers in New Zealand and overseas and their repayment obligations is provided in *Analysis of borrowers by tax status* on the next page.

The volume of repayments made is affected by:

- the growth of the borrower base
- the number of borrowers remaining in study
- the number of borrowers who are in employment and earning above the repayment threshold
- economic conditions affecting the employment status and income of borrowers
- incentives such as the repayment bonus
- the number of borrowers overseas and the proportion on repayment holidays
- changing attitudes to debt
- compliance initiatives to encourage borrowers to meet their obligations.

These factors are highlighted in the following sections of this report that deal with the relevant aspects of the administration of repayments under the scheme.

Repayment trends

In the year to June 2011, 71 percent of repayments were collected through PAYE (see Table 10). The remainder came from borrowers living overseas, self-employed borrowers in New Zealand, borrowers under the income threshold who made voluntary repayments, and from those who chose to make payments over their assessed repayment amount outside of the PAYE system.

27 The threshold was $19,084 for the tax year from 1 April 2010 to 31 March 2011 and was unchanged for the following tax year.

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

Table 10 Loan repayments to Inland Revenue 2006/07-2010/11

Repayments	2006/07	2007/08	2008/09	2009/10	2010/11
	$ million	$ million	$ million	$ million	$ million
PAYE	344.2	394.4	452.1	473.9	491.6
From borrower	142.3	155.7	167.0	170.5	199.0
Total	**486.5**	**550.1**	**619.1**	**644.4**	**690.6**
	Annual % change				
PAYE	–	14.6%	14.6%	4.8%	3.7%
From borrower	–	9.4%	7.3%	2.3%	16.7%
Total	**–**	**13.1%**	**12.5%**	**4.1%**	**7.2%**

Source: Inland Revenue.

Note: The repayments shown above are on a cash accounting basis and are net of refunds. The financial schedules in chapter 5 show gross repayments.

The growth in repayments through PAYE has declined sharply since 2008/09. Two inter-related factors probably brought about this decline:

- the recession of 2008 affecting the employment and earning prospects of the borrower group (both those in work and those looking for work)
- greater participation in study.

The size of the borrower base with Inland Revenue has increased fairly consistently by about 5.5 percent over the same period, implying that fewer borrowers who have finished studying are earning incomes above the threshold. Inland Revenue's campaign to improve compliance by making sure that borrowers declare the right tax code to their employer has also had a positive impact on the PAYE stream, by reducing the level of defaults.

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

Table 11 Analysis of repayments from borrowers 2009/10-2010/11

Repayments	2009/10	2010/11
	$ million	$ million
From borrower overseas		
– on repayment holiday	43.1	35.9
– with repayment obligation	28.9	52.6
NZ self-employed, etc	98.5	110.5
Total	**170.5**	**199.0**

Source: Inland Revenue.

Repayments received directly from borrowers increased by 16.7 percent overall. The main factors that affected this payment stream were:

- expiry of repayment holidays for about 25,000 overseas-based borrowers who now have a repayment obligation
- the campaign to improve compliance among overseas borrowers (see page 30 in this report)
- campaigns to raise repayment compliance among borrowers in New Zealand.

Analysis of borrowers by tax status

Inland Revenue data for the 2008/09 and 2009/10 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. Other data on repayments, borrower numbers and outstanding balances presented earlier in this report is for the financial year from July to June (repayment amounts), or at 30 June (borrower numbers and balances).

Tax year information about income and repayments for 2009/10 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 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.

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.[29]

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

- those with **no immediate repayment obligation** – most are probably still studying and have no taxable income, or have earnings under the repayment threshold, or are overseas and on a repayment holiday
- those **with a repayment obligation** – they have probably finished studying and received salaries or wages, or were self-employed, with earnings above the repayment threshold, or were overseas-based and not on a repayment holiday.

Comparison of the 2008/09 and 2009/10 tax years shows that:

- compared with the total population of borrowers, there was a significant increase in those without repayment obligation – 17 percent, compared with the overall increase in borrower numbers by 5 percent. This was particularly true for those with earnings, but which were under the repayment threshold
- the number of borrowers earning salaries or wages over the threshold declined, but the amount repaid by the group actually increased. This is consistent with the observations elsewhere in this report that compliance among New Zealand-based borrowers has improved
- more repayments were made by borrowers on a repayment holiday than by those who had an obligation to repay
- the number of borrowers overseas who were assessed declined by 5 percent compared with the growth of borrower numbers overall. Their repayments however, declined by 25 percent. This reflects the decline in compliance by this group and is consistent with the data on overdue repayments in Tables 14 and 15.

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

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

Table 12 Profile of student loan balances and repayments by repayment obligation in 2008/09 and 2009/10

	2008/09 tax year			2009/10 tax year			% change between years		
	Number of borrowers	Loan balances $ million	Repayments $ million	Number of borrowers	Loan balances $ million	Repayments $ million	Number of borrowers	Loan balances	Repayments
	No repayment obligation			**No repayment obligation**			**No repayment obligation**		
NZ-based									
No income	27,000	$407	$5	33,000	$504	$5	22%	24%	0%
Salary or wages	191,000	$2,804	$11	231,000	$3,429	$7	21%	22%	-36%
Self-employed	33,000	$525	$13	35,000	$569	$19	6%	8%	46%
Overseas-based									
Repayment holiday	46,000	$1,022	$36	49,000	$1,124	$36	7%	10%	0%
Sub-total	**297,000** 52%	**$4,758** 53%	**$65** 12%	**348,000** 58%	**$5,626** 56%	**$67** 13%	17%	18%	3%
	With repayment obligation			**With repayment obligation**			**With repayment obligation**		
NZ-based									
Salary or wages	193,000	$2,824	$333	177,000	$2,800	$350	-8%	-1%	5%
Self-employed	41,000	$525	$89	36,000	$621	$82	-12%	18%	-8%
Overseas-based									
Assessment	38,000	$931	$36	36,000	$939	$27	-5%	1%	-25%
Sub-total	**272,000** 48%	**$4,280** 47%	**$458** 88%	**249,000** 42%	**$4,360** 44%	**$459** 87%	-8%	2%	0%
Total	**569,000** 100%	**$9,038** 100%	**$523** 100%	**597,000** 100%	**$9,986** 100%	**$526** 100%	5%	10%	1%

Source: Inland Revenue.

Notes:

1. 2008/09 tax year = April 2008 to March 2009; 2009/10 tax year = April 2009 to March 2010.
2. The data in this table:
   - shows the number of borrowers with Inland Revenue at the end of the respective tax years, i.e. 31 March
   - shows the loan balances for this group at that time
   - shows the repayments made by them during the tax year
   - only includes borrowers with an outstanding balance greater than zero; hence loans fully repaid during the tax year are not included.

Repayment holiday

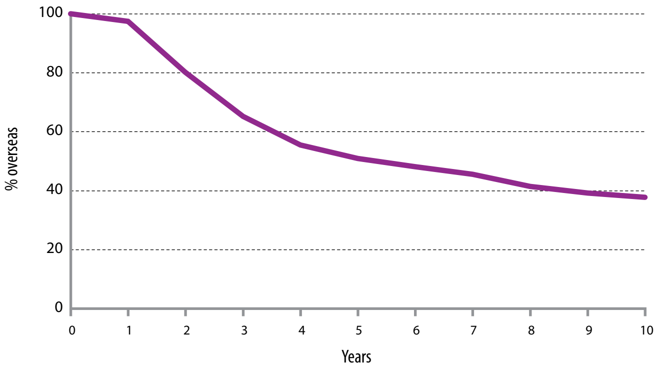
In April 2007, new rules for overseas-based borrowers came into place that introduced a three-year repayment holiday and established – generally lower – repayment obligations. The changes were brought in to acknowledge the tradition of overseas travel by recent graduates (an 'OE', or 'overseas experience'), make repayments manageable, and ensure that borrowers were not discouraged from returning to New Zealand because their loan was in arrears. At the same time, the existing amnesty on penalties was extended for a further year. The amnesty allowed overseas-based borrowers to have late payment penalties written off and make a 'fresh start'.

Now that the repayment holiday has been in effect for four years, data has become available about the way that overseas borrowers have responded to the repayment holiday. About 34,000 borrowers received a holiday in April 2007 because they were overseas, and a further 63,000 borrowers have started a repayment holiday since then.

Duration of period overseas

The analysis below represents the behaviour of borrowers who became non-resident during June 2001. This month was selected as it provides sufficient history to be able to view emigration behaviour over a reasonable timeframe and is considered to be representative of the behaviour of borrowers becoming non-resident in other months, including those departing after the repayment holiday legislation came into effect.

Figure 21 Borrowers' duration overseas



Source: Inland Revenue.

Note: Non-residency status is only set once a borrower has been overseas for 184 days, so short-term emigrants have been excluded from this analysis.

The results show that:

- after two years, 80 percent remained overseas
- after five years, 50 percent remained overseas
- after 10 years, the end of the period covered, 38 percent of the cohort remained overseas.

This analysis suggests that student loan borrowers do not necessarily leave New Zealand for a short-term 'OE'. A significant proportion appear to relocate more permanently. The flattening gradient of the graph illustrates that the longer a borrower has been non-resident, the less likely they are to return.

