MINISTRY OF EDUCATION
Te Tāhuhu o te Mātauranga

STUDENT LOAN SCHEME

Annual Report
OCTOBER 2009

Incorporating the Financial Statements to 30 June 2009

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

October 2009

Foreword

I am pleased to present the 2009 Student Loan Scheme Annual Report and the 2008/09 Financial Statements.

It has been 17 years since student loans for tertiary study were introduced with the aim of providing improved access to tertiary education by sharing the costs between students and government.

Tertiary education is an essential part of New Zealand's culture and economy. A well-educated population benefits individual New Zealanders by providing them with skills and knowledge which afford greater personal opportunities. As a nation, tertiary education provides New Zealand with the resources required to meet the changing needs of the New Zealand population both nationally and on the global stage.

Since its introduction in 1992, 833,000 New Zealanders have used the loan scheme. This equates to about 25 percent of the population of New Zealand in 2008 who were aged 15 or over. The number of New Zealanders who have accessed the scheme in each year has grown from 44,000 in 1992 to 179,000 in 2008. This increase reflects the fact that more people are studying at tertiary level and are using the loan scheme as an effective means to help fund their tertiary education. In the 2008 academic year, 69 percent of students eligible to borrow from the loan scheme did so, borrowing a total amount of $1,241 million. More than 260,000 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 to assure them that the scheme is being properly managed and achieving its primary objective – that tertiary education is attainable for all New Zealanders.

This year's report details how the loan scheme has developed in recent times, what happened in 2008 and how this compares with earlier years. The report also includes the financial statements for the fiscal year to 30 June 2009 and an independent audit opinion. While the nominal value of loans has increased over recent years to $10,259 million, the scheme's valuation has fallen in the last year. This has been due to changing economic conditions, better information about borrower behaviour and improved modelling.

The information provided within this report is a collation of 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 up-to-date picture of the loan scheme as it operated in 2008 and the financial situation in the 2008/09 fiscal year. The report also outlines future developments and provides forecasts of future loan participation and expenditure.

This report produces a comprehensive overview of the Student Loan Scheme and the many New Zealanders who, with the help of the loan scheme, have chosen to invest in their future and in the future of New Zealand.

Karen Sewell
Secretary for Education

Contents

HIGHLIGHTS

STUDENT LOAN SCHEME PORTFOLIO

As at 30 June 2009:

- The nominal value of loan balances was $10,259 million. (Refer to chapter 4.0.)
- The carrying value of the loan scheme – calculated using New Zealand equivalents to International Financial Reporting Standards – was $6,553 million. (Refer to chapter 4.0.)
- The fair value of the loan scheme was approximately $5,464 million. (Refer to chapter 4.0.)
- 562,000 people had a student loan with Inland Revenue for collection. (Refer to chapter 3.3.)

Since the loan scheme began:

- Students have borrowed a total of $12,519 million. (Refer to chapter 3.2.)
- $5,661 million has been collected in loan repayments. (Refer to chapter 3.3.)
- More than 260,000 loans have been fully repaid. (Refer to chapter 3.3.)

During 2008/09:

- $710.0 million in loan repayments was received by Inland Revenue and the Ministry of Social Development, $81.1 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.)

From 1994 to 2008:

- The number of tertiary students (domestic and international) in 2007 was 460,000, compared with 252,000 domestic and international students in 1994. (Refer to chapter 2.2.)
- Enrolments in public providers by Māori and Pasifika peoples have increased by 159 percent. (Refer to chapter 2.2.)
- The number of people with a bachelors degree or higher qualification rose from 12 percent to 17 percent from 2003 to 2008. (Refer to chapter 2.2.)

ABOUT STUDENTS BORROWING FROM THE STUDENT LOAN SCHEME IN 2008

- 179,000 students (69 percent of eligible students) borrowed from the loan scheme. (Refer to chapter 3.1.)
- Of these, there were 57,000 new borrowers (based on provisional Ministry of Social Development data), representing 32 percent of all borrowers. (Refer to chapter 3.1.)
- The average amount borrowed was $6,953 and the median amount borrowed was $6,000. (Refer to chapter 3.2.)

OF THOSE WHO ACCESSED THE LOAN SCHEME

Between 1997 and 2008:

- About 57 percent were female. (Refer to chapter 3.3.)
- 51 percent were European, 22 percent were Māori, 11 percent were Asian and 8 percent were Pasifika peoples. (Refer to chapter 3.3.)
- 40 percent had studied at a university or college of education, 31 percent at a polytechnic, 24 percent at a private training establishment and 5 percent at a wānanga. (Refer to chapter 3.3.)
- 49 percent had studied at non-degree level, 35 percent at bachelors level and 7 percent at postgraduate level. (Refer to chapter 3.3.)

As at 30 June 2009:

- The average loan held by Inland Revenue was $16,213 and the median loan balance was $11,090. (Refer to chapter 3.3.)
- 53 percent of borrowers will not have repayment obligations for 2009. (Refer to chapter 3.3.)
- 15 percent of borrowers with Inland Revenue were assessed as being overseas based.

REPAYMENT TIMES FOR BORROWERS

- The median repayment time for those who finished study in 1999 was forecast to be seven and a half years. (Refer to chapter 4.3.)
- The median repayment time for those who finished study in 2003 is expected to be six years seven months. (Refer to chapter 4.3.)
- The median repayment time for those who finished study in 2006 is expected to be seven years. (Refer to chapter 4.3.)
- The median repayment time for those who left study in 2006 and remained in New Zealand was three years 11 months. (Refer to chapter 4.4.)

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 loan scheme and associated trends. It also provides information about the loan scheme's financial performance from 1 July 2008 to 30 June 2009.

The report explains the purpose of the loan scheme and changes to it, its role in meeting the goals of the Tertiary Education Strategy and its contribution to increasing participation and achievement in the tertiary education sector, as a component of the student support system.

The report reviews the outcomes of the loan scheme, provides detailed information about the characteristics of borrowers and associated borrowing and repayment trends, and includes information about the valuation of the loan scheme and forecasting.

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 for downloading in spreadsheet format.

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 data 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, this has been noted.

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 2008.

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. Ethnicity data supplied by Statistics New Zealand on Pacific Peoples is referred to in this report as Pasifika.

Data series

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

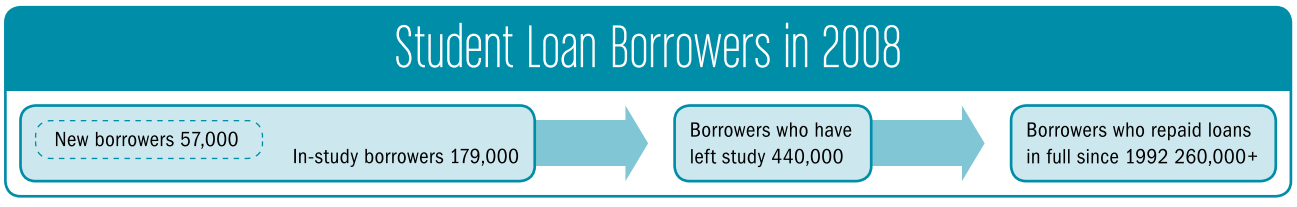
The stages of the loan process

Within this report there are three ways in which the term 'borrower' is used. These correspond to the three stages 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. 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 given 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:
Student Loans in the Tertiary Education System

1.0 Introduction

The Tertiary Education Strategy

Tertiary education plays a key role in supporting government goals for improving New Zealand's economic and social performance. The Tertiary Education Strategy (TES) and the Statements of Tertiary Education Priorities (STEPs) set out how the tertiary education system is expected to contribute to national goals.

The first TES was for the years 2002 to 2007 and took a broad and inclusive approach to cover the diversity of tertiary education. The second TES is for the years 2007 to 2012 and was published in December 2006. It incorporates the Statement of Tertiary Education Priorities for 2008 to 2010 and continues the broad and inclusive direction of the previous strategy, while providing a sharper focus on the shifts required in tertiary education to achieve greater quality, relevance and value for money.[1]

In September the Government began seeking feedback from stakeholders on the direction proposed in the draft Tertiary Education Strategy. It is the Government's intention to develop a new Tertiary Education Strategy by the end of this year to inform the next investment cycle for tertiary education 2011 to 2013.

The following sections set 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 interest-free student loans for students who remain in New Zealand
- ensuring that students' own financial contributions through fees are affordable, predictable and fair.

1.1 Funding tertiary education

Tertiary education is one of the key components to economic development and growth. As such, all countries want to expand their tertiary education systems and use tertiary education to increase the skill levels and knowledge within their populations. However, the costs of investing in tertiary education are substantial. Because of this, most countries are faced with the dilemma of meeting the increasing costs of an expanding tertiary education system. In New Zealand, one of the ways successive governments have approached this is by sharing the costs between the government and students (and/or their families).

Tuition subsidies ensure the cost of tertiary education is shared between government and students. Partial subsidies enable government to provide funding for more students than would otherwise be possible, and therefore expand participation. The investment in tertiary education by way of subsidies is an acknowledgement by government that tertiary education is an important and beneficial investment in New Zealand. This is because:

- a better-educated workforce provides our economy with a greater variety of skills to call upon
- tertiary education has been found to contribute to improved outcomes in health and social cohesion
- individuals with tertiary education earn more on average than others and are less likely to be unemployed
- individuals with tertiary education report higher levels of satisfaction with their lives.

Many individuals, however, do not have the financial resources to meet their share of the costs of tertiary education at the time of study. The loan scheme enables those students to meet these costs by allowing them to pay their share over time.

While the share of the total costs of tertiary education borne by students rose from 26 percent in 1998 to 32 percent in 2000, it fell back to 25 percent by 2008 due to fee stabilisation and rising subsidy rates.

Effects of funding policy on tertiary fees

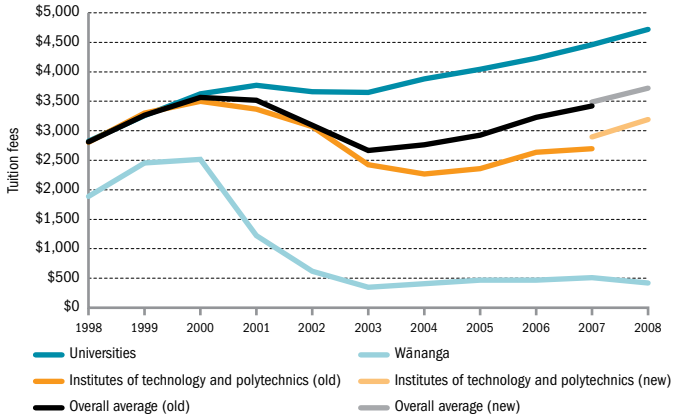
In 1998 and 1999, the funding rates paid to tertiary education providers were reduced. This led to providers increasing their fees. The effects of this can be seen between 1998 and 2000, when the average tuition fee per equivalent full-time student in public tertiary education institutions increased by 27 percent (from $2,806 to $3,562).

From 2001, government policies were introduced aimed at stabilising fees and the average fee per equivalent full-time student fell by 24 percent (from $3,513 to $2,664) between 2001 and 2003. The extent of the fall in average fees from 2001 to 2003 was magnified by several polytechnics and wānanga reducing their fees for some qualifications to zero during this time. The average fee per equivalent full-time student then increased by 35 percent (from $2,759 to $3,723) between 2004 and 2008. Some of this increase was due to a fall in the proportion of students in low-cost courses, especially in wānanga.

Figure 1 shows the trends in average tuition fees per equivalent full-time student in universities, institutes of technology and polytechnics, and wānanga and the overall average fee for the years 1999 to 2008.

1 The Strategy can be found at www.minedu.govt.nz/educationSectors/TertiaryEducation/PolicyAndStrategy/ReleaseOfTheSecondTertiaryEducationStrategy.aspx.

Figure 1 Average domestic tuition fee per equivalent full-time student in tertiary education institutions by provider type



Source: Ministry of Education and Tertiary Education Commission.

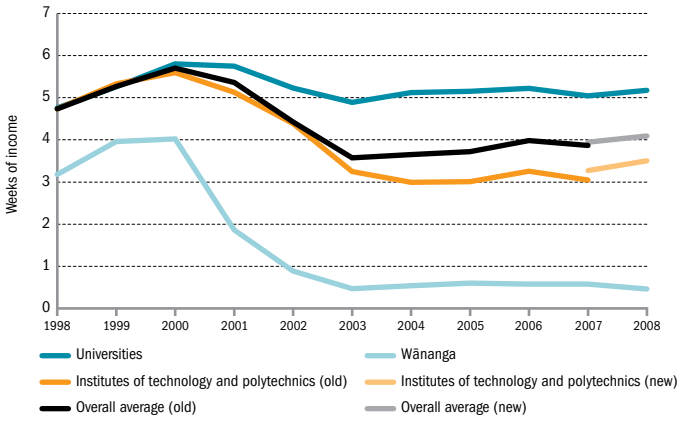
Notes:

1. Auckland University of Technology and Wellington Polytechnic are treated as universities for the entire period.
2. Data for the colleges of education is included in the university sub-sector as all colleges of education are now merged with universities.
3. Fees include GST.
4. The trends in the institutes of technology and polytechnics and wānanga during the period 2000 to 2004 are influenced by the number of courses with zero fees offered in those sub-sectors.
5. Due to an accounting change at Nelson Marlborough Institute of Technology, there is a discontinuity in the fees data for ITPs and total TEIs in 2007.

The affordability of tertiary education

Fee stabilisation, which was introduced in 2001, was replaced by the fee and course costs maxima in 2004. This has meant that tertiary education has become more affordable since 2000. For example, in 2000 the average full-year, full-time tuition fee at a university was equivalent to 5.8 weeks' average weekly income for the employed.[2] By 2008, this had fallen to 5.2 weeks' average weekly income. This is demonstrated in Figure 2.

Figure 2 Ratio of the average domestic student tuition fee at tertiary education institutions to the average weekly income of the employed



Source: Ministry of Education, Tertiary Education Commission and Statistics New Zealand, integrated dataset.

Notes:

1. Auckland University of Technology and Wellington Polytechnic are treated as universities for the entire period.
2. Data for the colleges of education is included in the university sub-sector as all colleges of education are now merged with universities.
3. Fees include GST.
4. The trends in the institutes of technology and polytechnics and wānanga during the period 2000 to 2004 are influenced by the number of courses with zero fees offered in those sub-sectors.
5. Due to an accounting change at Nelson Marlborough Institute of Technology, there is a discontinuity in the fees data for ITPs and total TEIs in 2007.