Post-repayment holiday compliance

The analysis of repayment data for overseas-based borrowers on repayment holidays has been carried out to examine their compliance at the end of the holiday. The group that was studied became non-resident after the introduction of the repayment holiday legislation, had a repayment holiday in the tax year ending in March 2010 and ended the holiday in the following year, that is in March 2011. Of this group:

- 9 percent made voluntary payments[30] while on a repayment holiday in 2010, and continued to make payments in 2011
- 28 percent completed their repayment holiday without making any payment, but made payments for the 2011 year
- 62 percent completing a repayment holiday did not make a payment in either year, regardless of whether they were on a repayment holiday
- 1 percent made a payment while on a repayment holiday, but made no payment once the holiday had finished.

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.[31] Table 13 shows data for bonuses for the period since then. It covers two years and three months.

Table 13 Voluntary repayment bonus payments from April 2009 to June 2011

	Number of borrowers	Voluntary repayments $ million	Bonus $ million	Average bonus $
Interim bonus	26,885	83.183	8.318	309
Finalising bonus	14,356	132.721	13.272	924
By tax year ending 31 March				
2009/10				
– NZB	21,638	66.547	6.654	307
– OBB	7,826	57.272	5.727	732
Total	**29,464**	**123.819**	**12.382**	**420**
2010/11				
– NZB	4,847	38.765	3.876	800
– OBB	6,433	47.693	4.769	741
Total	**11,280**	**86.458**	**8.645**	**766**
2011/12 (3 months)				
– NZB	258	2.670	267	1,036
– OBB	239	2.954	295	1,236
Total	**497**	**5.624**	**562**	**1,132**
– NZB – total	**26,743**	**107.982**	**10.798**	**404**
– OBB – total	**14,498**	**107.919**	**10.791**	**744**
Total	**41,241**	**215.901**	**21.589**	**523**

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.

Source: Inland Revenue.

Since the bonus was introduced:

- $216 million in voluntary repayments has attracted the bonus
- the value of the repayments is almost evenly divided between New Zealand-based and overseas-based borrowers, but those overseas accounted for only 35 percent of those making the repayments
- overseas-based borrowers made repayments about twice the value of New Zealand-based borrowers.

Loans fully repaid

At the time this report was produced, over 306,000 borrowers had repaid their loan since the loan scheme began and 26,969 borrowers had repaid their loans in the year to June 2010.[32]

Inland Revenue has collected a total of $6,303 million in repayments since the loan scheme began. Including repayments made before balances were transferred to Inland Revenue, the total amount collected over this time was $7,098 million. Figure 22 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.[33] The recovery in repayments from 2008 reflects, among other things, Inland Revenue's work on lifting compliance.

30 'Payments' mean any payment towards the assessment – thus a borrower assessed to pay $1,000, but only paying $100, would be counted as making 'payments'.

31 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 to StudyLink do not qualify for a repayment bonus.

32 When loans are finalised, they can be backdated to previous years and there is often a time lag of about two years before definitive data on fully repaid loans becomes available.

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

Figure 22 Loans fully repaid to Inland Revenue at 30 June

Source: Inland Revenue.

Overdue student loan repayments

Table 14 presents a summary of the overdue repayments by borrower residency status. At 30 June 2011, the value of overdue student loan repayments was $411.6 million. There were 100,067 borrowers with payments that were overdue (June 2010: 92,412), about 16 percent of the total borrower base.

Table 14 Overdue student loan repayments by borrower residence at 30 June

Overdue repayments	30 June 2010	30 June 2011	%
	$ million	$ million	change
Borrowers based			
– in New Zealand	142.2	122.7	-13.7%
– overseas	182.5	288.9	50.3%
Total	**324.7**	**411.6**	**26.7%**

Source: Inland Revenue.

The sharp increase in overdue repayments is due to a peak in defaults among overseas-based borrowers reaching the end of their repayment holiday and going into arrears. New Zealand-based borrower overdue repayments have fallen by $20 million due to improved compliance resulting from campaigns to make sure that borrowers use the right tax code, and proactive actions to prevent New Zealand-based borrowers from getting into arrears.

There has been a significant drop in the number of New Zealand-based borrowers who are in arrears even though the number of borrowers has increased substantially. This partially reflects the impact of Inland Revenue's compliance work to reduce overdue repayments.

Table 15 shows the value of overdue repayments by borrower residency status and the penalty component in the amount overdue.

Table 15 Borrowers with overdue repayments by borrower residence at 30 June

Overdue repayments	30 June 2011	30 June 2011	30 June 2011
	Borrowers	$ million	Penalties $ million
Borrowers based			
– in New Zealand	49,803	122.7	60.7
– overseas	50,264	288.9	78.5
Total	**100,067**	**411.6**	**139.2**

Source: Inland Revenue.

Overseas borrowers clearly have a disproportionate share of the amount overdue. They:

– represent 14.5 percent of all borrowers

– represent 50.2 percent of all borrowers with overdue payments

– have 70.1 percent of all overdue repayments.

Initiatives to improve compliance

In October 2010, Inland Revenue started an initiative that initially focused on the recovery of overdue repayments from at least 1,000 student loan borrowers whose last known address is in Australia. The initiative is based on commercial debt recovery practices and uses direct campaigns to contact the target group of borrowers about paying their student loans, and online advertisements on Facebook, Google and popular New Zealand websites. The online advertisements were recently expanded to reach borrowers worldwide.

Table 16 shows campaign results as at 30 June 2011 and combines payments received from direct and indirect campaign activity.

Table 16 Debt recovery initiative – borrowers in Australia as at 30 June 2011

Overdue repayments	Number of borrowers	Number of payments	Average value of payments	Value of payments
Direct campaign payments	358	677	$1,861	$1,259,913
Indirect campaign payments	855	1,446	$1,548	$2,237,728
Total payments	**1,213**	**2,123**	**$1,647**	**$3,497,641**

Source: Inland Revenue.

Note:

Direct campaign payment = payment made as a result of contact by Inland Revenue.

Indirect campaign payment = payment made as a result of advertising directed at all borrowers.

Inland Revenue has also started or planned further activities and interventions as part of the initiative, including:

– engaging private sector agencies to help track and trace borrowers and follow up with debt collection activities

– taking legal action against borrowers previously contacted who have demonstrated ongoing non-compliance.

Loan balance write-off due to death or bankruptcy

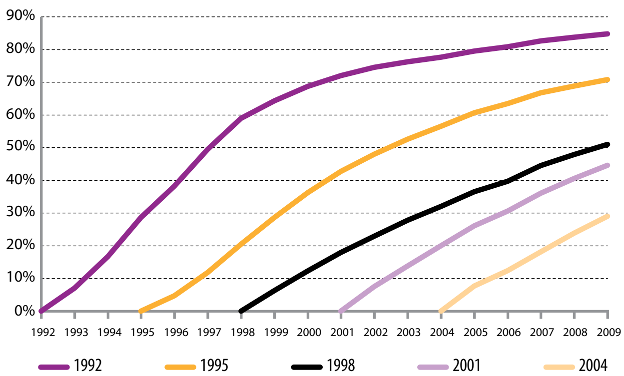
The loan balances of deceased borrowers are written off under section 60 of the Student Loan Scheme Act 1992. The loans of borrowers adjudicated bankrupt are written off under the Insolvency Act 1967. In the year to 30 June 2011, $10.4 million was written off due to bankruptcy. Over the same period the total value of loans written off due to death was $9.2 million.

3.4 Forecasts of loan repayment

Repayment times and rates

As at 30 June 2011, a total of $6,303 million had been collected in repayments since the loan scheme was established in 1992. Of the students who left study in 1992, 69 percent had repaid their loan in full by 2000, and 85 percent by 2009. 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 had only drawn from the scheme for one year.

Figure 23 Percentage of borrowers fully repaid who left study in 1992, 1995, 1998, 2001 and 2004



Source: Statistics New Zealand, integrated dataset.

Notes:

1. The leaving cohorts are those who last studied in 1992, 1995, 1998, 2001 and 2004, had borrowed from the scheme, and had a student loan balance of $20 or more at 31 March in the following year. Excluded are those who had repaid their student loan before 31 March in the year after leaving study.
2. Full repayment is deemed to occur when the student loan balance has fallen below $20 and includes both tax non-resident and tax resident borrowers.

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. However, the rate of repayment for students who left study in 2004 follows a similar trend to those who left in 1998. The variance in repayment times is in part due to changes in student support policy, such as:

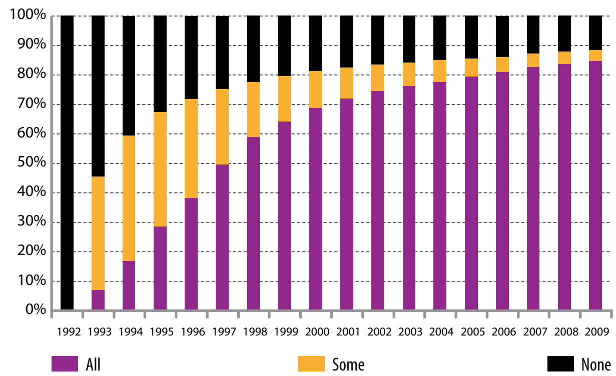
- more generous repayment provisions – 50 percent of compulsory repayment obligation, minus an amount for inflation, is credited to principal (introduced in 2000)
- no interest while studying for full-time students and for part-time students on low incomes[34] (introduced in 2000)
- fee stabilisation policies that have operated since 2001 (refer to chapter 1.1)
- interest-free student loans for New Zealand-based borrowers (introduced in 2006)
- repayment holidays for overseas-based borrowers (introduced in 2007).

Of the students who left study in 1998, 23 percent had fully repaid their loan four years later in 2002. By comparison, four years after leaving study, 26 percent of students from the 2001 cohort and 24 percent of students from the 2004 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 23 shows that although around 85 percent of students who left study in 1992 with a student loan had fully repaid by 2009, 4 percent still had some outstanding balance owing and 12 percent had made no progress toward repayment at all.

Figure 24a Proportion of borrowers who left study in 1992 who had repaid all, some or none of their loans by the end of 2009

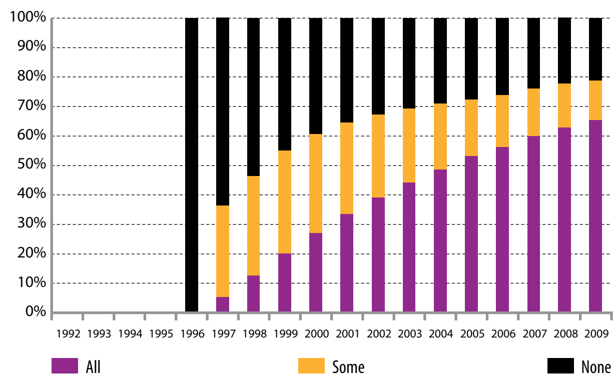


Source: Statistics New Zealand, integrated dataset.

In Figure 24a the trend in progress to repayment in full can be clearly seen. In the years immediately following exit from study, the rate of repayment is higher and there is an obvious rise in the proportion of borrowers who have repaid their loan in full, and a steady decrease in the proportion making no progress toward repayment. One year out of study, 7 percent of borrowers who left study in 1992 had repaid their loan in full, while 55 percent had made no progress. By 1997, 50 percent of borrowers from this group had repaid their loan in full and only 25 percent had made no reduction in their loan balance.

Figure 24b shows that a similar trend can be seen with borrowers who left study in 1996. In 1997, 5.3 percent of this group had repaid their loan in full, while 64 percent had made no repayment progress. By 2001, 34 percent of borrowers who left study in 1996 had repaid their loan in full and the proportion of borrowers that had made no progress toward repayment had decreased to 36 percent.

Figure 24b Proportion of borrowers who left study in 1996 who had repaid all, some or none of their student loans by the end of 2009



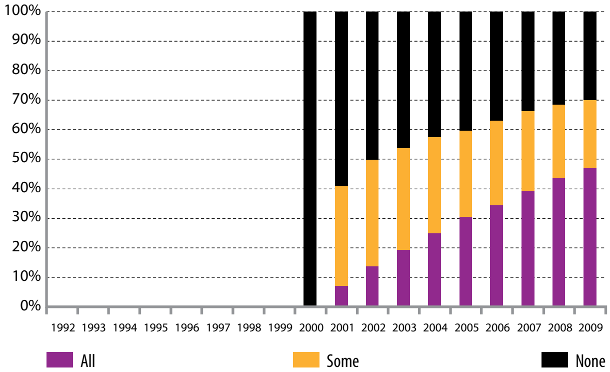
Source: Statistics New Zealand, integrated dataset.

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

Figures 24a and 24b also illustrate how the rate of repayment reduces over time. For borrowers who left study in 1992, Figure 24a shows that the rate of repayments begins to slow about 10 years out of study and the proportion of borrowers who have made no progress toward repayment begins to plateau. The same trend can be seen emerging in Figure 24b with borrowers who left study in 1996. This suggests that a proportion of borrowers might never make progress in repaying their loan 10 years after they complete their studies. Additionally, it could indicate that these borrowers either are not in the New Zealand labour market or are earning below the repayment threshold.

Figure 24c shows that for leavers in the 2000 cohort there continues to be an increase in the proportion of borrowers repaying their loan in full.

Figure 24c Proportion of borrowers who left study in 2000 who had repaid all, some or none of their student loans by the end of 2009



Source: Statistics New Zealand, integrated dataset.

Between 2008 and 2009, across all three cohorts there was virtually no change in the proportion of borrowers making no repayment progress, while the proportion of borrowers who had made some repayment toward their loan or repaid in full continued to grow.

Impacts on repayment

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 three-year repayment holiday option, and new repayment obligations.

The modifications to repayment policy for both New Zealand-based and overseas-based borrowers have resulted in changes to repayment behaviour. The interest-free policy for New Zealand-based borrowers and the option of taking a three-year 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 interest-free loan policy and repayment holiday option, however, resulted in a reduction in voluntary repayments. To curb this trend and encourage borrowers to make voluntary repayments, the government introduced the 'voluntary repayment bonus' scheme. The scheme, which took effect on 1 April 2010 (and includes voluntary repayments made during the 2009/10 tax year), provides an incentive to borrowers to make a minimum of $500 in voluntary repayments per tax year. Once the $500 level has been reached, borrowers receive a 10 percent bonus added to the total of their voluntary repayments at the end of each tax year, helping to decrease their loan faster.[35] Earlier in this chapter, Table 12 provides a breakdown of the voluntary repayments made in the 2010/11 tax year and the resulting bonuses.

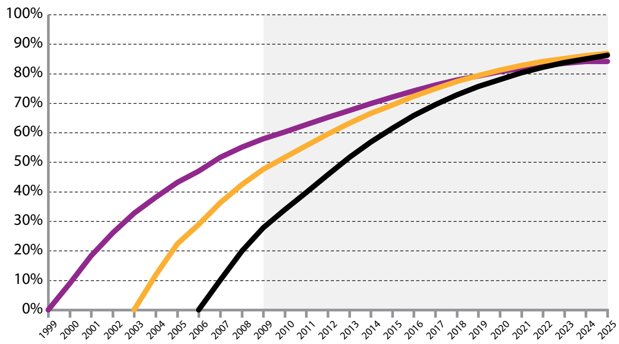
Another factor contributing to the ability to repay and rate of repayment is whether a borrower actually left study with a completed qualification. Men and women have similar rates of repayment, but the difference is marked between those who left study with a completed qualification and those who did not. Information from the integrated dataset clearly shows that borrowers who leave study with a completed qualification have much faster rates of repayment than those who leave without completing.

Forecasts of repayment times

This section looks at expected repayment times for different groups of borrowers. It focuses on three groups of people who have used the loan scheme – those who left study in 1999, 2003 and 2006.[36] Each of these groups faced slightly different conditions on leaving, because of changes in the New Zealand and world economies. 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 following forecast repayment times are produced by the 2011 version of the model. We also look at earlier forecasts of repayment times for the 2003 and 2006 leavers and discuss how and why the forecasts have changed.

Figure 25 shows the percentage of borrowers who have fully repaid in each year, who left study in 1999, 2003 and 2006. It also shows the distribution of repayment times for these three cohorts. The repayment times in the graph are the combination of past repayment times before 31 March 2010 and future projected repayment times, with the vertical line showing the time at which the actual data changes to the modelled data.

Figure 25 Percentage of borrowers who have fully repaid in each year who left study in 1999, 2003 and 2006



Source: Ministry of Education, Student Loans Integrated Model.

Notes:

1. The solid vertical line represents the division between the actual repayment performance to 31 March 2010 and the forecast repayments beyond.
2. The vertical line shows the time at which the actual data switches to forecast data.

The 1999 group accumulated interest while they were in study and a good number of them had repaid entirely before the interest-free student loans policy came into effect. The amounts borrowed in 1999 reduced as a result of policy

35 For more detailed information on the voluntary repayment bonus scheme visit the Inland Revenue website at www.ird.govt.nz/studentloans/payments/voluntary/bonus/.

36 The 1999 leavers are those who studied in 1999 and did not study again, at least until they had repaid or are modelled as having repaid their loan.

changes. This meant that the people who left study in 1999 had slightly lower leaving loan balances than those who left in the preceding years. They also faced rising tuition fees as they went through study, which increased their borrowings. However, this cohort had the benefit of a strengthening labour market when they left study, which improved their ability to repay quickly. By 31 March 2010, about 60 percent of this group of borrowers had fully repaid their loans.

In most cases, those in the 2003 leaving cohort would have had the benefit of the 'no interest while studying' policy (which was introduced in 2000) throughout their period of study. They had stable fees from 2001 because of the government's fee stabilisation policy. And around three-quarters of this group had some benefit from the interest-free student loans policy as they still had unpaid balances when that policy came into effect on 1 April 2006. This group had several years' benefit from the strong labour market that existed until 2008 – around 50 percent of the cohort had completely repaid by the time the impacts of the recession began to affect the job market.

The 2006 cohort had the benefit of the interest-free policies and a measure of control on fee levels. But only about one-sixth of the group had repaid by the time the labour market began to turn down. So the great majority face a repayment period when salary growth is lower and when unemployment rates are higher.

In the 2004, 2005 and 2006 annual reports, we forecast the median and quartile repayment times for people leaving study in those years. Table 17 compares those forecasts with these latest ones.