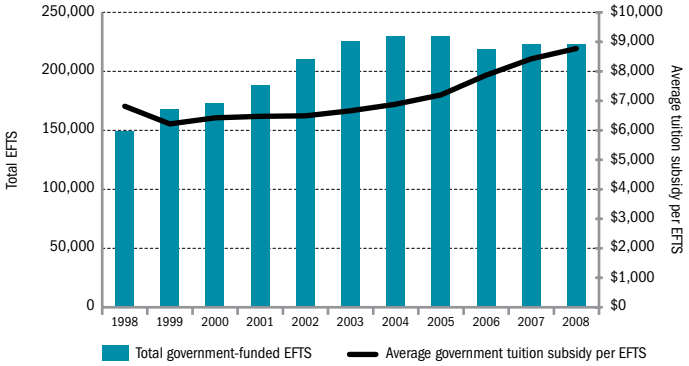
Increased spending on tuition subsidies

Financial assistance to students participating in tertiary education is provided through three channels: paying tuition subsidies to tertiary education organisations, student allowances and student loans to students. Of these, tuition subsidies are the largest component.

Since 2000, funding in the form of tuition subsidies has increased. In the 2008/09 fiscal year, $2,235 million in tuition subsidies[3] was allocated to tertiary education providers, compared with $1,084 million in 1999/2000.[4] The increased funding is due to an increase in tertiary student numbers and in subsidy rates.

As can be seen in Figure 3, over the 10-year period from 1999 to 2008 the number of government-funded student places (measured in equivalent full-time student units) in formal education increased by 33 percent, from 167,000 to 223,000. Over the same period, the average tuition subsidy rate (the funding per equivalent full-time student) increased by 41 percent for public tertiary education organisations.

Figure 3 Total government-funded equivalent full-time student (EFTS) places and average funding per equivalent full-time student in public tertiary education organisations



Source: Ministry of Education and Tertiary Education Commission.

Notes:

1. The tuition subsidy includes student component funding, base grants, clinical add-ons, fee stabilisation, special supplementary grant, the strategic priorities fund, tripartite funding, and, from 2004, the Performance-Based Research Fund.
2. Funding for community education student places is excluded from this data.
3. Funding is exclusive of GST.

Starting in the late 1990s, there were significant increases in the participation rates in tertiary education. This began to flatten in 2004. In 2006 there was a reduction in the number of government-funded enrolments (on an equivalent full-time student basis). This was partly in response to government moves to strengthen the relevance and quality of tertiary provision at certificate and diploma level, which led to a reduction in numbers in some qualifications.

Table 1 shows the three main channels of funding for tertiary study, tuition subsidies, student allowances and student loans. The total expenditure on these three areas is also expressed as a percentage of the country's gross domestic product.

2 The definition of employed is as in the New Zealand Income Survey: http://www.stats.govt.nz/methods_and_services/information-releases/nz-income-survey.aspx.

3 Tuition subsidies include appropriations to the Performance-Based Research Fund, for provider capability and Adult and Community Education.

4 Tuition subsidies are exclusive of GST.

Table 1 Government financial support for tertiary study 1997/98–2008/09

Fiscal year	Student allowances $ million	Tuition subsidies $ million	Student loans $ million	Total $ million	Total as a % of Gross Domestic Product
1997/98	344	1,052	652	2,048	2.1
1998/99	378	1,114	618	2,110	2.1
1999/00	375	1,084	702	2,161	2.0
2000/01	391	1,210	867	2,468	2.2
2001/02	401	1,381	935	2,717	2.2
2002/03	387	1,576	952	2,915	2.3
2003/04	380	1,724	997	3,101	2.2
2004/05	359	1,701	969	3,029	2.0
2005/06	354	1,811	1,046	3,211	2.1
2006/07	382	1,921	1,176	3,479	2.1
2007/08	385	2,129	1,201	3,715	2.1
2008/09	444	2,235	1,350	4,030	2.3

Source: Annual reports of the Ministry of Education, Tertiary Education Commission, Ministry of Social Development and The Treasury.

Notes:
1. The figures for 2008/09 are provisional.
2. Student allowances are before tax or gross amounts.
3. Tuition subsidies include appropriations to the Performance-Based Research Fund, for provider capability and Adult and Community Education.
4. Student loan amounts are capital amounts.
5. Funding is GST exclusive.

As Table 1 shows, expenditure on tuition subsidies, student allowances and student loans was 2.3 percent of the country's gross domestic product in the 2008/09 fiscal year. This has been more or less constant over the last decade.

The Organisation for Economic Co-operation and Development (OECD) compares the expenditure on tertiary education across most developed countries.[5] In all OECD international comparisons, tertiary education is defined according to the International Standard Classification of Education level. The levels of tertiary education include levels 5A (bachelors, honours, masters, postgraduate certificates and diplomas), 5B (diplomas, national diplomas) and 6 (doctorates). The classification level 5A is called tertiary-type A education by the OECD. Classification level 5B is called tertiary-type B.

In New Zealand, tertiary education has traditionally been measured as formal study, regardless of the classification level. However, the tertiary education sector as reported in OECD comparisons excludes enrolments in level 1 to 4 certificates and hence represents only about 50 percent of the students measured in New Zealand education statistics. For this reason, the international comparisons that follow reflect New Zealand's investment in the higher tertiary education sector only.

The New Zealand Government spends above the OECD average on higher tertiary education, expressed as a percentage of gross domestic product. In 2005, New Zealand ranked sixth amongst OECD countries, with spending at 1.5 percent of gross domestic product. This compared with the OECD country average of 1.3 percent.

Table 2 shows the distribution of government expenditure on tertiary education. In 2006, financial support for students accounted for 42 percent of government spending on tertiary education in New Zealand, the highest of all OECD countries. OECD countries spend, on average, 18 percent of their public budgets for tertiary education on financial aid to students. This high proportion in New Zealand is intended to maintain the diversity and open access of the New Zealand tertiary education system by providing students with access to tertiary education, regardless of their financial situation.

It should be noted that a proportion of the financial aid to students goes directly to institutions. For example, around 62 percent of student loan borrowing by students is for the purpose of paying tuition fees. If this is taken into account, then around 23 percent of government expenditure goes directly to students in the form of financial aid and around 77 percent goes directly to institutions, including fees paid from student loan accounts.

Table 2 Distribution of government spending on tertiary education in 2006

	Institutions	Financial aid to students	
		Student loans	Scholarships/ Other grants
New Zealand	58%	30%	12%
OECD average	81%	9%	10%

Source: OECD, *Education at a glance 2009: OECD indicators*, Table B5.4.

Note: Financial aid to students includes the following categories: grants/scholarships; public student loans; family or child allowances contingent on student status; public subsidies in cash or in kind, specifically for housing, transportation, medical expenses, books and supplies, and social, recreational and other purposes; and interest-related subsidies for private loans.

5 Organisation for Economic Co-operation and Development (2009) *Education at a glance 2009: OECD indicators*, Paris: OECD.

1.2 The student support system

The student support system has two main components, the Student Loan Scheme and the Student Allowances Scheme,[6] both of which provide direct funding to students. All New Zealand students enrolled in approved qualifications[7] can access the loan scheme, whereas student allowances are only available to students who meet income-based and age-related eligibility criteria.

Principles of the student support system

There are a number of principles that underpin student support policies. These are:

- To maintain high levels of participation in, and completion of, tertiary education.
- To ensure that New Zealand's tertiary education system makes the best possible contribution to national development.
- To ensure equity and fairness.
- To ensure that government investment in student support and tertiary education is financially sustainable.
- To ensure that tertiary education is affordable for students.
- To ensure consistency with the wider income support system.

How the student support system compares internationally

New Zealand's student support system is in line with that of comparable overseas countries. In countries that belong to the OECD, apart from some European countries that charge no fees or very low fees, the tuition fees charged for tertiary education are comparable with those charged in New Zealand. New Zealand tuition fees for bachelors-level and above courses are lower, on average, than those charged by most OECD countries including those in Australia and the United Kingdom.[8]

In addition:

- income-tested allowances are available for students from low- to middle-income backgrounds
- the loan scheme offers more protection to lower-income earners than some other international schemes (e.g. those with fixed repayment plans such as in Canada or the United States) as repayments are based on income for those who remain in New Zealand
- the typical student loan repayment time, compared with those of other income-contingent loan schemes, is relatively low[9]
- the interest-free student loan policy means the loans of borrowers living in New Zealand will not increase.

1.3 The Student Loan Scheme

How the Student Loan Scheme fits into the wider tertiary system

The Student Loan Scheme helps to meet the access and affordability objectives for tertiary education in the following ways:

- It allows government to share the costs of tertiary education with students and their families, without imposing constraints on participation in tertiary education. Government pays the tuition subsidy and students pay tuition fees.
- It helps to reduce barriers to study by providing money to enable people to pay fees and, for some students, to offset some of their living costs.
- It helps people to reach their potential by studying for qualifications that are quality assured and improve people's employment opportunities, income prospects and consequently their quality of life.
- It protects those who do not benefit financially from their tertiary education. The amount a borrower has to repay in any year depends on their income. If it is very low, they may not have to make repayments. As a borrower's income increases and they can afford to repay more, their repayment obligation increases. This ensures that people who benefit from their tertiary education pay for the cost of their studies.
- The interest-free policy benefits borrowers who live in New Zealand by stabilising the level of their loan balances. This feature also provides incentives for graduates to stay in New Zealand and strengthen the skills and competencies of our workforce.

Shared responsibility

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 and quality assurance and monitoring.
- The Ministry of Social Development provides information on student support entitlements, assesses applications for student support, and makes student support payments.
- Inland Revenue manages the collection of loan repayments, applies interest write-off policies, and provides information on loan repayments.
- 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.

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

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

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

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

1.4 Student support changes 2009

In 2009, the Government announced some changes to student support:

Voluntary bonding scheme

The Government introduced a voluntary bonding scheme for new doctors, midwives, nurses, veterinary professionals and teachers working in hard-to-staff or understaffed areas or specialties. New graduates in these positions will be bonded for three to five years and will receive payments after the third, fourth and fifth year that will be made directly to their student loan (if they have one). The purpose of this scheme is to fill gaps in important workforce areas using student loan repayment as an incentive. More information about the scheme for each of the professions is available at www.moh.govt.nz/bonding, www.maf.govt.nz and www.minedu.govt.nz.

10 percent bonus for voluntary repayments

From 1 April 2009, borrowers who make a voluntary student loan repayment of over $500 in a tax year will have their student loan balance reduced by an additional 10 percent of the value of the repayment. The bonus will be credited after 31 March 2010 following systems changes. New Zealand-based and overseas-based borrowers are eligible, provided they are up to date with their compulsory loan repayment obligations. Borrowers are able to spread voluntary repayments over a tax year and, provided repayments total $500 or more, they will receive a bonus. Repayments made to StudyLink will not qualify for the bonus. More information about the bonus is available at www.ird.govt.nz by searching for 'voluntary repayment bonus'.

Discontinuation of Step Up and Bonded Merit scholarships

The Government announced the discontinuation of Step Up and Bonded Merit scholarships; the last scholarships were awarded in April 2009. Step Up and Bonded Merit were expensive to administer and did not significantly affect the study choices of recipients. For these reasons Step Up and Bonded Merit scholarships were considered relatively low priorities at a time when budgets are tight. Current recipients will continue receiving their scholarship for the remainder of their tenure.

System improvements

In June 2009, the Minister of Revenue announced that the Government had approved implementation funding to enable Inland Revenue to purchase a dedicated loan management solution for the administration of student loans. A dedicated loan management solution will deliver a number of benefits including:

- providing the flexibility needed to deliver policy changes in a timely and cost-effective manner
- enabling Inland Revenue to provide enhanced online services increasing borrowers' ability, particularly overseas-based borrowers, to self-manage their loan account at their convenience
- enabling Inland Revenue to cope more efficiently with an expanding borrower base – numbers of borrowers are increasing each year
- allowing administrative resources to be used more effectively and focused on higher-value activity.

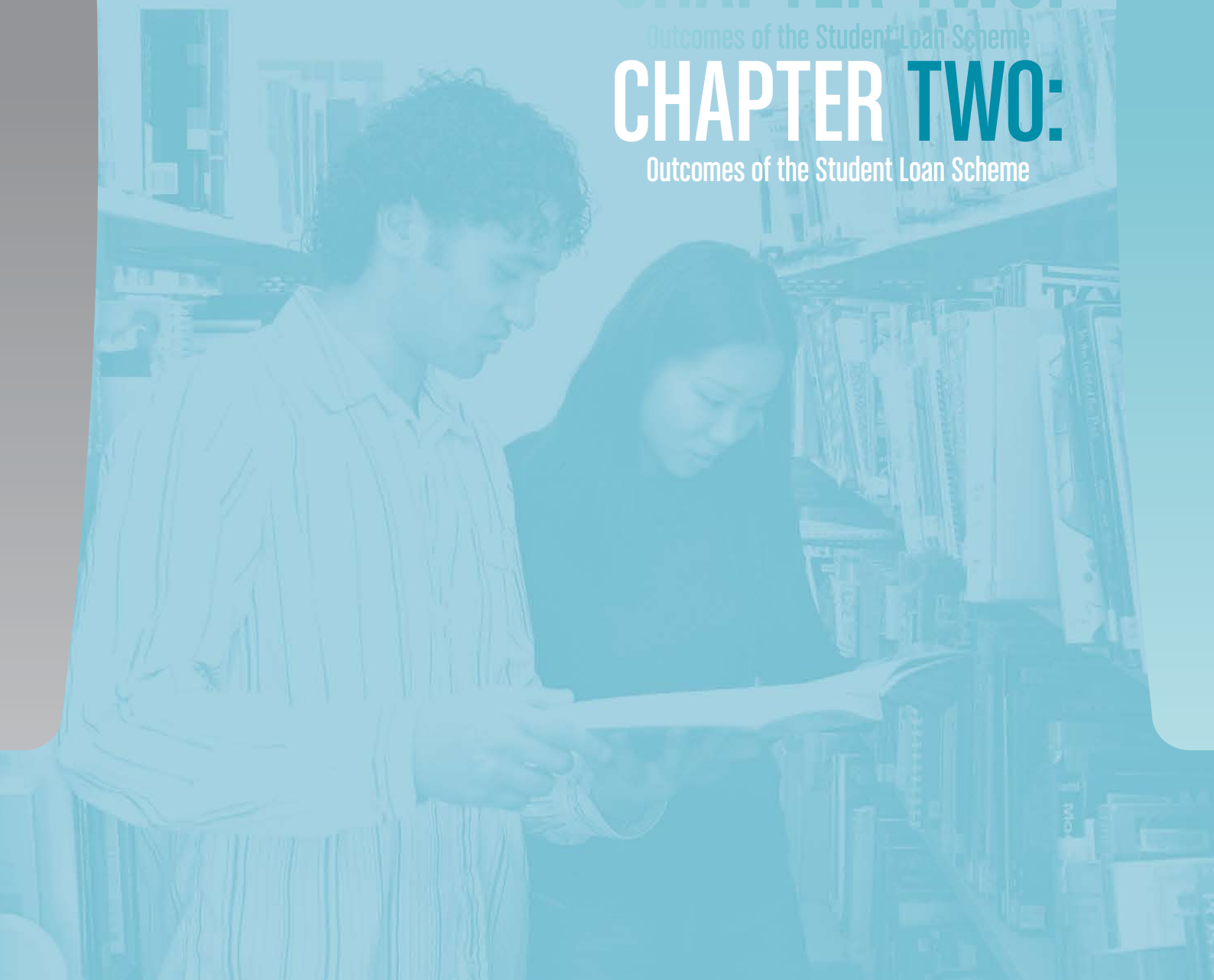
Inland Revenue estimates that it will take two years to purchase and implement the new loan management solution for a 'go live' date of 1 July 2011.