Table 17 Forecast repayment times for the 2004, 2005, 2006 and 2007 leaving cohorts

		Repayment time from leaving year		
Leaving cohort	Annual report forecast	25th percentile	Median	75th percentile
2004	2004	3.6	6.9	12.0
	2009	2.7	6.7	14.7
	2010	2.6	6.6	13.5
	2011	**2.6**	**7.0**	**13.8**
2005	2005	3.5	6.7	10.6
	2009	3.1	6.9	15.2
	2010	2.9	6.7	13.7
	2011	**2.8**	**7.0**	**13.4**
2006	2006	3.7	6.9	10.5
	2009	3.0	7.0	15.8
	2010	2.9	6.5	13.4
	2011	**2.6**	**6.7**	**12.8**
2007	**2011**	**2.8**	**6.7**	**12.7**

Source: Ministry of Education, Student Loans Integrated Model.

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. Forecast repayment times differ from year to year as each forecast uses the most recent information and forecast model available at the time.

There is more information about the student loan forecasting and costing model in Appendix 1.

Forecast repayment times by borrower characteristics

We can look at the expected repayment times by sub-groups of these three cohorts, and explore differences by gender, level of study and ethnicity.

Gender

Women tend to have slightly shorter median repayment times than men in the 1999 and 2003 cohorts. In the 2006 cohort, however, the men are expected to repay slightly more quickly. Table 18 gives the median repayment times by gender, plus the 25th and 75th percentiles.[37]

Table 18 Forecast repayment times for borrowers who left study in 1999, 2003 and 2006 by gender

		Repayment time from leaving year		
Leaving cohort	Gender	25th percentile	Median	75th percentile
1999	Male	3.2	7.9	17.4
	Female	2.5	7.3	17.4
	All	2.9	7.6	17.4
2003	Male	2.7	6.8	14.0
	Female	2.2	6.4	14.1
	All	2.4	6.6	14.1
2006	Male	2.5	6.4	12.2
	Female	2.7	6.9	13.2
	All	2.6	6.7	12.8

Source: Ministry of Education, Student Loans Integrated Model.

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 three leaving cohorts, borrowers whose last study was at postgraduate level are expected to have the shortest median repayment time. This is likely to be because of the higher economic 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 2006 leavers the median for those who studied at certificate level was the second lowest. In contrast, the median repayment times for borrowers who last studied at a higher level (bachelors and postgraduate) in 2006 are higher than for those in the 1999 cohort.

37 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 19 Forecast repayment times for borrowers who left study in 1999, 2003 and 2006 by level of last study

		Repayment time from leaving year		
Leaving cohort	Study levels	25th percentile	Median	75th percentile
1999	Certificates	3.0	7.7	16.6
	Diplomas	2.6	7.3	16.9
	Bachelors	2.7	7.6	18.2
	Postgraduate	1.7	4.6	13.6
	All	2.9	7.6	17.4
2003	Certificates	2.8	6.8	13.4
	Diplomas	2.5	6.7	14.0
	Bachelors	2.3	6.7	14.8
	Postgraduate	1.3	4.2	12.1
	All	2.4	6.6	14.1
2006	Certificate	2.6	6.5	12.0
	Diplomas	2.3	6.3	12.3
	Bachelors	3.0	7.2	13.5
	Postgraduate	1.9	5.8	12.8
	All	2.6	6.7	12.8

Source: Ministry of Education, Student Loans Integrated Model.

Notes:

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

It is also interesting to note that, in all three leaving cohorts shown above, the 75th percentile among former bachelors degree students is high. This largely reflects the observation that people who study higher-level qualifications, especially at bachelors level, are more likely to spend time overseas following study, leading to longer repayment times.

Ethnicity

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

Table 20 Forecast repayment times for the 1999, 2003 and 2006 leaving cohorts by ethnicity

		Repayment time from leaving year		
	Ethnicities	25th percentile	Median	75th percentile
1999	European	2.4	6.0	14.5
	Māori	3.5	9.2	19.1
	Pasifika	5.5	12.5	22.4
	Asian	2.8	11.8	–
	Other	3.2	11.0	28.4
	All	2.9	7.6	17.4
2003	European	1.9	5.4	12.1
	Māori	3.6	8.7	16.0
	Pasifika	4.8	9.6	16.8
	Asian	2.0	7.3	19.2
	Other	2.9	7.8	17.2
	All	2.4	6.6	14.1
2006	European	2.3	6.0	11.4
	Māori	3.2	8.0	15.1
	Pasifika	3.8	8.0	13.9
	Asian	2.7	7.2	15.4
	Other	2.8	7.3	13.8
	All	2.6	6.7	12.8

Source: Ministry of Education, Student Loans Integrated Model.

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 in the model to occur within 30 years.

Forecast repayment times for borrowers who stay in New Zealand or 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 of up to three years. 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.

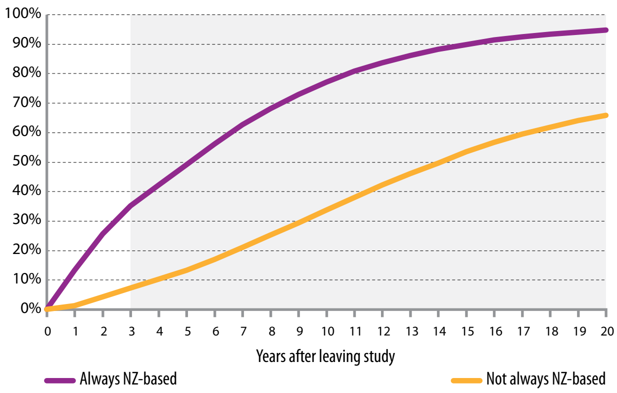
In this section we discuss forecast repayment times for two groups of borrowers:

– *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 2006. The comparison of the forecast repayment times by these two groups is shown in Figure 26 and Table 21 below.

Figure 26 Percentage of borrowers who left study in 2006 who have fully repaid each year after leaving, by always New Zealand-based and not always New Zealand-based



Source: Ministry of Education, Student Loans Integrated Model.

Notes:

1. The solid vertical line represents the division between the actual repayment performance to 31 March 2009 and the forecast repayments beyond.
2. 'Not always NZ-based' are borrowers who spend some time overseas after completing their study, but before repaying their loan in full.

More than 90 percent of the 2006 leaving cohort borrowers are projected to fully repay their loans in 20 years if they remain consistently in New Zealand until they have repaid, while for those borrowers who spend some time overseas before repaying, about 65 percent are projected to fully repay in the 20 years after leaving study.

Table 21 Forecast median and quartile repayment times for borrowers who left study in 2006

	Repayment time from leaving year		
2006 leaving cohort	25th percentile	Median	75th percentile
Always NZ-based	2.0	5.2	9.5
Not always NZ-based	8.0	14.1	–
All	2.6	6.7	12.8

Source: Ministry of Education, Student Loans Integrated Model.

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.

Of those borrowers in the 2006 leaving cohort who do not go overseas during the projected years, half are expected to have repaid in 5.2 years and three-quarters in 9.5 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 about 14 years.

Forecast repayment times by borrower characteristics

The tables below compare the characteristics of the repayment times for borrowers who left study in 2006 and remain in New Zealand in the projected years, with those borrowers who spend time overseas.

Gender

Of those borrowers who are always based in New Zealand, females have slightly longer median repayment times than males in the 2006 leaving cohort. However, for those borrowers who are not always based in New Zealand, females have a slightly shorter median repayment time than males.

Table 22 Forecast repayment times for borrowers who left study in 2006 by gender

		Repayment time from leaving year		
2006 leaving cohort	Gender	25th percentile	Median	75th percentile
Always NZ-based	Male	1.9	4.9	8.9
	Female	2.0	5.4	10.0
	All	2.0	5.2	9.5
Not always NZ-based	Male	7.7	13.7	–
	Female	8.2	14.4	–
	All	8.0	14.1	–

Source: Ministry of Education, Student Loans Integrated Model.

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.

Level of study

The median repayment time for borrowers who left study in 2006 and remained in New Zealand was longest for those who studied at certificate and bachelors level, while postgraduate students had the shortest. By contrast, borrowers who were not always based in New Zealand and studied at postgraduate level have the longest repayment times compared with other qualification levels within the same group.

Table 23 Forecast repayment times for borrowers who left study in 2006 by level of last study

		Repayment time from leaving year		
2006 leaving cohort	Study levels	25th percentile	Median	75th percentile
Always NZ-based	Certificates	2.0	5.2	9.6
	Diplomas	1.8	4.7	9.2
	Bachelors	2.1	5.4	9.4
	Postgraduate	1.4	3.6	8.1
	All	2.0	5.2	9.5
Not always NZ-based	Certificates	7.8	13.5	-
	Diplomas	7.5	13.5	-
	Bachelors	8.2	14.3	27.1
	Postgraduate	7.2	14.2	-
	All	8.0	14.1	-

Source: Ministry of Education, Student Loans Integrated Model.

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 2006 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. Māori, Pasifika and Asian borrowers have more than 15 years' median repayment time if they are projected to spend time overseas. It 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 2006 by ethnicity

		Repayment time from leaving year		
2006 leaving cohort	Ethnicities	25th percentile	Median	75th percentile
Always NZ-based	European	1.8	4.6	8.5
	Māori	2.3	6.3	11.7
	Pasifika	2.9	6.6	11.0
	Asian	1.9	5.0	9.6
	Other	1.9	4.8	9.7
	All	2.0	5.2	9.5
Not always NZ-based	European	7.2	12.7	22.4
	Māori	9.4	16.4	–
	Pasifika	9.2	15.4	–
	Asian	8.3	16.2	–
	Other	8.6	14.9	–
	All	8.0	14.1	–

Source: Ministry of Education, Student Loans Integrated Model.

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.

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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 2011 was **$12,070 million.** (2010: $11,145 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.[38]

The **carrying value** as at 30 June 2011 was **$7,459 million.** (2010: $6,790 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 2011 was **$7,221 million**.[39] (2010: $6,261 million)

Initial write-down[40]

The initial write-down is an amount by which a loan is discounted on the balance sheet at the time it is first made. The loan is taken onto the balance sheet at a value that is determined by discounting expected future cash flows over the life of the loan into 'today's value'. The initial write-down is recognised as an expense.

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. The interest unwind is this increase in value; in effect, this is a partial reversal, or unwinding, of the reduction in value brought about by the discounting process.

4.0 Introduction

This chapter looks at the latest valuation of the Student Loan Scheme at 30 June 2011 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.

A stochastic model called the Student Loans Integrated Model (SLIM) 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, discount rates, trends in incomes and borrower behaviour. The details of the assumptions used in the model this year are to 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. Impairment is recognised in the accounts as an expense. Should the NZ IFRS value be greater than the carrying value, the carrying value can be increased through a reversal of a previous impairment.

At 30 June 2011, the value of student loans was assessed as $7,459 million. This is $124 million greater than the value in the accounts prior to valuation and this gain is recognised in the scheme's financial statements. The impairment meant that the carrying value after revaluation was $670 million higher than it had been a year earlier. New lending over the year amounted to $1,564 million and repayments were $802 million so the net cash paid out was $762 million. Over the year, the nominal loan balances increased by $925 million from $11,145 million to $12,070 million.

The annual valuation includes measurement of the fair value, which is disclosed in a note to the accounts. This increased during the year by $855 million due to significant decreases in the discount rates used in the valuation. For a more detailed explanation of the method used to determine the impairment, carrying value and fair value refer to chapter 5.

Movements in the carrying value over the year

The source of movements in the carrying value in 2010/11 is set out in Table 25.

The opening carrying value from the last valuation is:

- increased by new lending during the year (including establishment fees applied at the time each loan is first drawn)
- discounted for the initial write-down of that new lending
- reduced by repayments that are made during the year
- increased by interest unwind, income that accrues to the asset as future repayments become due sooner
- adjusted for any impairment resulting from a revaluation of the student loan asset according to NZ IFRS principles.

38 For a fuller description see the Statement of accounting policies on pages 48-50 of this report.

39 See also Student loan fair value on page page 50 of this report.

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

Table 25 Movements in the carrying value 2010/11

	2009/10	2010/2011
	$ million	$ million
Opening value	6,553	6,790
New lending	1,525	1,564
Establishment fee	11	12
Initial write-down	-728	-713
Repayments	-754	-802
Interest unwind income	463	484
Impairment	-280	124
Closing value (after impairment)	6,790	7,459

Source: Student Loan Scheme Financial Statements.

On 30 June 2010, the carrying value was 60.9 percent of the nominal value. Following the valuation this year (and the consequent impairment), the ratio of carrying value to nominal value slightly increases to 61.8 percent, representing a 1.5 percent increase in value. Discussion of the reasons for this change follows.

Factors contributing to the impairment over the year

Several factors contribute to the impairment of the student loan portfolio during the 2010/11 financial year. These are:

- experience variance, where there is an increase in value of $24 million
- the policy change to maintain the student loan repayment threshold at $19,084 until 1 April 2015 (instead of adjusting the threshold by CPI), which increases the scheme's value by around $106 million
- macroeconomic effects, changes to forecasts of salary inflation, loan interest rates and actual CPI, which lead to an increase in value of $59 million. Most of this increase is due to a rosier view of salary inflation
- a change in the composition of borrowers, which is estimated to reduce the value by $23 million
- technical adjustments to the interest unwind calculation and the repayment threshold calculation, which lead to a reduction in the value of $12 million
- remaining impairment, which reduces the value by $30 million. This represents the impact of one further year's experience in the scheme, and its effect on the model.

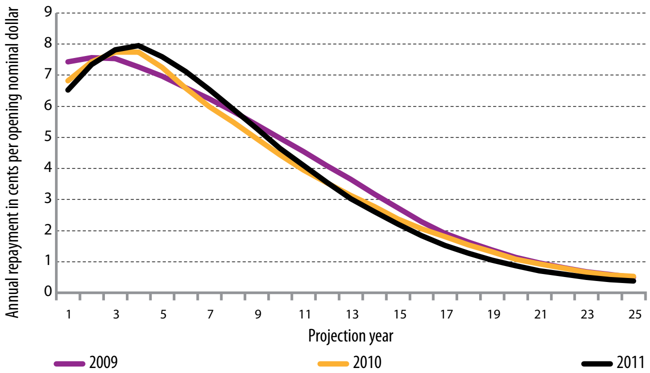
These factors amount to an increase of $124 million.

Fair value change over the year

The fair value has increased from 56.2 percent to 59.8 percent of the nominal value (refer to Table 26). The fair value is based on current market interest rates and risk premium. Last year the representative discount rate was 7.67 percent and this year it is 7.10 percent. This change has increased the fair value by 2.0 percent of the nominal value ($247 million). The changes given above as factors contributing to the impairment have also impacted the fair value.

Figure 27 shows how projected repayments have changed between 2009 and 2011. It shows the repayments generated by the current loans, expressed as cents per year per opening nominal dollar. The trend from valuation to valuation is that repayments are now forecast to occur earlier. From 2009 to 2010, the total payments over 25 years fell from 95.7 percent of nominal to 91.3 percent of nominal, while the timing of payments improved, occurring on average two months earlier. From 2010 to 2011, the total repayment over 25 years as a proportion of nominal fell very slightly (from 91.3 percent to 91.2 percent) but the average time of the repayments decreased by a further four months, reflecting the improvement in the valuation.

Figure 27 Comparison of projected repayments

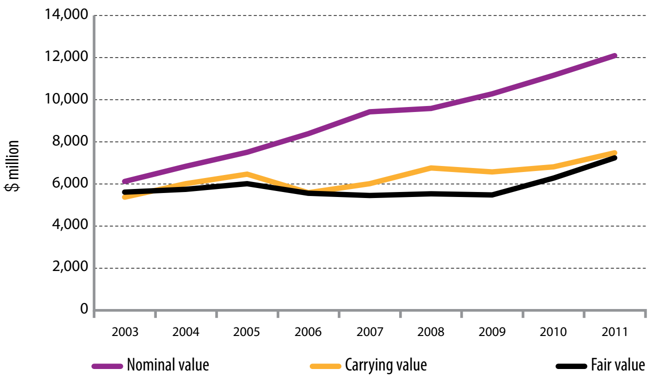


Source: Student Loan Scheme Financial Statements.

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

Figure 28 and Table 26 show the trends in the nominal value of the scheme, the carrying value and the fair value over the last seven years.

Figure 28 The 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.

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

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

Source: Student Loan Scheme Financial Statements.

Notes:

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

4.2 Historical and forecast cost of the scheme

Table 27 below shows the details of the nominal and carrying value movements over the six-year period 1 July 2005 to 30 June 2011.

Table 27 Nominal and carrying value movements from 1 July 2005 to 30 June 2011

		2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
		$ million	$ million	$ million	$ million	$ million	$ million
Nominal value	Opening balance	7,499	8,370	8,920	9,573	10,259	11,145
	New lending	1,046	1,176	1,201	1,350	1,525	1,564
	Establishment fee	8	9	9	10	11	12
	Repayment	-551	-555	-629	-710	-754	-802
	Death write-off	-4	-2	-10	-9	-11	-9
	Bankruptcy write-off	-11	-9	-16	-11	-15	-10
	Sub-total	**7,987**	**8,988**	**9,475**	**10,204**	**11,015**	**11,900**
	Balancing item	383	-68	98	56	130	170
	Closing balance	**8,370**	**8,920**	**9,573**	**10,259**	**11,145**	**12,070**
Book value	Opening balance	6,465	5,569	6,011	6,741	6,553	6,790
	New lending	1,046	1,176	1,201	1,350	1,525	1,564
	Initial write-down on new borrowing	-328	-488	-487	-532	-728	-713
	Initial write-down	-1,415					
	Establishment fee	8	9	9	10	11	12
	Repayment	-551	-555	-629	-710	-754	-802
	Interest unwind	358	451	406	473	463	484
	Impairment	-13	-151	231	-779	-280	124
	Closing book value	**5,569**	**6,011**	**6,741**	**6,553**	**6,790**	**7,459**

Source: Ministry of Education.

Notes:

1. 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.
2. The balancing item includes loan interest charged. It also includes various write-offs of penalties, and small balance write-offs over the period.
3. The no interest for New Zealand based-borrowers policy came into effect on 1 April 2006.