In parallel with the implementation of a new loan management system, the Government is proposing a number of changes to the ways in which loans are administered by Inland Revenue. Dependent on the outcome of public consultation, final decisions by Government and the legislative process, the new loan management solution would give effect to these new legislative rules. In September 2009, the Government agreed to put forward legislation to simplify the administration of student loan repayments, moving from paper-based management of repayments towards electronic management and communication.

For a more comprehensive overview of Student Support policy changes see the document *Changes to the student support system,* found at www.educationcounts.co.nz.

CHAPTER TWO:

Outcomes of the Student Loan Scheme



2.0 Introduction

The student support system aims to enhance access to tertiary education by making it easier for people to study at the tertiary level. The loan scheme helps to achieve this.

- The costs of tertiary education are shared between the taxpayer and students and their families to facilitate participation in tertiary education. This means that the government is able to fund more places in tertiary education organisations than would otherwise have been the case.
- Students are able to borrow money to pay their fees and, for some, to assist with their living costs. Providing money for fees payment removes the need for people to save large amounts to pay fees upfront.

Repayments are based on the individual borrower's income. Borrowers who do not manage to earn a high income will repay much less or even nothing. People who do gain from their tertiary education pay a share of the costs of their studies.

The loan scheme contributes to tertiary education outcomes by:

- providing finance that puts tertiary education within the reach of all New Zealanders
- helping people to gain qualifications that are of high quality and, therefore, improve their quality of life, employment opportunities and income prospects
- sharing the costs of tertiary education appropriately between government, students and their families
- targeting the costs of tertiary education appropriately – so that those who do not benefit financially from their tertiary education are protected.

This chapter looks at the extent to which the loan scheme contributes to the affordability and accessibility of tertiary education and how that improves the outcomes for New Zealand and New Zealanders. It also explores any unintended outcomes of the loan scheme.

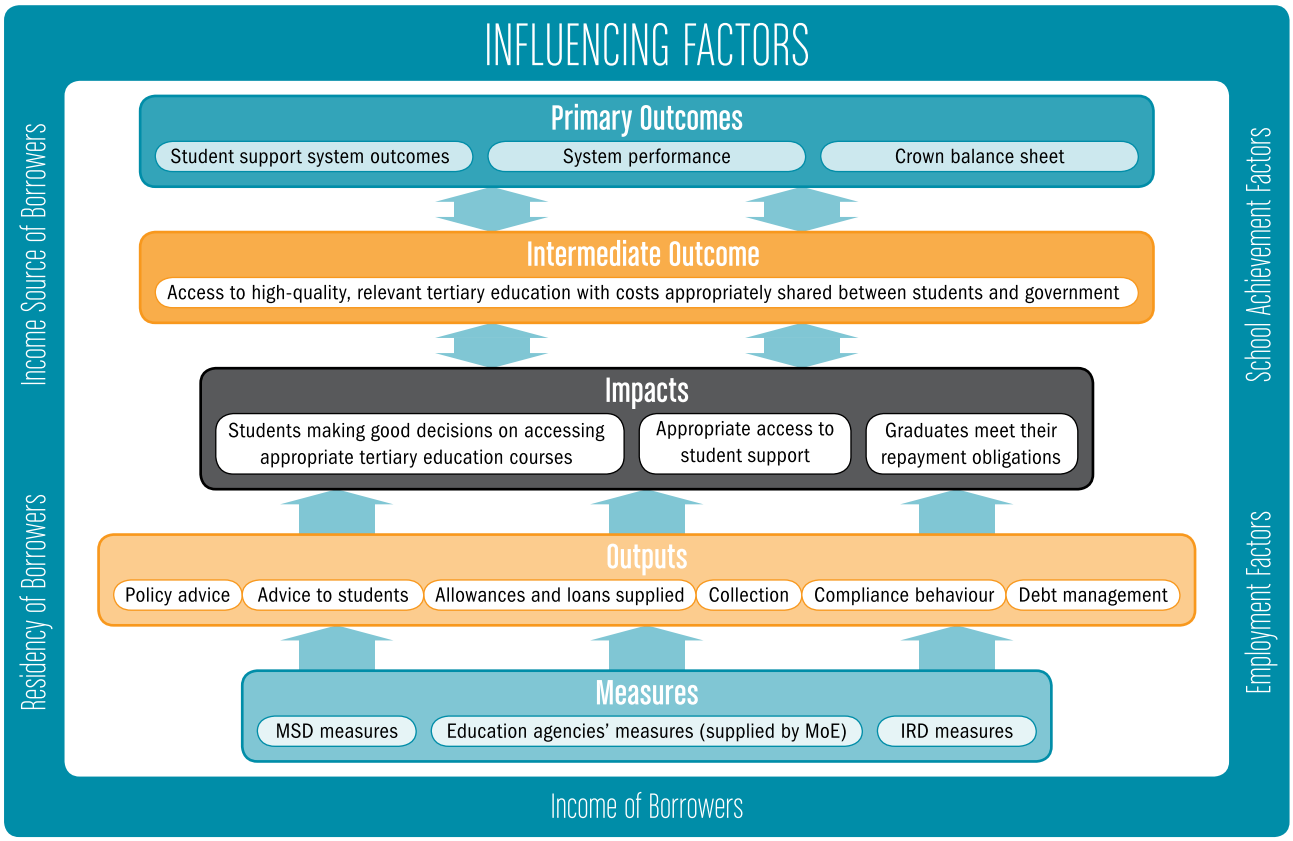
2.1 Understanding student support outcomes

The agencies that manage the scheme have developed a framework that links their monitoring of the operation of the Student Loan Scheme to its impacts and to the outcomes the Government and the New Zealand public expect of the scheme. The framework also places the scheme in a broader context, recognising that many factors outside of the loan scheme itself – such as changes in the labour market – also influence the outcomes of the scheme.

This framework and the agencies' monitoring are intended to ensure that:

- their operations are effective and efficient
- the scheme as a whole is meeting the expectations and outcomes government has placed on it
- risks are managed.

The diagram below illustrates the framework and shows how the monitoring of the scheme will be used to get a picture of how well the scheme is achieving its goals.



The framework identifies three primary areas of public and government interest in the scheme performance:

- *Student support system outcomes:* How well is the student support system helping people access tertiary education and gain qualifications that are useful and that lead to employment?
- *System performance:* How well are the student support schemes working as a system? How well are borrowers able to manage their repayments? How are the agencies' systems for distributing student support and collecting loan repayments working? Are there any unintended outcomes from the student support schemes?
- *Crown balance sheet:* The loan scheme is a significant financial asset for the Government and taxpayers of New Zealand. What are trends in the valuation of the scheme? How well are the financial risks being managed?

The agencies will monitor at three levels:

- *Operational measures* – each agency looks at its own operations.
- *Agency measures* – the agencies share their monitoring information in order to understand their own performance in the light of the activities of the other agencies.
- *Public accountability measures* – key indicators of performance intended to provide government and the public with an overview of system performance.

The monitoring information that agencies collect is synthesised to get an understanding of those larger questions. This new framework is designed to improve the information collected by agencies by targeting their monitoring towards those questions and therefore, improving the reporting against the higher-level outcomes of the loan scheme over time. In the future, the information in annual reports will be structured along the lines set out in the framework.

The framework recognises that the performance of the scheme depends on the work of the agencies, but that factors outside the scheme also play a part in determining the performance of the system. For instance, repayment times could be expected to be shorter if there is a sustained period of low unemployment and rising incomes but to lengthen in a period of recession. Likewise, if the performance of senior secondary school students were to change, this could be expected to change the tertiary education choices of young people – and we know that indicators like loan repayment rates are influenced by the types of qualifications people take.

So, in the future, annual reports will comment on how loan scheme performance is shaped by those influencing factors.

The remainder of this chapter presents a synthesis of some of the information already available on the three broad outcome areas.

2.2 Student Loan Scheme outcomes

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 a more accessible, diverse and inclusive system with higher levels of participation.

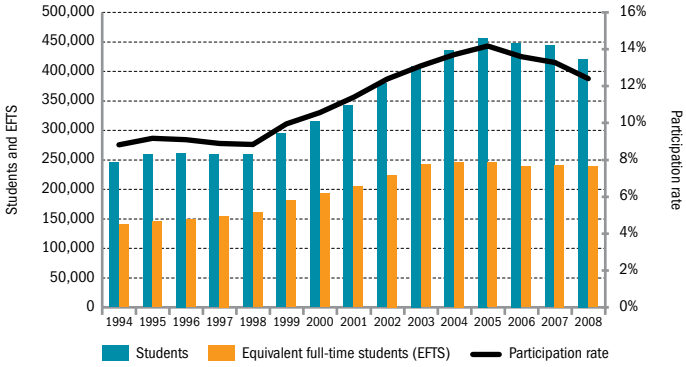
Growth in participation is reflected in the following trends:

- The number of tertiary students (including domestic[10] and international students) has nearly doubled, from 252,000 in 1994 to 460,000 in 2008.
- There were 421,000 domestic students in 2008.
- The proportion of all New Zealanders aged 15 and over[11] who participated in tertiary education in 2008 was 12 percent, up from 8.9 percent in 1994.

Figure 4 shows student numbers and equivalent full-time student numbers and the participation rate in tertiary education from 1994 to 2008. 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.

The significant increase in the level of participation from 1998 to 2005 has abated since 2006. The reduction is largely due to a decline in enrolments in certificate-level qualifications, largely in response to moves to strengthen the quality and relevance of lower-level qualifications.

Figure 4 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.

10 Domestic students are New Zealand citizens, New Zealand permanent residents, or Australian citizens, who are treated as New Zealand citizens for the purpose of funding.

11 Statistics New Zealand estimates that the population of New Zealand at 31 December 2008 who were aged 15 and over was 3.402 million.

The expansion in enrolments between 1994 and 2008 has been especially marked among women, Māori and Pasifika. Over this period:

- enrolments by women in public tertiary education providers grew by 69 percent. Of all enrolments by domestic students in 2008, more than 55 percent – 233,000 – were by women
- enrolments in public providers by both Māori and Pasifika grew by 159 percent. In 2008, there were 81,000 Māori with formal enrolments in tertiary education providers, 19 percent of the total, while the 30,000 formal enrolments by Pasifika represented 7.1 percent of all enrolments.

The Student Loan Scheme is part of the government's broader programme of student support that includes targeted student allowances. The combination of loans and targeted allowances has been reported in North American research[12] as a good way of improving participation in tertiary education. The research shows that people from lower-income backgrounds have shorter decision-making horizons, leading them to discount the potential returns from tertiary education. This suggests that those from lower-income families may be more averse to borrowing large sums to fund their studies.

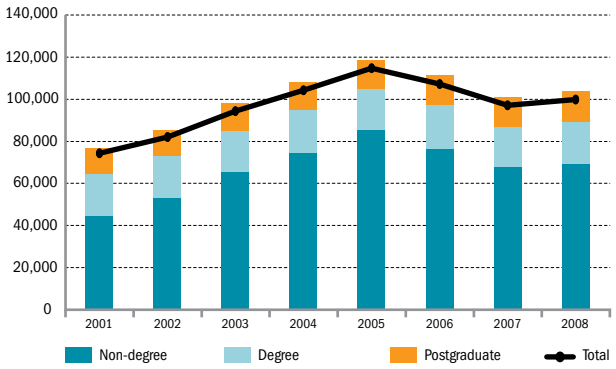
There have been no studies on whether the presence of the loan scheme has led to a change in the socio-economic mix among students in formal education in New Zealand. However, research[13] on the Australian Higher Education Contribution Scheme – which has many similarities to the New Zealand loan scheme – concluded that the scheme had no adverse effects on the socio-economic mix of the Australian student population.

More people with tertiary qualifications

As enrolments in tertiary education have risen, so has the number of people completing tertiary qualifications. Household Labour Force Survey data shows a steady rise in the number of people holding tertiary qualifications, especially at degree level, between 2003 and 2008:

- The proportion of the population aged 15 or over with a tertiary qualification rose from 47 percent in 2003 to 50 percent in 2008.
- The proportion with a bachelors degree or higher rose from 12 percent to 17 percent over the same period.

Figure 5 Domestic students completing tertiary qualifications by level



Source: Ministry of Education.

Notes:

1. Data relates only to domestic students.
2. Where a student completes two qualifications at different levels in a year, each of these completions is recorded in the appropriate category in that year. The total, however, is a count of the unique students completing qualifications in that year.

While Figure 5 shows a downturn in the number of completions after 2005, this is a consequence of a 12 percent fall in the number of completions of non-degree qualifications that followed government moves to strengthen the quality and relevance of non-degree provision. There was a 10 percent increase in postgraduate completions and a 1.2 percent decrease in degree-level qualification completions between 2005 and 2008.

Economic benefits

While the loan scheme has helped New Zealand lift participation in tertiary education, the ultimate aim of the scheme is to help people acquire qualifications that are valued by employers. Research and analysis[14] have shown that qualifications gained in the New Zealand tertiary education system lead to greater earnings. This obviously benefits the individuals with those qualifications. 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.[15]

Data from the Statistics New Zealand Household Labour Force Survey shows that those who complete a bachelors degree or higher earn, on average, more than 2.5 times the amount that someone without qualifications can expect to earn. Statistics from the integrated dataset on student loans and allowances show that employers pay a premium for completed qualifications. Of bachelors degree students who left study in 2000, data shows that after three years those who graduated had a 28 percent income margin over those who did not.[16] After six years, the margin rises to 31 percent.

Census data shows that those with a tertiary qualification have a greater chance of employment.

In the 2006 Census:

- people with no qualifications had an unemployment rate of 4.1 percent
- people with school qualifications had an unemployment rate of 3.9 percent

12 Usher, A. (2006) *Grants for students – what they do, why they work*, Educational Policy Institute, www.educationalpolicy.org.