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

- lent out $7.9 billion to students
- received $4.0 billion in repayments from students and former students
- written down new lending over the period by $3.3 billion
- suffered an aggregate impairment of $0.9 billion
- expensed $1.4 billion cost in 2005/06 associated with the no interest policy and the adoption of the New Zealand equivalents to the International Financial Reporting Standards (NZ IFRS)
- booked $2.6 billion in interest unwind income.

In this way an asset that was worth $6.5 billion in 2005 is worth $7.5 billion in 2011.

The financial expense of the scheme is reported in the annual accounts set out in chapter 5 of this report. This consists of the expenses associated with write-downs and impairments of loans, offset by interest unwind income – as recognised in accordance with NZ IFRS principles.

Historical expenses of the scheme

Tables 28, 29a and 29b show the net expense and cash outlay of the scheme over the last four years.

Table 28 Cash movements for the year ending 30 June

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

Source: Student Loan Scheme Financial Statements.

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

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

Source: Student Loan Scheme Financial Statements.

Note: The write-down on new lending includes the write-down on the administration fee added to borrowers' loan balances at the time they first draw on their loans each year.

Table 29b Average cost of lending a dollar in the year ending 30 June

	2007	2008	2009	2010	2011
	cents	cents	cents	cents	cents
Cost per dollar	41.15	40.25	39.15	47.39	45.25

Source: Ministry of Education.

These tables indicate that, in 2010/11, $1,564 million was lent out. Repayments amounted to $802 million, meaning that the net cash outlay was $762 million. The new borrowing incurred an expense through an initial write-down of $708 million. Income of $484 million accrued during the year by way of the interest unwind. The valuation of the scheme at 30 June 2011 produced a negative impairment of $124 million, leaving a net expense of $93 million for the year.

This 'cost view' treats the scheme as an entity, owning its own portfolio of lending. The portfolio is generating a return which is helping to offset the cost of new lending – the Crown as the scheme's owner is picking up the deficit. Viewed this way, the net expense for the Crown over the last five years has been $1,475 million. Because the portfolio is growing we would expect this cost to decrease in the future as interest unwind grows in line with the value of the business, while the level (and cost) of new lending remains relatively flat. This is forecast in the following section.

Cost of the Crown's ownership of the Student Loan Scheme

Another way of looking at the finances of the loan scheme is to consider the government's cost of 'ownership'. The fair value of the scheme – currently $7.221 billion – is the hypothetical price at which the scheme's assets could be sold, should the government decide to wind up its involvement in the scheme. The cost of holding the loan scheme asset on its balance sheet could be estimated by calculating the return the government would receive if it were to invest that sum in a revenue bearing investment or by using that sum to retire debt. This suggests that a proxy for the Crown's cost of ownership would be estimated by multiplying the current fair value of the scheme by the prevailing interest rate.

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. Because new borrowers are, on average, further away from repaying than the typical holder of a student loan, loans held by new borrowers are worth less to the Crown than average. So the initial fair value write-down is higher than suggested by the carrying value. In 2010/11, the initial write-down was 45.3 cents in the dollar. In 2011/12, this will decrease to 44.7 cents. One way of looking at this is that of every dollar the Crown lends, 55.3 cents is treated as an asset and 44.7 cents as an expense.

The main reasons for the change in the cost of new lending are economic conditions, a reduction in the average discount rate for new lending between 2010/11 and 2011/12, and the Budget 2011 policy initiatives.

Assuming that cost of new lending per dollar lent remains constant over the government's baseline period (to 2014/15), the forecast expenses of the Student Loan Scheme over that period are shown in Table 30. The current valuation fully accounts for impairment known at this time, and it would take an adverse change in outlook to generate further impairment (or a favourable change in outlook to generate a future reversal of impairment, as we experienced this year). This is why we forecast no impairment in future years.

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

	Actual 2011	Forecast 2012	2013	2014	2015
	$ million	$ million	$ million	$ million	$ million
New lending	1,564	1,583	1,615	1,644	1,648
Repayments	-802	-834	-927	-1,000	-1,076
Net cash out	763	749	688	644	572

Source: *Budget and Economic Fiscal Update 2011* (BEFU 2011) and Ministry of Education.

Table 31 Forecast of costs of the scheme for the year ending 30 June

	Actual	Forecast			
	2011	2012	2013	2014	2015
	$ million	$ million	$ million	$ million	$ million
Write-down on new lending	708	707	704	711	712
Interest unwind income	-484	-538	-576	-613	-648
Establishment fee at fair value	-7	-6	-5	-5	-5
Impairment	-124				
Net expense	93	164	123	93	58

Source: Ministry of Education.

Note: New lending and repayment numbers are from BEFU 2011. The cost of scheme numbers have been reworked from the BEFU 2011 to reflect the valuation results as at 30 June 2011.

Under a 'cost view' we expect the net cost of the scheme to decrease from $164 million in 2011/12 to $58 million in 2014/15. However, in cash terms the improvement is not so distinct, that is the net cash the government must find to continue the scheme is forecasted to decrease from $749 million in 2011/12 to $572 million in 2014/15.

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 32.

Table 32 Forecast of scheme loan balance for the year ending 30 June

	Actual	Forecast			
	2011	2012	2013	2014	2015
	$ million	$ million	$ million	$ million	$ million
Values					
Nominal value	12,070	12,954	13,786	14,581	15,313
Carrying value	7,459	7,937	8,394	8,838	9,243
		Cents per dollar of nominal value			
Ratios					
Carrying value to nominal value	61.8	61.3	60.9	60.6	60.4

Source: *Budget and Economic Fiscal Update 2011* (BEFU 2011) and Ministry of Education.

Note: New lending and repayment numbers are from BEFU 2011. The cost of scheme numbers have been reworked from the BEFU 2011 to reflect the valuation results as at 30 June 2011.

The decreasing carrying value to nominal value ratio is occurring 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. Borrowers contribute to the cost of administering the loan scheme through an establishment fee that is charged to the borrower's account by StudyLink when the loan is established. Commencing with the 2011/12 tax year, borrowers who have a loan balance held by Inland Revenue will be charged an annual administration fee of $40. This new policy will improve value for money of student support expenditure by recovering more of the costs of administering the Student Loan Scheme.

Table 33 Estimated Student Loan Scheme administration costs 2007/08-2010/11

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

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

Note: All amounts exclude GST.

Table 33 shows the estimated total cost for the agencies over the last four years. 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. Inland Revenue's administration costs include ongoing delivery costs, system costs and one-off project costs. Figures for earlier years have been restated in Table 33 to reflect the updated methodology. 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 estimates made by the agencies include costs that can be directly attributed to these activities plus estimates of overhead costs where appropriate. Part of the increase in Inland Revenue's costs result from a one-off expense resulting from a system change.

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Student Loan Scheme Financial Statements

for the Year Ended 30 June 2011

5.0 Financial statements for the year ended 30 June 2011

The financial statements 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 statements 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 2011 of $7,459 million ($6,790 million at 30 June 2010).

5.1 Schedule of revenue and expenditure

Table 34 Schedule of revenue and expenditure for the year ended 30 June 2011

Actual 2010 $ million		Actual 2011 $ million	Main Estimates 2011 $ million	Supp Estimates 2011 $ million
	Revenue			
463.0	Interest unwind	484.4	505.5	501.2
10.5	Establishment fees – MSD	12.0	12.6	12.0
473.5	**Total revenue**	**496.4**	**518.1**	**513.2**
	Expenditure			
279.7	Impairment	-124.0	110.0	164.0
727.8	Fair Value write-down on new borrowings	713.2	771.9	724.6
1,007.5	**Total expenditure**	**589.2**	**881.9**	**888.6**
-534.0	**Net deficit**	**-92.8**	**-363.8**	**-375.4**

– The accompanying accounting policies and notes on pages 48-50 form part of these financial statements.
– 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 2011.
– Details of the Consolidated Movements Schedule for the year ended 30 June 2011 are shown in Note 1.

5.2 Schedule of assets

Table 35 Schedule of assets as at 30 June 2011

Actual 2010 $ million		Actual 2011 $ million	Main Estimates 2011 $ million	Supp Estimates 2011 $ million
	Current assets			
759.0	Student loans	787.0	908.4	830.5
759.0	**Total current assets**	**787.0**	**908.4**	**830.5**
	Non-current assets			
6,030.5	Student loans	6,672.3	6,391.4	6,415.7
6,030.5	**Total non-current assets**	**6,672.3**	**6,391.4**	**6,415.7**
6,789.5	**Total assets**	**7,459.3**	**7,299.8**	**7,246.2**

- The accompanying accounting policies and notes on pages 48-50 form part of these financial statements.
- 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 2011.
- Details of the Consolidated Movements Schedule for the year ended 30 June 2011 are shown in Note 1.