13 Chapman, B. and Ryan, C. (2005) The access implications of income-contingent charges for higher education: lessons from Australia, *Economics of Education Review*, Vol. 24.

14 Ministry of Education (2007) *Profile & trends 2006: New Zealand's tertiary education sector*, chapter 5, p. 40.

15 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.

16 Hyatt, J. & Smyth, R. (2006) *How do graduates' incomes change over time?* Wellington: Ministry of Education.

– people with higher degrees had an unemployment rate of 2.5 percent.

New Ministry of Education research[17] shows that those who borrow using the loan scheme experience a slight, but marginally statistically significant, benefit in their earnings after study, compared with those who receive allowances only and don't borrow.

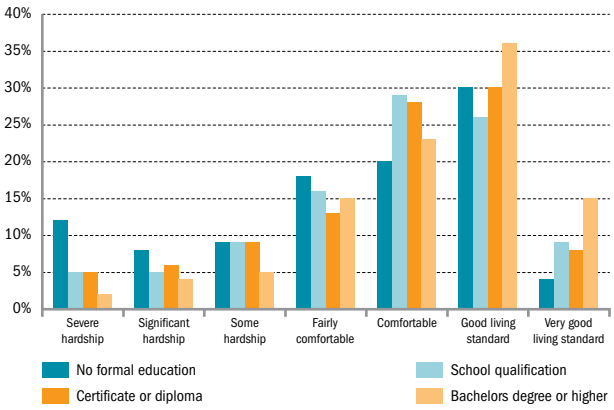
Benefits to wellbeing

Two recent studies by the Ministry of Social Development show that people with tertiary qualifications in New Zealand have higher living standards.

The Ministry of Social Development's Economic Living Standards Index (ELSI) consolidates large amounts of information about different aspects of economic wellbeing into a single score.

Analysis of the effects of education on the ELSI shows how increased education has a positive effect on living standards. Overall, 20 percent of the total population fell into the bottom three categories of 'very restricted', 'restricted' or 'somewhat restricted', compared with only 10 percent of those with tertiary degrees. While 58 percent of those with tertiary degrees fell into the top two categories of 'good' or 'very good', only 40 percent of the total population were in those categories.

Figure 6 Living standards of New Zealanders by qualification level 2000

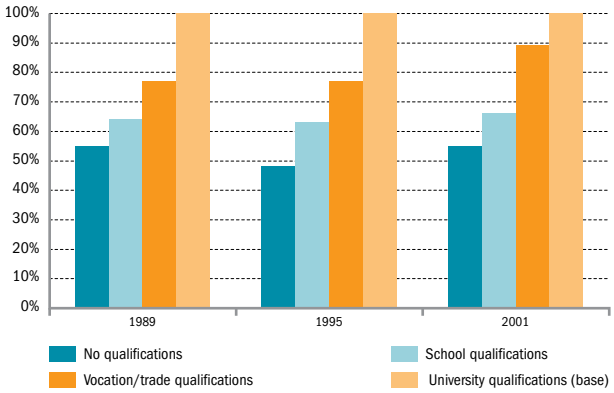


Source: Ministry of Social Development (2002) *Living standards 2000*.

The Ministry of Social Development's study *Trends in economic wellbeing: changing patterns in New Zealand 1989 to 2001* analysed the impact of education qualifications on the living standards of New Zealand economic family units (EFUs) between 1989 and 2001.[18] This study used data from Statistics New Zealand's *Household Economic Survey* to calculate an estimate of the median disposable income of the EFU, adjusted by an equivalence scale for factors such as number of children. This measure was used as a proxy for the living standards of New Zealanders.

Figure 7 shows the relative living standards of EFUs by level of educational qualification. The base category is an EFU where the principal income earner has a university qualification – it is set at 100 percent. The analysis showed that those with degrees and those with vocational or trade qualifications had an advantage over families with a principal income earner who had no qualifications or only school qualifications.

Figure 7 Relativities of real median equivalised disposable incomes between different educational qualifications



Source: Krishnan, V. and Jenson, J. (2005) *Trends in economic wellbeing: changing patterns in New Zealand 1989 to 2001*, Wellington: Ministry of Social Development.

Higher qualifications are also associated with better health. In *Education at a glance 2005*, the OECD reported that there are three key routes through which higher levels of education can affect people's health.[19] Firstly, those with higher levels of education generally have lower levels of unemployment and therefore avoid some of the physical and mental health issues associated with this state. In addition, the higher incomes associated with higher levels of education can result in better access to health care and avoiding stresses involved with financial insecurity.

Secondly, individuals with higher levels of education can make better-informed decisions about their health care. In addition, the OECD mentions that research has found positive associations between higher levels of education and health behaviours such as lower smoking participation and lower incidences of excessive alcohol consumption.

Finally, the level of education can impact on the way in which people deal with the situations faced as part of daily living. Higher education can improve problem-solving skills and self-esteem, which can help people respond to situations of adversity.

However, the OECD acknowledges that the relationship between education levels and health is a complex one, and a positive relationship between higher education and better health does not hold across all countries.

University of Otago researchers have also found that those with tertiary qualifications have improved mortality.[20]

A Treasury study[21] which reviewed a number of New Zealand and overseas studies detailing the relationship between health and education level concluded that those studies suggest higher levels of education lead to better mental and physical health outcomes.

17 Nair, B. (2009) *Labour market outcomes of student support recipients*, Wellington: Ministry of Education.

18 The EFU is defined in the study as a person who is financially independent, or a group of people who usually reside together and are financially interdependent.

19 Organisation for Economic Co-operation and Development (2005) *Education at a glance: OECD indicators 2005*, Paris: OECD, pp. 151-153.

20 Atkinson, J. (2005) *New Zealand Census-Mortality Study WebTable*, Department of Public Health, Wellington School of Medicine and Health Sciences, University of Otago www.otago.ac.nz/NZCMSWebTable.

21 Johnston, G. (2004) *Healthy, wealthy and wise? A review of the wider benefits of education*, New Zealand Treasury Working Paper 04/04, Wellington: The Treasury.

2.3 Student Loan Scheme performance

A shared contribution

While the loan scheme is only one of several factors affecting the level of participation in New Zealand since 1991, its introduction 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 have needed 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 33 percent of the full cost through their tuition fees. However, as a result of fee stabilisation policies, this figure has fallen steadily since then, reaching 30 percent in 2008.

While the government's share was nominally 70 percent in 2008, 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 79 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[22] reported that full-time students work an average of 14 hours a week. This is comparable with the numbers of hours worked in some other countries such as the United Kingdom[23] and the United States.[24]

Many students also receive financial support from their families. One in six respondents to the New Zealand Union of Students' Associations' 2007 income and expenditure survey received financial gifts from their parents, but both the number receiving that form of support and the level of support had fallen since 2004, when one in four received money from their families.

Borrowing behaviour

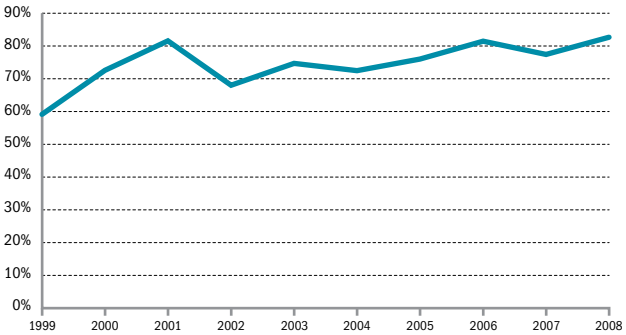
One important way of looking at the impact of the loan scheme is to look at how changes in the scheme affect the behaviour of borrowers – their borrowing patterns and their repayment behaviour.

A useful way of looking at borrowing behaviour is by considering uptake rates – the proportion of people eligible to take out a loan who actually do so. The uptake rate across the loan scheme as a whole rose from 56 percent in 2006 to 69 percent in 2008. However, much of that change related to changes in the eligibility rules for loans. As a result of decisions made in Budget 2007, students enrolled in qualifications that do not get government funding lost the right to borrow using the loan scheme. This reduced the number of students eligible for loans – especially the number of part-time students. This meant that the proportion of part-time students receiving loans increased sharply, from 17 percent to 34 percent, between 2006 and 2008.

Because part-time students have a lower incidence of borrowing than full-time students and because most of the changes in loan eligibility over the years have affected part-timers, rather than full-time students, it is more useful to focus on how full-time students use the loan scheme.

As shown in Figure 8, the estimated uptake rate among full-time students rose to 81 percent in 2001 but ranged between 72 percent and 76 percent between 2003 and 2005. In 2006, it rose to 81 percent, but then fell to 77 percent in 2007 and was 83 percent in 2008.

Figure 8 Student loan uptake rates for full-time students



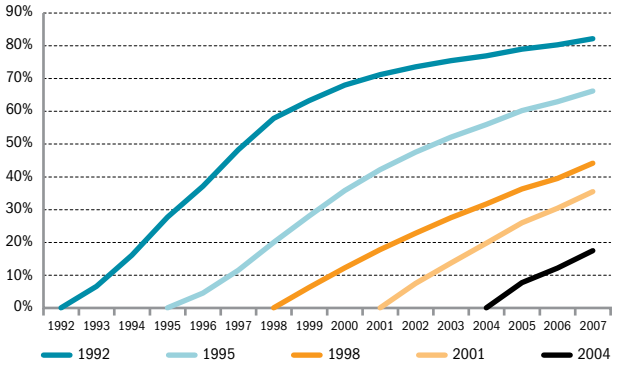
Source: Ministry of Education and Ministry of Social Development.

The increase in uptake rates among full-time students between 1999 and 2001 occurred at the same time as the introduction in 2000 of the 'no interest while studying' policy. Following an increase in borrowing at that time, uptake settled at between 70 and 75 percent between 2003 and 2005. The interest-free student loans policy took effect in April 2006. This, too, has been associated with an increase in uptake.

Repayment behaviour

Up until 30 June 2009, $5,661 million had been collected in repayments since the loan scheme began in 1992. By 1997, almost half of those who left study in 1992 had repaid in full, while 80 percent had repaid in full by 2007. However, this cohort had very low borrowings as fees were still relatively low and they had borrowed for only one year.

Figure 9 Percentage of borrowers fully repaid in each year who left study in 1992, 1995, 1998, 2001 and 2004



Source: Statistics New Zealand, integrated dataset.

22 TNS Conversa (2007) *2007 Student Income and Expenditure Survey – report of findings*, Auckland: TNS Conversa.

23 NatWest Student Living Index 2009.

24 US Bureau of Labor Statistics.

Leavers in 1997, and later, repaid their loans more slowly, reflecting the fact that most of the people in those groups would have used the loan scheme throughout their studies. Of those who left study in 1997, about 50 percent had repaid by 31 March 2007 – nine years after leaving study. Nearly a third of those who left in 2001 had repaid by 31 March 2007.

Those who left study after 2000 appear to be repaying slightly more quickly than the cohorts of the late 1990s. This trend is likely to be a consequence of:

- fee stabilisation policies that have operated since 2001 (see chapter 1.1)
- more generous repayment provisions – 50 percent of compulsory repayment obligation, less inflation, credited to principal – introduced in 2000
- no interest while studying for full-time students and for part-time students on low incomes[25] – introduced in 2000
- high employment in the last five or six years.

Figure 9 is based on the percentage of people who still had loan accounts open at the end of 2007. This is just one possible methodology for calculating repayment times. One alternative is to model the percentage of loan accounts repaid rather than the percentage of people who have repaid. This gives slightly different results because it takes into account the fact that some people repay their loan accounts in full, and then return to study at a later date and open a new loan account. In comparison with the methodology used in Figure 9, under this alternative methodology the percentage of those fully repaid increases from 82 percent to 85 percent for 1992 leavers and from 44 percent to 51 percent for 1998 leavers. For 2004 leavers, the increase is from 17 to 20 percent.

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 has been a fall-off in voluntary additional repayments since the introduction of interest-free loans. It is too early however, to detect the effects of these changes in Figure 9.

Looking to the future, the forecast median repayment time for those who left study in 2006 and who remain in New Zealand is 3.9 years. For all 2004 leavers, the forecast median is 6.9 years. There is more information on repayment time forecasts in chapter 4.

The Organisation for Economic Co-operation and Development provides information on repayment rates in student loan schemes in some of its member countries. They report[26] 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.

Impact on repayments

The loan scheme has a repayment threshold, so there is no repayment obligation for those whose income falls below the threshold, and the 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, such as people who suffer illness or disability that reduces or removes their work opportunities. It is expected that the current economic conditions will affect loan uptake and repayments. This is because more people will choose to study in the current labour market, current students will extend their period of study, more post-study borrowers will be unemployed and the rate of growth in salaries and wages will decline or incomes may fall.

It is evident from Figure 9 that, as time goes on, the number repaying in full increases each year, but at a decreasing rate. There are some borrowers who never succeed in repaying their loan completely and some who make no progress towards repayment over an extended period.

Figure 10 shows that the probability of repaying a loan depends on whether the borrower has completed a qualification, but gender has little effect. While the differences between the repayment of loans by men and women are very slight, it is notable that women appear to repay a little more quickly in the first few years after leaving study but that men tend to catch up over time. For both men and women who left study at the end of 1999, the median repayment time appears to be around eight years.

Figure 10 Percentage of borrowers who left study in 2000 who had completely repaid their loans by the end of 2007 – by gender and completion status

Source: Statistics New Zealand, integrated dataset.

Notes:

1. Leaving cohorts are those who last studied in 2000, had borrowed from the scheme, and had a student loan balance of $10 or more at 31 March in the following year. Those who had repaid their student loan before 31 March in the year after leaving study are excluded.
2. Full repayment is deemed to occur when the student loan balance has fallen below $10, and includes both tax non-resident and tax resident borrowers.
3. A student is deemed to have completed if he/she successfully completed a qualification in his/her last year of study.

It is perhaps surprising that women repay their loans as quickly as men, given that most studies on earnings in the labour market show that women tend to earn less than men with similar qualifications.[27] While there is no immediately obvious explanation for that trend, it is likely that there are two factors that influence this. The first is that women tend to borrow slightly less than men and hence have less to repay than men.[28] The second is that women may be more debt-averse and hence strive to repay more quickly.

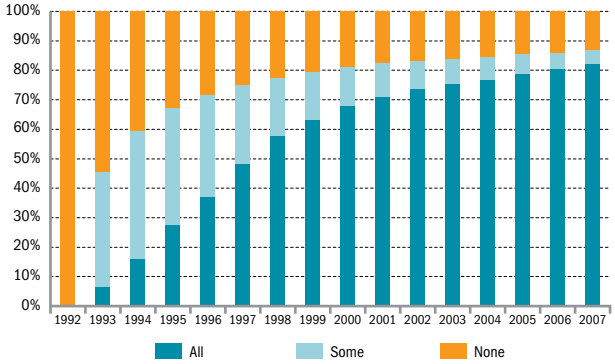
25 These policies meant that most students paid no interest, or less than the full interest charged, while studying.

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

27 See, for example, Maani, S. & Maloney, T. (2004) *Returns to post-school qualifications: new evidence based on the HLFS Income Supplement (1997-2002)*, Wellington: Department of Labour.

28 Note, however, that in some years, especially before 2000, women often left study with higher median loan balances – refer to Figure 26 later in this report.

Figure 11a Proportions of borrowers who left study in 1992 who had repaid all, some or none of their student loans by the end of 2007



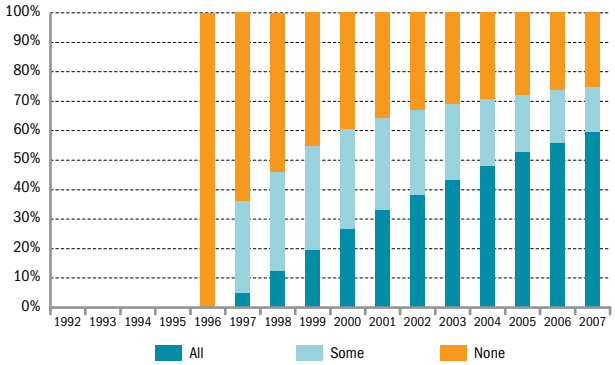
Source: Statistics New Zealand, integrated dataset.

Information from the integrated dataset on student loans and allowances indicates that a proportion of borrowers are unlikely to repay their loans in full. As shown in Figure 11a, around 15 percent of the 1992 leavers had repaid nothing of their loans 14 years after leaving study.

As was noted above, different methodologies can be used to calculate repayment times. The methodology used in Figure 11a excludes those who settle their loan accounts and then return to study. Including this group would shift the percentage of those who had repaid in full to 85 percent.

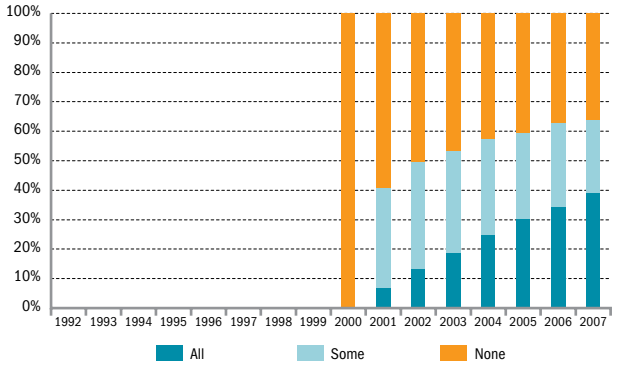
Figure 11a shows that the number of people who complete repayment increases every year – even among the 1992 leavers, who had been out of study for 15 years. However, the number who made progress towards repaying their loans remained reasonably steady between 2004 and 2007. This implies that there are a proportion of borrowers – around 12 percent in the case of the 1992 leavers – who are not in the New Zealand labour market and who may not be able to repay. Likewise, looking at Figure 11b, it is possible to see a similar trend emerging for the 1996 leavers – the numbers who have made no progress to repayment have begun to diminish more slowly since 2004. For the 2000 leavers, shown in Figure 11c, there continues to be a reduction in the numbers who haven't repaid anything.

Figure 11b Proportions of borrowers who left study in 1996 who had repaid all, some or none of their student loans by the end of 2007



Source: Statistics New Zealand, integrated dataset.

Figure 11c Proportions of borrowers who left study in 2000 who had repaid all, some or none of their student loans by the end of 2007



Source: Statistics New Zealand, integrated dataset.

Because the Student Loan Scheme is a targeted scheme with income-contingent repayments, it was understood that there would be some people who might not be able to repay for a variety of reasons. However, it is desirable that most borrowers are able to repay their loans within a reasonable timeframe. The interest-free student loans policy, the stronger incentives to return to New Zealand in the new rules on borrowers overseas, and improved approaches to collection by Inland Revenue are all expected to make some progress to reducing the numbers who never repay.

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 nine years to 31 March 2007:

- are more likely to have left study without completing a qualification – 38 percent had made no progress, compared with 21 percent of those who had completed their qualifications
- are more likely to have taken lower-level qualifications – 33 percent of those who studied below degree level had made no progress, compared with 25 percent who studied at bachelors level or higher
- are equally likely to be male and female – 31 percent of men had made no progress, compared with 30 percent of women
- are more likely to be Māori or Pasifika than of any other ethnic group – 42 percent of all Māori borrowers and 46 percent of Pasifika borrowers had made no progress, compared with 23 percent for those of European ethnicity.

Unintended outcomes

Some surveys[29] have reported students as suggesting that their student loans may encourage them to go overseas after their studies and deter them from returning, or that their loans may discourage home ownership or cause people to delay having children. As well, some have said that many people – especially women – may never repay their loans.

Around 40 percent of couple families comprising partners aged 18 to 24 have student loan debt. This falls to 30 percent among

29 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.

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.[30]

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.

A recent Australian study, published in the *Journal of Population Research*, looked at whether Australia's Higher Education Contribution Scheme or HECS, which has many similarities with student loans in New Zealand, has affected the birth rate in that country. The research compared university-educated women with and without HECS debts yet similar in other significant ways. It found that falling fertility rates are not related to HECS. Further, evidence from countries that have no loans and that have 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 both 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.

A Ministry of Education statistical analysis[31] of the relationship between student loans and going overseas 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 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.[32]

2.4 The Crown balance sheet – trends in the costs to the Crown

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 financial returns; 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 for 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 higher unemployment, 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.

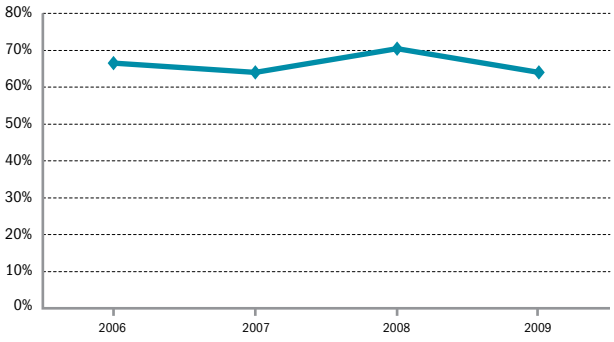
The third group of factors that affect the value relate to borrower behaviour. If many borrowers choose to go overseas once they finish their studies, this affects the value of the scheme because it is more difficult to collect repayments.

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

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

On 30 June 2009, the value of the scheme in the Crown's accounts was 64 percent of the total amount of money owed (which is called the nominal value). This is down from 70 percent in 2008, 64 percent in 2007 and from 67 percent in 2006. This is shown in Figure 12 below.

Figure 12 Carrying value as a percentage of the nominal value of the Student Loan Scheme, 2006–2009



Source: Student Loan Scheme Financial Statements.

The main reasons for the recent fall are:

- *current economic conditions* – incomes are not expected to grow as strongly in the short to medium term. This affects the borrowers' expected repayments and leads to a lower value of the loans to the Crown
- *better data and modelling* – over time, the agencies have developed more accurate estimates of:
  - likely repayment rates
  - the numbers of borrowers who are based overseas and their borrowing behaviour
- *an unexpected need to credit $96 million* to borrowers who hadn't supplied the correct information to Inland Revenue on their study status in the years 2000 to 2006 and so had incorrectly accrued interest.

More detail on changes in the value of the scheme can be found in chapter 4.

30 Legge, K. & Heynes, A. (2009) Beyond reasonable debt: a background report on the indebtedness of New Zealand families, *Social Policy Journal of New Zealand*, Vol. 35, pp. 27-42.

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

32 Kemp, S., Horward, J. & Fergusson, D. (2006) Student loan debt in a New Zealand cohort study, *New Zealand Journal of Educational Studies* 2006, Vol. 41(2), pp. 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:

Student Loan Scheme - State of Play

3.0 Introduction

This chapter has information about:

- the students borrowing through the loan scheme in 2008 and the amounts they borrowed
- borrowers and their loan balances with Inland Revenue on 30 June 2009.

It looks at the characteristics of the groups who have used the loan scheme, as well as at changes over time.

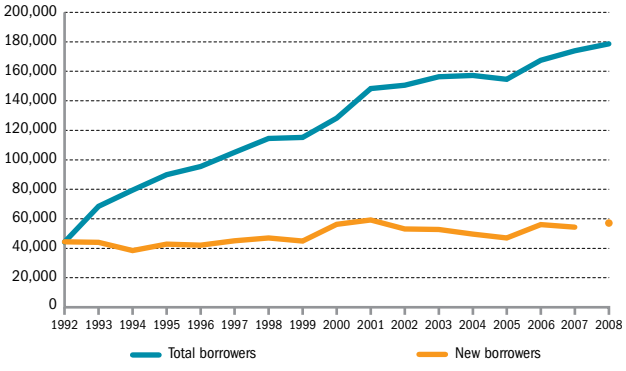
The information on borrowing is largely drawn from the Ministry of Social Development. Information on new borrowers up to 2007 is drawn from the integrated dataset maintained by Statistics New Zealand, while Inland Revenue has supplied data on the repayments and loan balances of all borrowers, including those who have left study.

3.1 Students borrowing

The total number of people who have taken out a student loan each year since the scheme began is 833,000. This represents about 24 percent of New Zealanders aged 15 or over.[33] In 2008, 179,000 students borrowed under the loan scheme, an increase of 2.7 percent on the 174,000 borrowers in 2007. This increase is likely to be largely due to the continued impact of interest-free loans introduced in 2006. Student loan borrowers in 2008 represented about 5.2 percent of the estimated population of New Zealand aged 15 and over.

Figure 13 shows the growth in borrower numbers and in the number of new borrowers since 1992.

Figure 13 Student loan borrowers and new borrowers in each academic year



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

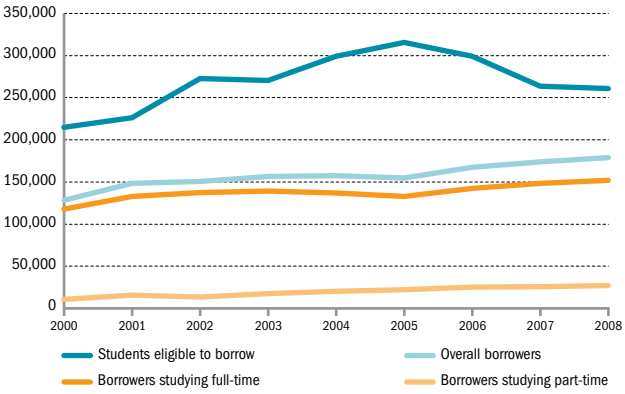
Notes:

1. Counts of new borrowers are based on the first year of borrowing recorded on the Student Loan Accounts Manager, Ministry of Social Development or Inland Revenue system.
2. 2008 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 2008 data. The two sets of data are derived from different datasets and therefore are not directly comparable.

Uptake of student loans in 2008

Figure 14 shows the number of students eligible to borrow and, of those, the number who actually do so. Also included in this graph is the number of students enrolled full-time and part-time who accessed the Student Loan Scheme. Between 2000 and 2002 there was a 58,100 increase in the number of students enrolled who were eligible for student loans. This reflects the increase in enrolments after the introduction of the interest-free loan policy. Since 2005, there has been a decrease each year in the number of students eligible for student loans, but of those who are eligible there has been an increasing number accessing the loan scheme. In 2008, 261,000 students were eligible to borrow from the loan scheme; of these, 179,000 students did so.

Figure 14 Student loan uptake numbers



Source: Ministry of Social Development and Ministry of Education.

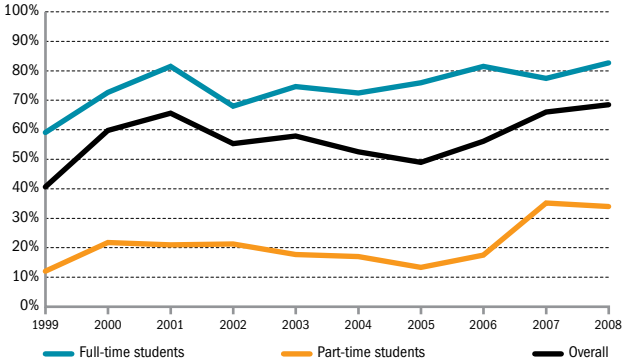
Figure 15 below shows the proportion of students eligible to borrow who do so. In 2008, the overall uptake rate was 69 percent of eligible students. This compares with 66 percent in 2007, 56 percent in 2006, 66 percent in 2001 and 41 percent in 1999. The changes in uptake rates are mostly the consequence of changes to loan policy. There was an increase in uptake between 1999 and 2001 after the introduction of no interest while studying and the 50/50 repayment rules,[34] and further increases in 2006, 2007 and 2008 after the introduction of the interest-free loan policy.

There was an increase in the uptake rates for part-time students from 17 percent in 2006 to 35 percent in 2007, followed by a slight decrease to 34 percent in 2008. The increase from 2006 to 2007 is the result of two factors. Firstly, it is due to an overall increase in the number of borrowers among part-time students as a result of the interest-free student loan policy. Secondly, it is due to a decrease in the number of part-time students eligible to borrow as a result of the alignment of student support with funded qualifications. This means that, since the beginning of 2007, students who enrol in qualifications that do not attract government funding do not qualify for student loans or student allowances.

33 Statistics New Zealand estimates that the population of New Zealand at 31 December 2008 who were aged 15 and over was 3.402 million.

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

Figure 15 Student loan uptake rates



Source: Ministry of Education and Ministry of Social Development.

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

New borrower characteristics

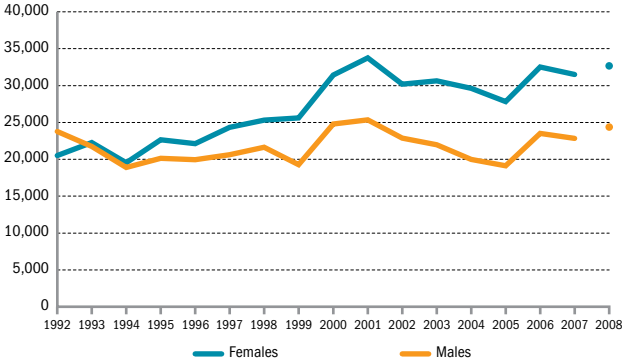
By looking at new borrowers it is possible to learn more about how the characteristics of those entering the loan scheme are changing over time. The term 'new borrower' refers to people entering the loan scheme for the first time. For example, a new borrower in 2008 entered the scheme for the first time in 2008; in 2007, a new borrower first entered the scheme in 2007. Figures 16, 17 and 18 present the gender, age and ethnic composition of new borrowers and Table 3 shows the average and median ages of new borrowers. Based on provisional data, the number of new borrowers in 2008 has grown 5.0 percent from 2007, an increase from 54,300 to 57,000. New borrowers constituted 32 percent of all borrowers in 2008.