5.3 Schedule of cash flows

Table 36 Schedule of cash flows for the year ended 30 June 2011

Actual 2010 $ million		Actual 2011 $ million	Main Estimates 2011 $ million	Supp Estimates 2011 $ million
	Cash flows from – investing activities			
	Cash was provided from:			
754.2	Repayments received	801.5	826.4	786.5
	Cash disbursed for:			
-1,525.0	New borrowings	-1,564.1	-1,616.1	-1,618.5
-770.8	**Net cash outflow from investing activities**	-762.6	-789.7	-832.0
-770.8	**Net student loan cash outflow**	**-762.6**	**-789.7**	**-832.0**

– The accompanying accounting policies and notes on pages 48-50 form part of these financial statements.
– 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 2011.
– Details of the Consolidated Movements Schedule for the year ended 30 June 2011 are shown in Note 1.

5.4 Statement of accounting policies for the year ended 30 June 2011

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. The relevant legislation is the Student Loan Scheme Act 1992, the Credit Contracts and Consumer Finance Act 2003 and the Education Act 1989.

Budget figures

The budget figures are those included in the information supporting the 2010/11 *Estimates of Appropriations* (Main Estimates) and the information supporting the 2010/11 *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 that the event (or events) has an impact on the estimated future cash flows of the student loan carrying value that can be reliably measured.

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

Interest

Interest is calculated on the nominal student loan account balances on a daily basis at a rate determined by the government, currently 6.6 percent per annum. Interest is charged to both 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.

5.5 Notes to the financial schedules

Note 1: Consolidated movements schedule for the year ended 30 June 2011

Table 37 Consolidated movements schedule for the year ended 30 June 2011

Consolidated Actual 2010 $ million		Consolidated Actual 2011 $ million	Inland Revenue 2011 $ million	Ministry of Social Development 2011 $ million
11,145.1	Nominal balance	12,069.7	10,730.9	1,338.8
–4,355.6	Adjustment due to initial fair value recognition and impairment	–4,610.4	–4,040.7	-569.7
6,789.5	**Total carrying value**	**7,459.3**	**6,690.2**	**769.1**
6,552.7	**Opening balance**	**6,789.5**	**6,104.2**	**685.3**
0.0	Borrowings transferred from Ministry of Social Development to Inland Revenue	0.0	1,442.1	-1,442.1
0.0	Fair value write-down on borrowings transferred	0.0	-679.9	679.9
1,525.0	Amount borrowed in current year	1,564.1	0.0	1,564.1
-727.8	Fair value write-down on new borrowings	-713.2	0.0	-713.2
10.5	Administration fees on loans made in current year	12	0.0	12.0
-754.2	Repayments made in current year	-801.5	-690.6	-110.9
53.5		**61.4**	**71.6**	**-10.2**
463.0	Interest unwind	484.4	420.4	64.0
463.0		**484.4**	**420.4**	**64.0**
-279.7	Impairment	124.0	94.0	30.0
-279.7	**Net increase/decrease**	**124.0**	**94.0**	**30.0**
6,789.5	**Student loans carrying value**	**7,459.3**	**6,690.2**	**769.1**

Note 2: Recognition

Student loan nominal value

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

Student loan carrying value

Student loans are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method less any impairment loss.

The main factors relating to the $124 million impairment reversal include policy changes, macroeconomic effects, and refinements to the actuarial model used.

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 has been adapted to reflect current student loan policy. The carrying value is also sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macroeconomic factors such as inflation. The significant assumptions are shown below.

Table 38 Significant assumptions

	30 June 2011	30 June 2010
Carrying value		
Effective interest rate	7.11%	6.97%
Interest rate applied to loans for overseas borrowers	6.6%-6.7%	6.6%-6.8%
Consumer Price Index	2.5%-2.8%	2.4%-3.0%
Future salary inflation	3.5%-3.8%	3.0%-3.5%
Fair value		
Fair value ($000)	7,221,000	6,261,000
Discount rate	7.10%	7.67%
Impact on fair value of a 1% increase in discount rate ($000)	-416,000	-361,000
Impact on fair value of a 1% decrease in discount rate ($000)	475,000	412,200

Source: Inland Revenue.

Notes:

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

The data for the valuation of student loans has been integrated from files provided by Inland Revenue, the Ministry of Social Development and the Ministry of Education. The current data is up to 31 March 2010 and contains information on borrowings, repayments, income, educational factors, and socio-economic 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 statements.

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 2011. 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 2011 has been determined to be $7,221 million ($6,261 million at 30 June 2010).

Fair values will differ from carrying values due to changes in market interest rates, as the carrying value is not adjusted for such changes, whereas the fair value was calculated using a discount rate that was current at 30 June 2011. At that date the fair value was calculated on a discount rate of 7.10 percent (7.67 percent at 30 June 2010) whereas a weighted average discount rate of 7.11 percent (6.97 percent at 30 June 2010) 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 39 Reconciliation of impairment allowance account

Impairment allowance account	30 June 2011	30 June 2010
	$ million	$ million
Balance at beginning of year	1,362	1,082
Impairment losses recognised on receivables	-124	280
Balance at end of year	**1,238**	**1,362**

Source: Inland Revenue.

Independent Auditor's Report

To the readers of the Student Loan Scheme's financial statements for the year ended 30 June 2011

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 statements on her behalf.

We have audited the financial statements of the Scheme on pages 44 to 50, that comprise the schedule of assets as at 30 June 2011, the schedule of revenue and expenditure and schedule of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies.

Opinion

In our opinion:

- the financial statements of the Scheme on pages 45 to 47:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect the Scheme's:
    - schedule of assets as at 30 June 2011; and
    - schedule of revenue and expenditure and schedule of cash flows for the year ended on that date

Our audit was completed on 12 October 2011. 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 Chief Executive 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 statements 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 statements. 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 statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Scheme's preparation of the financial statements 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 statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. 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 statements 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 is necessary to enable the preparation of financial statements 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 statements 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

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the Student Loan Scheme for the year ended 30 June 2011 included on the Ministry of Education's web site. The Ministry of Education's Chief Executive is responsible for the maintenance and integrity of the Ministry of Education's web site. We have not been engaged to report on the integrity of the Ministry of Education's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 12 October 2011 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

APPENDICES

Appendix 1: Management and design of the Student Loan Scheme

Roles and responsibilities

Operational policy changes

In 2010, the government decided to strengthen the governance of the Student Loan Scheme by making two ministers responsible for the scheme. The Minister for Tertiary Education is responsible for tertiary education policy, including student loan policy. The Minister of Revenue is responsible for all operational matters, from loan origination to conclusion of the loan.

Under these new arrangements, the Minister for Tertiary Education will be 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.

A lead official has also been appointed who has overall responsibility for the scheme. The Prime Minister has appointed the Secretary for Education to this role. 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 was also appointed lead agency on student loans and therefore has overall responsibility for the Student Loan Scheme.

Planned changes to the way loans are administered include the way that student loans are repaid and how borrowers manage them. Legislation to enable the re-design of the system was enacted by Parliament in August. The planned system allows for important features such as a consolidated view of the loan balance through a daily transfer of loan account information from StudyLink to Inland Revenue. It will also provide enhanced online services and tools to encourage repayment and enable borrowers to manage their loan. This will improve the borrower experience and enable a greater degree of collaboration between Inland Revenue and StudyLink. The first stage of the loan management solution is due to be delivered in April 2012.

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, and makes student loan payments.
- Inland Revenue manages the collection of loan repayments through the tax system, applies interest write-off policies, provides information on loan repayments, and provides customer service through contact centres and online portals.
- 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 eligibity criteria for a student loan are made by Cabinet and incorporated into the student loan contract. Lending under the Student Loan Scheme is administered by StudyLink.

Student loan contracts no longer come under the ambit of the Credit Contracts and Consumer Finance Act 2003. Consumer protections are now incorporated into the Student Loan Scheme Act 2011.

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

Parameters of the Student Loan Scheme

Eligibility

To be eligible a student must:

- be a New Zealand citizen or have been granted permanent residence in New Zealand
- be enrolled in an approved qualification[41] offered by a recognised tertiary education provider
- be studying:
  - full-time for not less than 12 weeks, 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.

Only qualifications funded by the government can be approved for the purposes of a student loan. People who choose to do other courses are not eligible for a student loan.

In addition:

- students younger than 18 years old need parental consent before they can borrow
- undischarged bankrupts are not eligible to apply for a student loan[42]

41 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.

42 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.

– students must not have exceeded the 7 EFTS limit (which includes all study that a student has had a student loan for, from 1 January 2010). Students may be eligible for additional entitlement beyond the 7 EFTS limit to:
  – finish a paper or course of study if it takes the student over the 7 EFTS limit
  – complete postgraduate study (up to an additional 1 EFTS)
  – undertake doctoral study (up to an additional 3 EFTS)
– applicants need to pass at least half of their course load (EFTS) over a set period to retain their student loan eligibility.[43]

Student loan eligibility changes that will take effect in 2012 and 2013 are described in chapter 1.4.

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

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 have to provide justification of their expenses. Students studying part-time for part of the year are not able to access this component of the loan scheme.[44]

Living costs

Only full-time students are eligible for the living costs entitlement for each week of the course, less any student allowances.[45] The living costs entitlement is paid in weekly instalments in arrears. In 2009, living costs were indexed by inflation following a one-off increase from $150 to $155 per week. In the 2009/10 tax year students could borrow up to $160.24 per week[46] (this increased to $163.38 for the 2010/11 year).