Gender

The gender composition of new borrowers shows that, other than in 1992 and 1993 (the first two years the Student Loan Scheme was introduced), females have made up the greater proportion of new borrowers each year. In 2008, based on provisional data, of those entering the loan scheme for the first time there were 8,280 more females than males.

Between 2007 and 2008, there was a 3.6 percent increase (from 31,500 to 32,600) in the number of females entering the Student Loan Scheme for the first time. This compares with a 6.8 percent increase (from 22,800 to 24,400) in the number of males entering the scheme for the first time over the same period. We can also see from Figure 16 that although females have made up a larger proportion of new student loan borrowers since 1993, each gender shows similar fluctuations over this time. This suggests that many of those factors which influence new borrowers entering the loan scheme have similar effects on both males and females.

Figure 16 New borrowers by gender



Source: Statistics New Zealand, integrated dataset ▬, Ministry of Social Development ●.

Notes:

1. Counts of new borrowers are based on the first year of borrowing recorded on the Student Loan Accounts Manager, Ministry of Social Development or Inland Revenue system.
2. 2008 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 2008 data. The two sets of data are derived from different datasets and therefore are not directly comparable.

Age

The average and median ages of new borrowers entering the scheme every year has remained stable over the last five years as shown in Table 3. The average age of new borrowers increased from 23 years in 1992, reaching 26 in 1999 and then dropping to an average of 25 years in 2007 and 2008. Over the last six years the median age of new borrowers has remained at 20 years of age.

Table 3 Average and median ages of new borrowers 1992–2008

Year	Average	Median	Number of new borrowers
1992	23	21	44,256
1993	23	21	43,965
1994	23	20	38,412
1995	24	20	42,735
1996	25	21	42,012
1997	25	21	44,928
1998	25	21	46,884
1999	26	21	44,841
2000	25	21	56,169
2001	26	21	59,040
2002	26	21	53,046
2003	26	20	52,584
2004	26	20	49,569
2005	26	20	46,923
2006	26	20	56,013
2007	25	20	54,315
2008	25	20	57,008

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

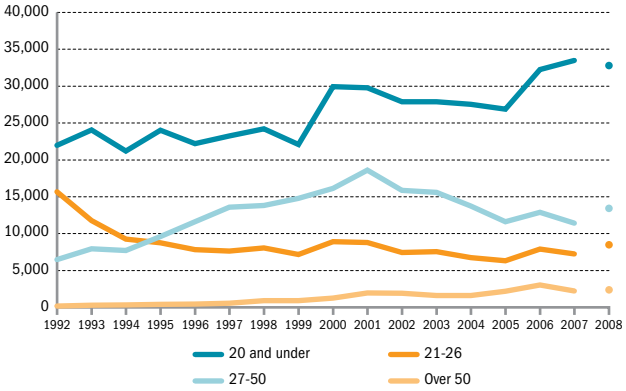
Notes:

1. Counts of new borrowers are based on the first year of borrowing recorded on the Student Loan Accounts Manager, Ministry of Social Development or Inland Revenue system.
2. 2008 data on new borrowers was provided by the Ministry of Social Development and is provisional. The two sets of data are derived from different datasets and therefore are not directly comparable.
3. All counts from Statistics New Zealand integrated dataset have been randomly rounded to base 3.
4. Prior to 2008, age is calculated as at 1 July.

Figure 17 shows that new borrowers aged 20 years and under have represented the largest number of new borrowers in each year since the Student Loan Scheme began. In 1992, this age group represented 49 percent of new borrowers. By 2008, this age group represented 58 percent of the total number of new borrowers. Between 2005 and 2006, there was an increase of around 5,370 in the number of new borrowers aged 20 and under. This is most likely due to a number of factors including the introduction of the interest-free loan policy in 2006 and changes in the school leaver eligibility in 2005, which made more school leavers eligible for university.

The proportion of new borrowers aged over 50 has been steadily increasing from 0.3 percent in 1992 to 4.2 percent in 2008. However, this demographic remains a small proportion of all new borrowers.

Figure 17 New borrowers by age



Source: Statistics New Zealand, integrated dataset ▬, Ministry of Social Development ●.

Notes:

1. Counts of new borrowers are based on the first year of borrowing recorded on the Student Loan Accounts Manager, Minstry of Social Development or Inland Revenue system.
2. 2008 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 2008 data. The two sets of data are derived from different datasets and therefore are not directly comparable.
3. Prior to 2008, age is calculated as at 1 July.

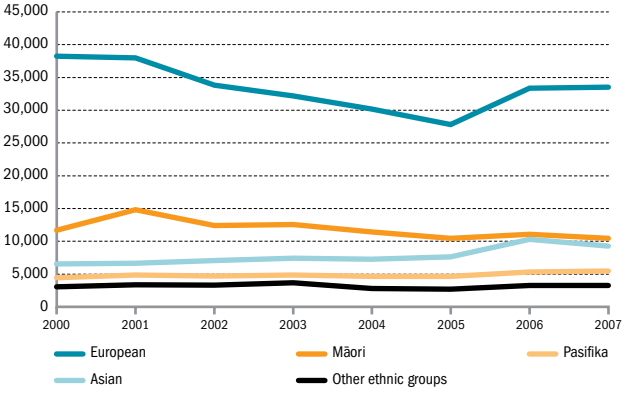
Ethnicity

Students are a diverse demographic and this is reflected in the ethnic composition of those entering the loan scheme for the first time. Figure 18 illustrates the ethnic composition of new borrowers and changes in composition between 2000 and 2007.[35]

Of new borrowers between 2000 and 2007:

- 54 percent identified themselves as European
- 19 percent identified themselves as Māori
- 13 percent identified themselves as Asian
- 7.9 percent identified themselves as Pasifika.

Figure 18 New borrowers by ethnic group



Source: Statistics New Zealand, integrated dataset.

Notes:

1. At the time of production of this report, 2008 new borrower ethnicities were not available.
2. Counts of new borrowers are based on the first year of borrowing recorded on the Student Loan Accounts Manager, Ministry of Social Development or Inland Revenue system.
3. Students can be included in more than one ethnicity category. As a result, the sum of all the ethnicity counts will be greater than the total count of new borrowers.

Borrower characteristics

Study status

Before 2004, loan eligibility was restricted to those studying on a full-time basis and to part-time students studying for a full year. In 2004, eligibility to borrow tuition fees was extended to include part-time, part-year students studying a course load of 0.3 equivalent full-time student units or more. Further changes in 2005 also increased access to student loans. Under these changes, students whose study load was at least 0.25 equivalent full-time student units, but less than 0.3 equivalent full-time student units, were entitled to borrow if their course would be likely to lead to employment or contribute to the borrower's current employment. In 2007, the vocational and employment criteria for student loan eligibility for part-time, part-year students undertaking a course load of between 0.25 and 0.30 equivalent full-time student units were removed, allowing more students to qualify for student loans.

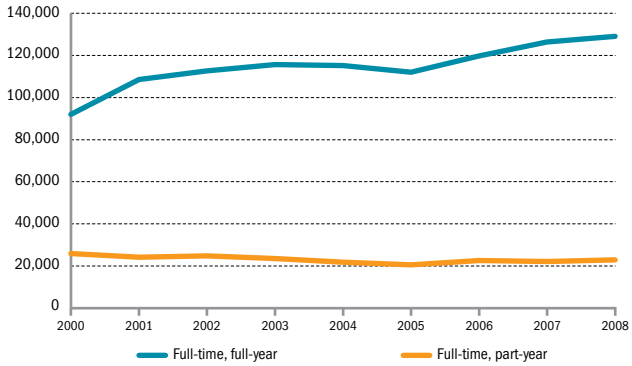
- Approximately 50 percent of all domestic students in 2008 were enrolled on a part-time basis, compared with nearly 45 percent in 2000.
- In 2008, 26,800 part-time students (34 percent) who were eligible to borrow did so.
- In 2008, 152,000 full-time students (83 percent) who were eligible to borrow did so.

Figures 19a and 19b present the numbers of borrowers by study status from 2000 to 2008.

Figure 19a shows that the numbers of full-time, part-year students have remained comparatively stable from 2000 to 2008. Full-time, full-year student numbers have most notably increased after 2005. This is likely due to the introduction of the interest-free student loan policy in 2005.

35 Students can be included in more than one ethnicity category. As a result, the sum of all the ethnicity counts will be greater than the total count of new borrowers.

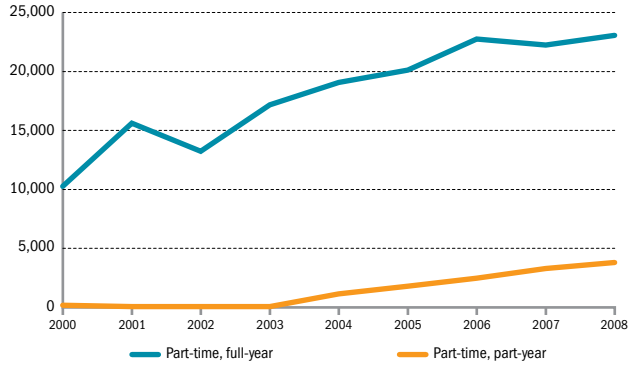
Figure 19a Borrowers with full-time study status



Source: Ministry of Social Development.

Figure 19b shows that the number of part-time, full-year borrowers increased markedly over the last seven years, from 13,200 in 2002 to 23,000 in 2008. The number of part-time, part-year borrowers has also increased significantly since 2004, from 1,100 in 2004 to 3,800 in 2008. This is mainly due to policy changes aimed at increasing access to the Student Loan Scheme for part-time, part-year students.

Figure 19b Borrowers with part-time study status

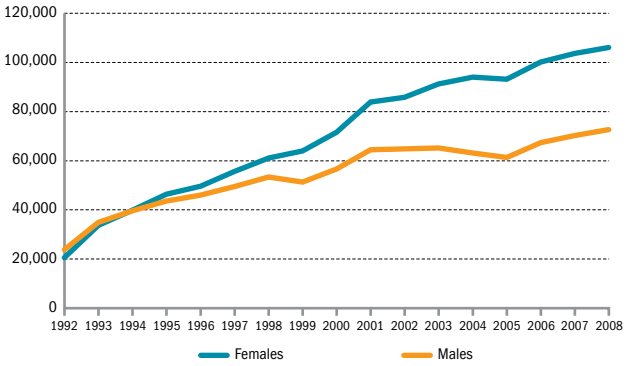


Source: Ministry of Social Development.

Gender

Figure 20 shows the number of borrowers by gender since the loan scheme began. With the exception of 1992 and 1993, females have outnumbered males as participants in the Student Loan Scheme over this time. In 1992, there were 20,500 females accessing the Student Loan Scheme, constituting 46 percent of all borrowers. This compares with 23,700 males. From 1994 to 2005, females as a proportion of borrowers steadily increased from 50 percent in 1994 to 60 percent in 2005. Since 2005, the gender composition of borrowers has remained at around 60 percent females and 40 percent males. In 2008, the number of females accessing the loan scheme was 106,000, compared with 73,000 males.

Figure 20 Number of borrowers by gender



Source: Ministry of Social Development and Ministry of Education.

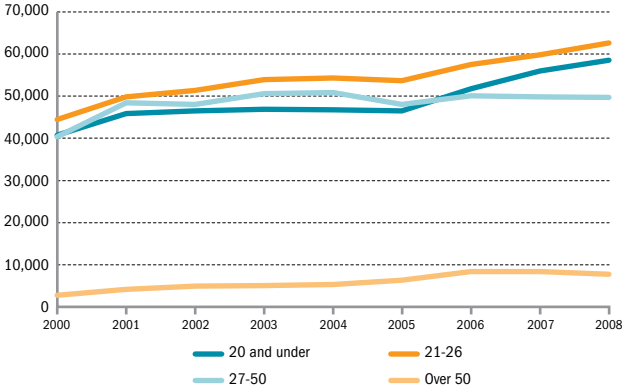
Age

The age composition of borrowers reflects trends in tertiary enrolments. Figure 21 shows the number of student loan borrowers by age group for each year of borrowing since 2000. Over this time, there has been a general trend of increasing numbers enrolled in tertiary education, including increasing enrolments by older people, such as those in the 50 and over age group. Up until 2005, the age composition of borrowers remained stable. Since 2005, this composition has been changing. There has been significant growth in enrolments by younger people in the 20 and under and the 21 to 26 year age groups. There are a number of factors contributing to this change. One factor is the introduction of interest-free student loans in 2006 and another is the changes to the secondary school assessment system which increased the number of young people qualified to enter university.

Between 2007 and 2008, the number of borrowers in the 27 to 50 age group did not increase significantly while the number in the over-50 age group decreased by 7.5 percent. In the 21 to 26 age group, the number of borrowers increased by 4.8 percent, from 59,700 to 62,600. The 20 and under age group increased by 4.8 percent, from 55,900 to 58,500. The 20 and under age group was the largest group each year between 2000 and 2008.

In 2008, 68 percent (121,000) of all student loan borrowers were under the age of 27. Those borrowers aged 27 to 50 represented 28 percent (49,700) of borrowers. The over-50 age group totalled 7,720 and constituted 4.3 percent of all borrowers.

Figure 21 Number of borrowers by age



Source: Ministry of Social Development.

Note: This data is provisional.

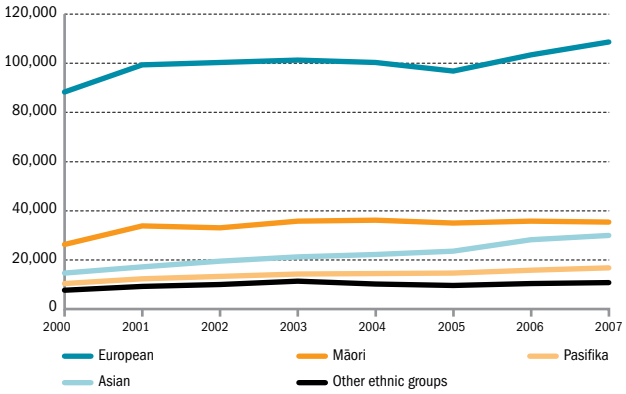
Ethnicity

Figure 22 illustrates the ethnic composition of borrowers and changes in composition between 2000 and 2007.[36]

Of borrowers between 2000 and 2007:

- 55 percent identified themselves as European
- 19 percent identified themselves as Māori
- 12 percent identified themselves as Asian
- 7.7 percent identified themselves as Pasifika.

Figure 22 Borrowers by ethnic group



Source: Statistics New Zealand, integrated dataset.

Notes:

1. At the time of production of this report, 2008 borrower ethnicities were not available.
2. Students can be included in more than one ethnicity category. As a result, the sum of all the ethnicity counts will be greater than the total count of borrowers.

3.2 Amounts borrowed

Total borrowings

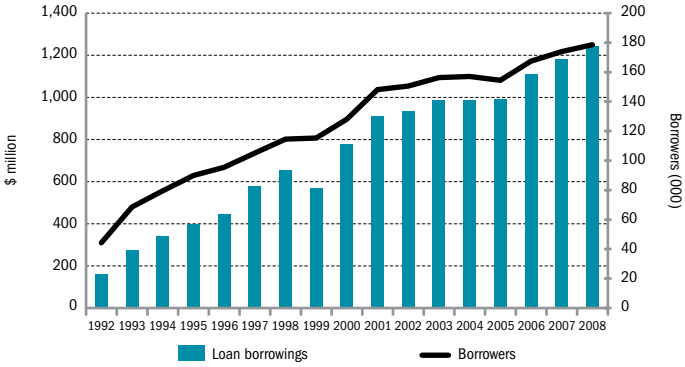
Since the loan scheme began, students have borrowed a total of $12,519 million. The total amount borrowed and the number of borrowers each year are shown in Figure 23. The total amount borrowed each year grew significantly during the 1990s as the loan scheme developed and enrolments increased. This increase 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. This contributed to a rise in total borrowing by 37 percent between 1999 and 2000 (from $566 million to $776 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 and some changes to the conditions for borrowers overseas contributed to an increase in the number of borrowers. The increase in borrower numbers was 8.4 percent between 2005 and 2006, 3.8 percent between 2006 and 2007 and 2.7 percent between 2007 and 2008. The increase in the amount borrowed was 12 percent between 2005 and 2006, 6.6 percent between 2006 and 2007 and 5.2 percent between 2007 and 2008. In 2008, 179,000 students borrowed a total of $1,241 million from the loan scheme.

Figure 23 Total loan borrowing by year



Source: Ministry of Social Development and Ministry of Education.

Average and median borrowing in a year

Figure 24 illustrates the average amount borrowed from 1992 to 2008 and the median amount borrowed from 2000 to 2008. Since 2005, there has been a gradual increase in both the average and median amounts borrowed. In 2008, the average amount borrowed was $6,953. This was an increase of $161 (2.4 percent) on the previous year. This compares with an increase of $182 (2.8 percent) from 2006 to 2007. The median amount borrowed in 2008 was $6,000, an increase of $132 (2.2 percent) from 2007.

The average amount borrowed[37] showed a steady increase between 1992 and 1998, in part reflecting increases in student fees. As seen in Figure 24, there was a decrease in average borrowing in 1999. This was due to a decrease in the maximum course-related costs entitlement from $1,000 in 1998 to $500 in 1999[38] and to other changes that restricted the purposes for which finance from the loan scheme could be used.[39]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[40] implemented in 2001 meant that tuition fees charged by most tertiary education providers have remained stable since 2001. From 2004, fees have been regulated by the fee and course costs maxima policy.[41] Under this policy, providers are permitted to increase fees, but only within strict limits. The introduction of interest-free student loans in 2006 and some growth in fees have contributed to an increase in both the average and median amounts borrowed.

36 Students can be included in more than one ethnicity category. As a result, the sum of all the ethnicity counts will be greater than the total count of borrowers.

37 The average amount borrowed includes all amounts drawn down from a loan account but not the $50 administration fee or the interest charged. It is calculated by dividing the total amount borrowed by the number of borrowers in the same year. The $50 administration fee and interest are excluded as they are not linked to any particular period of study, but are charged to the loan account as a whole in each year of borrowing.

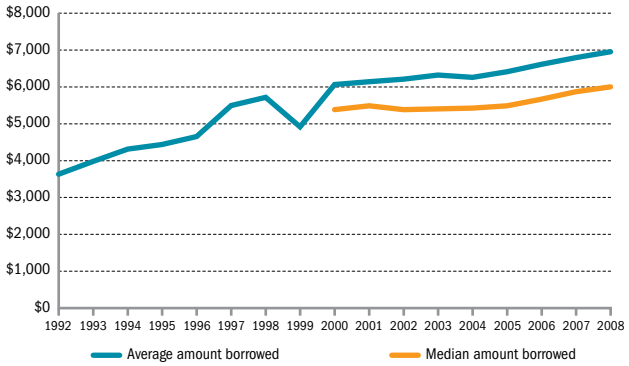
38 The entitlement was changed back to $1,000 in 2000.

39 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.)

40 See the glossary in appendix 4 for details of the fee stabilisation policy.

41 See the glossary in appendix 4 for details of the Fee and Course Costs Maxima policy.

Figure 24 Average amount borrowed 1992-2008 and median amount borrowed 2000-2008



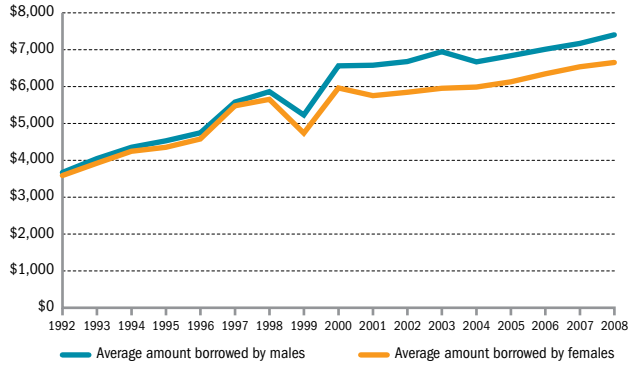
Source: Ministry of Social Development and Ministry of Education.

Note: Median loan balances were not calculated until 2000.

Gender differences

Figure 25 shows the average amount borrowed by gender per year. Although females have represented a larger portion of borrowers than males since 1995 (as shown in Figure 20), males have borrowed more on average each year since 1992 than have females. We can also see from Figure 25 that each gender has experienced similar fluctuations in the average amount borrowed over time. This tells us that many of those factors which influence the average amount borrowed have had similar impacts upon both genders. Since 2000, there has been a pronounced trend for males to borrow more, on average, than females. This is thought to be due to the different behavioural responses of males and females to the introduction in 2000 of no interest while studying.

Figure 25 Average amount borrowed by gender and year

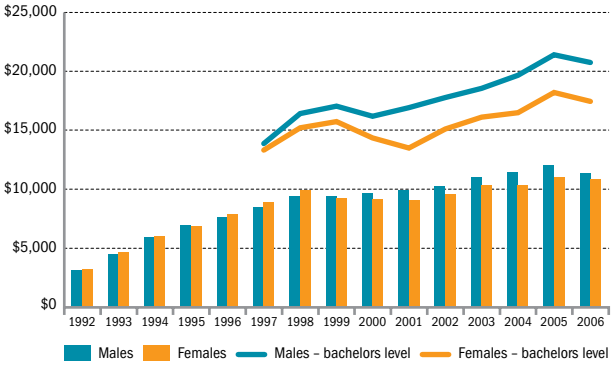


Source: Ministry of Social Development and Ministry of Education.

Figure 26, 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 2006. In some years, women have left study with higher median loans than men despite the fact that women tend to borrow less on an annual basis.

The greatest volume of borrowing has tended to be by students at bachelors-degree level.[42] Figure 26 tracks the loan balances of those who studied at this level and left between 1997 and 2006. According to Figure 26, male borrowers who studied bachelors-degree-level qualifications leave study with higher leaving loan balances than female borrowers who studied at bachelors-degree 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 this difference in leaving loan balance across gender groups can be explained by the higher pass rate of female students in bachelors-degree-level studies. Higher pass rates mean that students complete their studies more quickly and borrow less.

Figure 26 Median leaving loan balance for 1992-2006 leavers by gender – all borrowers and those who studied at bachelors level 1997-2006



Source: Statistics New Zealand, integrated dataset.

Note: 2006 is the latest leaving cohort available.

Loans by component

Most borrowers use the loan scheme to pay for the compulsory fees charged by the tertiary education provider. In 2008:

- 93 percent borrowed to pay fees
- 59 percent borrowed to help meet course-related costs
- 50 percent borrowed towards meeting their living costs
- 26 percent borrowed to pay fees only
- 64 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 2008, money used to pay for fees was 64 percent of all money drawn in 2008.
- Since 2000, the total amount drawn to pay for course-related costs is 9.0 percent of all money drawn from the loan scheme. In 2008, money used to pay for course-related costs was 8.1 percent of all money drawn in 2008.
- Since 2000, the total amount drawn to pay for living costs is 29 percent of all money drawn from the loan scheme. In 2008, money used to pay for living costs was 28 percent of all money drawn in 2008.

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

Table 4 shows the average and median amounts drawn by loan components for the period 2000 to 2008. Over this period, the average amount borrowed to pay for fees increased by 24 percent, from $3,817 in 2000 to $4,743 in 2008.

42 This includes certificates and diplomas at level 7 on the National Qualifications Framework.

Table 4 Average and median amounts borrowed by loan component 2000–2008

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Course fees $									
Average	3,817	3,986	4,025	4,107	4,051	4,253	4,408	4,576	4,743
Median	3,690	3,807	3,787	3,792	3,906	4,068	4,230	4,455	4,618
Living costs $									
Average	3,410	3,472	3,617	3,745	3,770	3,824	3,839	3,866	3,875
Median	3,150	3,300	3,580	3,800	3,907	4,050	4,129	4,256	4,256
Course-related costs $									
Average	896	935	940	936	938	943	950	948	955
Median	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000

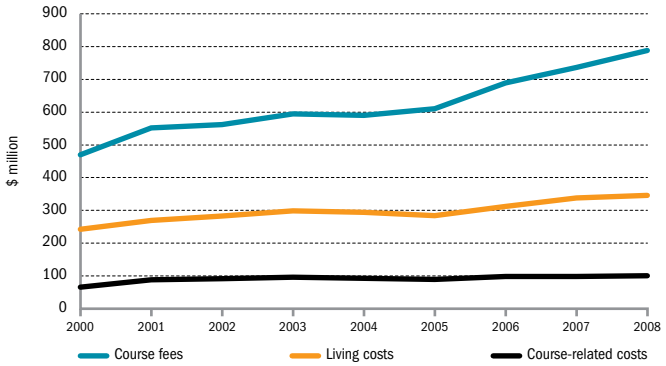
Source: Ministry of Social Development.

In 2008, students were entitled to borrow up to $1,000 for course-related costs and up to $150 per week for living costs less any student allowances they receive.

Since the beginning of 2007, fees can be borrowed for government-funded courses only.

Figure 27 shows the total amounts drawn by loan component. Course fees have always been the largest component of student loan borrowings. After 2005, there was a significant increase in the total amount borrowed for fees with the introduction of the interest-free policy in 2006.

Figure 27 Total amounts drawn by loan component



Source: Ministry of Social Development.

Provider type

Table 5 presents the fees borrowed by provider type and their proportion of the total fees borrowed for the last five years. Over the last five years, over half of students who borrowed fees were enrolled at universities and close to one-quarter were enrolled in institutes of technology or polytechnics.

Table 5 Students who borrowed fees by provider type 2005–2008

	2005		2006		2007		2008	
	Borrowers	%	Borrowers	%	Borrowers	%	Borrowers	%
Universities	77,114	52.8	83,552	52.6	89,394	54.8	92,665	55.0
Institutes of technology and polytechnics	36,400	24.9	38,077	24.0	39,281	24.1	41,372	24.5
Private training establishments	29,136	19.9	34,485	21.7	31,834	19.5	32,027	19.0
Wānanga	3,465	2.4	2,826	1.8	2,712	1.7	2,524	1.5
Total	**146,115**	100.0	**158,940**	100.0	**163,221**	100.0	**168,588**	100.0

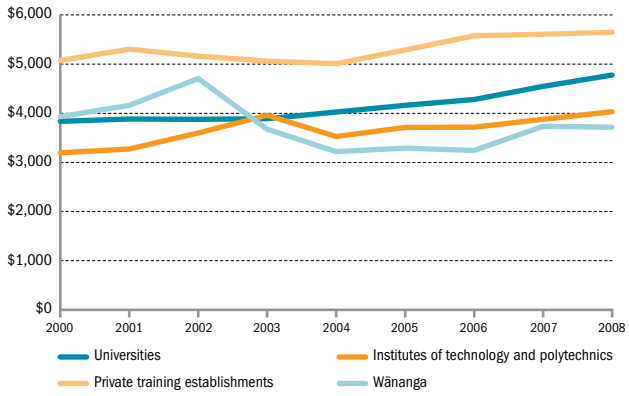
Source: Ministry of Social Development.

Notes:

1. A student studying at more than one provider type has been counted in each provider type. As a result, the totals used in this table will be greater than the individual number of students who borrowed fees.
2. Universities include college of education students.

Figure 28 illustrates the average course fees borrowed by provider type. Between 2007 and 2008, the highest average increase in course fees was at universities, with a 5.1 percent increase ($231). This was followed by institutes of technology and polytechnic borrowers, whose average course fees borrowed increased by 3.5 percent ($132). The average increase in course fees borrowed across all providers between 2007 and 2008 was 3.6 percent ($163). It is important to note that the average course fee depends on the composition of the programmes offered by the tertiary providers as well as the number of borrowers.

Figure 28 Average course fees borrowed by provider type



Source: Ministry of Social Development.

Note: Colleges of education are now included with universities.

Qualification level

Table 6 shows the breakdown of borrowers by level of qualification enrolled in and gender, and average borrowing by qualification level and gender from 2006 to 2008. In 2008, the number of borrowers enrolled in bachelors-degree-level and above qualifications, such as doctorates, masters, honours, bachelors degrees, postgraduate and graduate certificates and diplomas, increased by 9.0 percent from 2007. In contrast, the total number of borrowers enrolled in diploma, certificate and other non-degree programmes decreased by 5.1 percent. In 2008, at all qualification levels, males borrowed more on average than females, a pattern that is consistent over the last three years.