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

When a new loan account is established, StudyLink charges an establishment fee of $60.[47] This is added to the student's loan balance when the student first draws from the loan account, or when fees are transferred to the provider (on the student's instructions). The establishment fee is charged once when the loan is established. If a student borrows for three academic years, this equates to three loans and therefore three establishment fees are charged, one for each academic year.

If a student cancels the 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 on it) will be waived. Otherwise, the establishment fee is always included in the loan balance.

Loan repayments

The collection of loan repayments is handled through the New Zealand taxation system. Borrowers have different obligations depending on whether they are New Zealand-based or overseas-based.

New Zealand-based borrowers

The amount a New Zealand-based borrower is required to repay is based on income. Any borrower earning over the repayment threshold during a tax year is required to make repayments towards the loan. In the tax year from April 2010 to March 2011, the threshold was $19,084 (for the 2011/12 tax year the threshold will remain the same). Compulsory repayments are made at the rate of 10 cents for every dollar of income over the repayment threshold.

When a borrower earns more than the repayment threshold, they are required to advise their employer(s) that they have a student loan, by nominating a student loan tax code. Repayment deductions are then made from their income by their employer(s), along with other PAYE (pay as you earn) deductions. Employers forward the repayment deductions to Inland Revenue, and they are then credited to borrowers' student loan accounts.

Self-employed borrowers

Self-employed borrowers earning income in excess of the repayment threshold are generally required to make repayments directly to Inland Revenue in three interim instalments. Interim instalments are required if the repayment obligation for the previous year, less any repayment deductions made by employers, was more than $1,000.

Overseas-based borrowers

Overseas borrowers have a different repayment obligation from those based in New Zealand, where repayment obligations are based on income. The repayment obligations are calculated as shown in Table 40.

Table 40 Overseas borrowers' repayment obligation from 1 April 2007

Loan balance	Amount due per year
Under $1,000	The whole loan balance
Over $1,000 and up to $15,000	$1,000
Over $15,000 and up to $30,000	$2,000
Over $30,000	$3,000

Source: Inland Revenue.

43 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.

44 From 1 January 2012, only full-time, full-year and full-time, part-year borrowers will be able to borrow for course-related costs.

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

46 This component is indexed by inflation on 1 April each year.

47 From 1 January 2011, the administration fee charged by StudyLink increased to $60 and is known as the establishment fee. The $60 fee applies to all student loans established for study commencing on or after 1 January 2011. Commencing with the 2011/12 tax year, any borrower who has a loan with Inland Revenue will be charged a $40 loan administration fee each tax year. A borrower will not be charged the $40 loan administration fee if the MSD loan establishment fee has been charged in the same tax year.

Since 1 April 2007, overseas-based borrowers have been able to take a repayment holiday for a maximum of three years. Borrowers do not have to make repayments, although their loans still attract interest. Those entitled to the repayment holiday include those 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.

Voluntary repayments

By making voluntary repayments towards their student loan, borrowers can repay their loan faster. Borrowers are able to make voluntary repayments towards their student loan at any time; they don't have to wait until the end of the tax year.

Voluntary repayments can be made in a number of ways, including through a borrower's salary or wages, by automatic payment, online banking or via credit or debit cards.

Overseas-based borrowers can also make voluntary repayments at any time. For these borrowers, making voluntary repayments may reduce the amount of interest they are charged and enable them to repay their loan faster. Convenience fees for credit or debit card payments are paid by Inland Revenue for payments made from overseas.

Starting with the 2009/10 tax year, borrowers who make repayments totalling $500 or more above their repayment obligation for that year receive a 10 percent bonus (for example, a borrower who makes voluntary repayments totalling $1,000 in the 2009/10 tax year will have a total of $1,100 credited against their loan balance). The voluntary repayments don't need to be made in a lump sum payment and borrowers do not need to apply for the bonus. To be eligible to receive the 10 percent bonus, borrowers must be meeting their compulsory repayment obligations, not be in default, and be using the correct tax code and filing income tax returns (if applicable).[48]

Overdue repayments

Collection of overdue loan repayments is achieved in the same way as for overdue taxes.

Interest is not charged on overdue repayments. However, since 1 April 2007, borrowers are charged a penalty of 1.5 percent per month on outstanding amounts greater than $333. Penalties continue to be charged on the total outstanding (including penalties) until the amount is repaid in full. Outstanding amounts less than $333 are not counted as being in default, but these amounts are added back to the loan balance.

Any borrower having difficulty paying an overdue student loan repayment is able to 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 so penalties are reversed.

Small balance write-offs

If at the end of a tax year the borrower has a loan balance of less than $20, this is written off in accordance with section 197 of the Student Loan Scheme Act 2011.

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.[49]

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 2010 to March 2011 was 6.6 percent, and will remain at that rate for the following 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, so SLIM is adjusted to take account of these.

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 2010, giving four full years of experience under the domestic no interest policy and three full years under the current overseas repayment regime. The voluntary repayment bonus policy commenced in the 2009/10 tax year, meaning that the first year of the bonus policy was available to modellers. However, because this is the first year of the policy it was considered to be unlikely to be representative of future years and so was not used by the actuaries.

Between that date and the valuation date there is a 'lag' of 15 months. To allow for changes during that period, the data-based models are adjusted by the most recent administrative data, in particular, data on the reduction in the level of underpayment due to recent measures by Inland Revenue, and the changes to the level of voluntary repayments expected from the voluntary repayment bonus.

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 (and last year's), two years' worth of data has been used to produce the predictive models.

SLIM is based on a large number of categorical and regression tree models developed from the integrated dataset. The 2011 version of SLIM has 29 sub-models of decision-tree code. Together, these sub-models encapsulate former

48 For more information on voluntary repayments visit the Inland Revenue website at www.ird.govt.nz/studentloans/.

49 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/.

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

Area	Assumption
Economic assumptions	The Treasury publishes a central table of CPI inflation assumptions which are to be used in major accounting valuations for reporting to the Crown. These figures have been adopted for the valuation. The remaining economic assumptions are set by the consulting actuaries in consultation with the Treasury, Inland Revenue, the Ministry of Social Development and the Ministry of Education. For example, the long-term Average Weekly Earnings growth is expected to be 3.5 percent from 2015 onwards.
Discount rates	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. As with the CPI, the risk-free rates are as prescribed by the Treasury. The risk margin was determined by the consulting actuaries as 2.0 percent. The discounting used to compute the fair value, which is based on current risk-free rates and margins, is equivalent to a single annual discount rate, which for this year's valuation is estimated to be 7.1 percent.
Income of borrowers	Personal income growth from 'career advancement' is modelled from the experience of the loan scheme and from Census data for longer durations. Salary inflation is imposed on top of this 'career advancement' analysis as an economic assumption.
Transitions between being a student, employment and overseas	Modelled from the recent experience of the loan scheme's participants.
Voluntary repayments	The probability and amount of voluntary repayments are modelled from the experience of the loan scheme since the introduction of the interest-free policy.
Repayment threshold	$19,084 until 31 March 2015 and increasing by annual CPI thereafter.
Resident underpayments	The probability and amount of underpayment by New Zealand-based borrowers have been modelled from recent data and adjusted for the expected effect of measures being put in place by Inland Revenue to improve compliance.
Bankruptcy	Age-specific, graduated rates were constructed based on the experience of the loan scheme. For example, the rate of bankruptcy at age 40 is 1.96 per 1,000 borrowers each year.
Mortality	Based on the experience of the loan scheme, male mortality is assumed to be 66 percent of the New Zealand Life Tables 2005 and female mortality is assumed to be 81 percent of the New Zealand Life Tables 2005. This is unchanged from last year.

Appendix 2: Glossary

Academic year

The academic year is from 1 January to 31 December.

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.

For overseas-based borrowers, compulsory repayments commence once the three-year repayment holiday ends. When this happens, loan 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 more details about repayment rates for overseas-based borrowers visit the Inland Revenue Department website at www.ird.govt.nz/studentloans/overseas/long-trip/.

Course

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

Course-related costs

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

Equivalent full-time student (EFTS)

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

Fair value

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

Fee and course costs maxima policy (FCCM)

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

Fee stabilisation policy

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

Fiscal year

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

Formal education/study

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

Full-time

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

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

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

Governance

A consistent system or set of policies given to a scheme or area of responsibility.

Impairment

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

Income year or tax year

From 1 April to 31 March.

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-free student loans

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

Interest unwind

Refer to chapter 4.

Interest write-offs

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

Lead official

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

Loan balance

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

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 travel overseas for a period longer than six months (184 days), or for more than 31 days during the 183-day qualifying period.

Part-time

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

Pasifika

This is a collective term for people of Samoan, Cook Islands, Tongan, Niuean, Tokelauan, Fijian and 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

Overseas-based borrowers who are living overseas for six months (184 days) or more can opt to take a 'repayment holiday' of up to three years, which means that they 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 holidays finish on the borrower's arrival back into New Zealand, but can be restarted any time a borrower goes overseas for more than six months, provided they have not already reached the three-year limit.

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 2007, 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 ($19,084 before tax for the periods 1 April 2009 to 31 March 2010 and 1 April 2010 to 31 March 2011). Once a person earns more than the threshold, they will have to pay 10 cents for every dollar earned over the threshold.

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.

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 6.8 percent for 2009/10 and 6.6 percent for 2010/11. 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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