Table 6 Student loan borrowers by level of qualification, gender and average amounts borrowed 2006–2008

Qualification level	Gender	2006		2007		2008	
		Number of borrowers	Average amount borrowed	Number of borrowers	Average amount borrowed	Number of borrowers	Average amount borrowed
Doctorate	Female	573	$5,390	645	$5,628	665	$5,954
	Male	581	$5,433	604	$6,083	645	$6,131
	Total	**1,154**	**$5,411**	**1,249**	**$5,850**	**1,310**	**$6,041**
Masters, honours, postgraduate certificates and postgraduate diplomas	Female	6,088	$5,657	6,347	$5,930	7,234	$6,241
	Male	4,287	$6,201	4,453	$7,011	7,783	$7,527
	Total	**10,375**	**$5,882**	**10,800**	**$6,450**	**15,017**	**$6,908**
Bachelors degrees, graduate certificates and diplomas	Female	48,729	$6,764	50,999	$7,017	55,623	$7,164
	Male	33,583	$7,181	35,332	$7,408	35,309	$7,601
	Total	**82,312**	**$6,934**	**86,332**	**$7,172**	**90,932**	**$7,334**
Diplomas	Female	12,959	$5,368	12,433	$5,735	15,528	$5,715
	Male	8,177	$7,943	8,057	$7,724	10,416	$8,468
	Total	**21,136**	**$6,364**	**20,490**	**$6,527**	**25,944**	**$6,820**
Certificates	Female	30,621	$5,477	27,471	$5,537	29,748	$5,501
	Male	19,591	$5,745	18,839	$5,742	19,848	$5,599
	Total	**50,212**	**$5,581**	**46,310**	**$5,618**	**49,596**	**$5,540**
Other	Female	4,642	$6,683	9,078	$6,256	649	$7,158
	Male	3,101	$7,395	5,074	$8,312	641	$9,996
	Total	**7,743**	**$6,968**	**14,152**	**$7,161**	**1,290**	**$8,568**
Overall		**167,420**	**$6,610**	**173,791**	**$6,792**	**178,533**	**$6,953**

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.

Loans and student allowances

The government helps students meet their living costs by providing student loans and student allowances. The two schemes are interconnected. Full-time students can borrow up to $150 per week for living costs from the loan scheme, less any student allowances they receive. From 1 January 2009, the living costs component of the student loan increased from a maximum of $150 per week to $155 per week. The maximum entitlement is adjusted annually for inflation with the first adjustment occurring on 1 April 2009.

In 2008:

- 12.8 percent of all borrowers borrowed living costs under the loan scheme and also received student allowances. In 2007, this group was 12.7 percent of all borrowers
- 34.9 percent of people receiving student allowances used the loan scheme to supplement their living costs, compared with 35.4 percent in 2007.

Table 7 presents the number of living costs borrowers and recipients of student allowances and the average living costs and allowances received in 2008.

Table 7 Student allowances compared with student loan living costs borrowings in 2008

	Number of students	Average allowances	Average living costs loan	Average allowances and living costs loan
Student allowances only	42,796	$6,742		$6,742
Student allowances and living costs loan	22,906	$5,866	$1,811	$7,677
Living costs loan only	65,944		$4,592	$4,592

Source: Ministry of Social Development.

On average, in 2008:

- those who received only student allowances received $6,742
- those who received student allowances *and* used the living costs entitlement under the loan scheme borrowed $1,811 from the loan scheme and received $5,866 in student allowances – meaning they were paid a combined total of $7,677 from both schemes
- those who relied solely on the living costs entitlement under the loan scheme borrowed $4,592 on average.

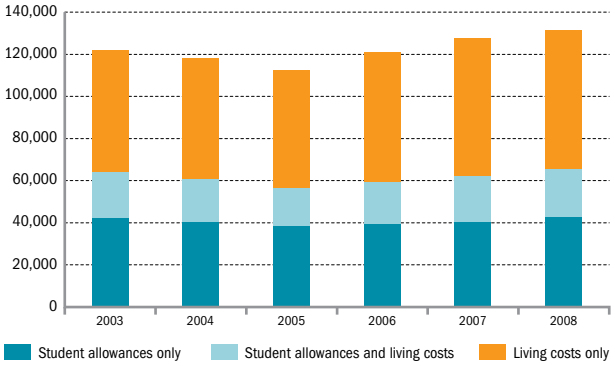
Figure 29 illustrates the number of students borrowing living costs and/or receiving student allowances. From 2003 to 2005, the number of student loan living costs borrowers and/or student allowances recipients decreased by 7.7 percent (9,435) to a total of 112,000 in 2005. From 2005, there was an increase in the number of living costs borrowers and/or student allowances recipients.

By 2008, the number of students benefiting from student allowances and/or living costs borrowing had increased by 17 percent from 2005 levels, with an additional 19,000 recipients.

In 2008:

- in total 132,000 students either borrowed the student loan living costs component or received student allowances or both. This is a 3.2 percent (4,100) increase over the 2007 level
- 43,000 students received student allowances only, an increase of 6.0 percent or 2,430 allowances only recipients on 2007 levels
- 23,000 students received student allowances and also borrowed living costs, an increase of 3.6 percent or 790 students over the 2007 level
- 66,000 students borrowed living costs, an increase of 1.4 percent or 885 borrowers over 2007.

Figure 29 Students borrowing living costs loans and receiving student allowances



Source: Ministry of Social Development.

3.3 People repaying loans

Loans with Inland Revenue

Inland Revenue's role in administering the Student Loan Scheme is the management of repayments from borrowers. StudyLink makes loans to students and transfers balances to Inland Revenue in the following year. Most repayments are made through the PAYE (pay as you earn) system, with the remainder coming from borrowers living overseas, self-employed borrowers in New Zealand, borrowers under the income threshold who make voluntary repayments, and borrowers who choose to make payments over the assessed repayment amounts. Borrowers whose loans are still with StudyLink can also make repayments. The financial statements in chapter 5 detail loan balances held with Inland Revenue and include information from both agencies.

Loan balances

During 2008/09 the nominal value of loans with Inland Revenue for collection increased from $8.6 billion to $9.1 billion. The year-end nominal balance for borrowings with Inland Revenue is the total value of all obligations that borrowers have, including loan principal, interest and penalties. The change in the balance from year to year reflects the movements in and out of the scheme: new loans transferred to Inland Revenue in the current year, less

repayments and other adjustments such as loans written off due to death or bankruptcy. The nominal value is the basis for other calculations such as the carrying value and average and median balances. For details of the valuation of loans, please refer to the financial statements for the scheme in chapter 5.

The highlighted box below gives details of the loans with Inland Revenue by New Zealand-based borrowers and those overseas. The nominal value of student loans held by Inland Revenue since 2000, as well as the average and median loan balance, is shown in Figure 30. The range of balances is shown in Table 8.

Summary of student loans with Inland Revenue at 30 June

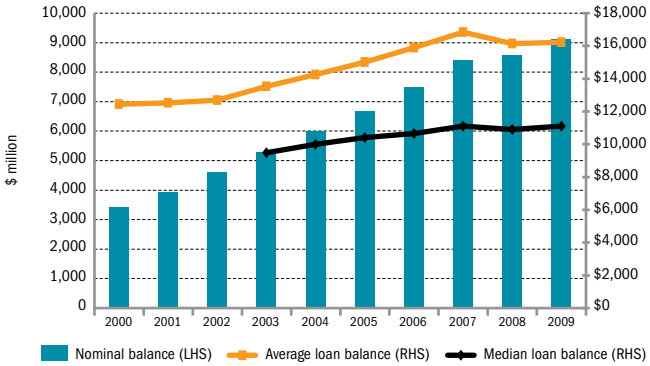
	2008	2009	% change
		Number of borrowers	
Borrowers based:			
– in New Zealand	453,512	479,462	5.7%
– overseas	76,777	82,337	7.2%
Total	**530,289**	**561,799**	**5.9%**
		Nominal balances	
Borrowers based:	$ million	$ million	
– in New Zealand	6,820	7,199	5.6%
– overseas	1,733	1,910	10.2%
Total	**8,553**	**9,109**	**6.5%**
		Average loan	
Average loan	$16,129	$16,213	0.5%
		Median loan	
Borrowers based:			
– in New Zealand	n/a	$10,396	n/a
– overseas	n/a	$17,125	n/a
All borrowers	**$10,883**	**$11,090**	**1.9%**
		Overdue repayments	
Borrowers based:	$ million	$ million	
– in New Zealand	153	192	25.5%
– overseas	54	114	111.1%
Total	**207**	**306**	**47.8%**

Source: Inland Revenue.

Notes:

1. It is not possible to calculate median loan balances retrospectively.
2. 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 total nominal, average and median balances from 2008 onward are not directly comparable with earlier years.

Figure 30 Nominal value of student loans and the average loan balances from 2000 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 onward are not directly comparable with earlier years.

Table 8 Range of loan balances held by Inland Revenue at 30 June 2009

Range of loan balances	Borrowers	Percentage	Cumulative percentage
$1 – 1,999	53,684	9.6	9.6
$2,000 – 3,999	50,467	9.0	18.5
$4,000 – 5,999	58,452	10.4	28.9
$6,000 – 7,999	50,966	9.1	38.0
$8,000 – 9,999	43,771	7.8	45.8
$10,000 – 14,999	87,094	15.5	61.3
$15,000 – 19,999	55,953	10.0	71.3
$20,000 – 24,999	43,602	7.8	79.0
$25,000 – 29,999	30,372	5.4	84.4
$30,000 – 34,999	23,813	4.2	88.7
$35,000 – 39,999	14,107	2.5	91.2
$40,000 – 44,999	15,448	2.7	93.9
$45,000 – 49,999	9,111	1.6	95.6
$50,000 – 54,999	6,465	1.2	96.7
$55,000 – 59,999	4,770	0.8	97.6
$60,000 – 79,999	9,111	1.6	99.2
$80,000 – 99,999	2,955	0.5	99.7
$100,000 – 119,999	618	0.1	99.8
$120,000 – 139,999	734	0.1	99.9
> $139,999	306	0.1	100.0
Total	**561,799**	**100.0**	

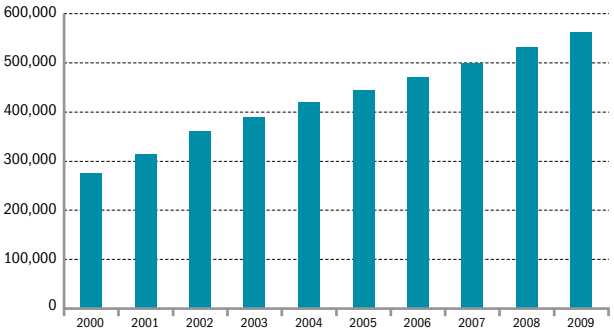
Source: Inland Revenue.

Borrowers

At 30 June 2009, there were around 562,000 student loan borrowers, compared with around 530,000 last year. Based on historical data, Inland Revenue expects that 53 percent will not have a repayment obligation for 2009. They do not have a repayment obligation if they earned under the repayment threshold (many will still be studying), or if they are on a repayment holiday.

Figure 31 shows the growth in the number of borrowers who had loans with Inland Revenue since 2000.

Figure 31 Borrowers with Inland Revenue at 30 June

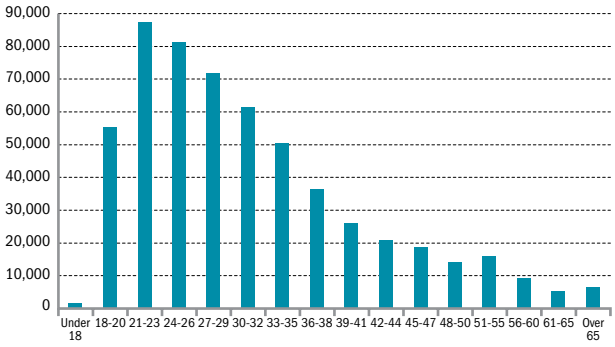


Source: Inland Revenue.

Characteristics of people with loans

Of those with loan balances, 53 percent were under 30 years of age, 88 percent were under 45 years and 6.6 percent over 50 years. These proportions have been increasing each year as the loan scheme matures and the group of people who have made no progress in repaying their loans over an extended period gets older. Those aged under 30 years with student loans represent 33 percent of the population aged between 15 and 30 years, whereas borrowers over 50 years are less than 2.9 percent of the population in that age range.[43] Figure 32 shows the age distribution of borrowers.

Figure 32 Borrowers with Inland Revenue at 30 June by age group



Source: Inland Revenue.

Information from the integrated dataset on student loans and allowances indicates that, of those who borrowed under the scheme after 1997 and had a student loan at 31 March 2008:

		% of borrowers	% of total loan balances
Ethnicity	European	50.5	53.4
	Māori	22.0	19.8
	Pasifika	8.1	8.4
	Asian	11.0	11.5
	Other	4.0	4.1
	Unknown	4.4	2.9
Gender	Male	42.9	45.5
	Female	57.1	54.5
Provider/ sub-sector	University	40.4	51.1
	Polytechnic	30.9	24.3
	Wānanga	5.1	4.1
	Private training establishment	23.6	20.5
Qualification	Doctorates	0.7	1.2
	Masters	2.5	3.9
	Honours/Postgrad cert/dip	4.2	6.3
	Bachelors	35.2	43.7
	Diplomas	13.9	13.2
	Level 4 certificates	10.2	7.4
	Level 1-3 certificates	25.2	16.7
	Level unknown	8.2	7.7

As noted above, Inland Revenue has identified about 82,000 borrowers as being overseas-based, some 15 percent of all borrowers. Analysis of this group, using information from the integrated dataset, shows that overseas-based borrowers:

- were more likely to be male – while 45 percent of all borrowers were male, 50 percent of those assessed as overseas-based were male
- were less likely to be Māori – Māori represented 22 percent of all borrowers but only 14 percent of those based overseas. For borrowers of European ethnicity, the figures were 51 percent of all borrowers and 53 percent of overseas-based borrowers, and for Asian borrowers, the corresponding figures were 9 percent and 15 percent
- were more likely to have studied at a university and less likely to have studied at any other type of provider – 51 percent of those assessed as overseas-based were university leavers, against 36 percent among all borrowers
- were more likely to have been successful at completing a qualification – while 47 percent of borrowers overseas had completed a qualification, only 42 percent of all borrowers had successfully completed a qualification
- were more likely to have studied at bachelors-degree level or higher – among those overseas, 23 percent had completed a bachelors degree, while among all borrowers the figure was 17 percent.

43 As estimated by Statistics New Zealand, the population of New Zealand at 31 December 2008 aged between 15 and 30 years of age was about 900,000. The population over 50 years of age was about 1.29 million.

Repayments

As shown in Table 9, this year Inland Revenue received $619.1 million in loan repayments, $69.0 million more than last year. About 73 percent of loan repayments were received through the PAYE system. Repayments received outside the PAYE system fell in 2005/06 and 2006/07 after the introduction of the interest-free loan policy. They have increased since then, but not at the same rate as PAYE deductions through employers.

The payments that come in outside the PAYE system are from borrowers overseas, self-employed people, borrowers under the income threshold, and from borrowers making extra repayments on their loan.

Table 9 Value of gross loan repayments received by Inland Revenue – borrower/employer split 2004/05–2008/09

Repayments	2004/05 $ million	2005/06 $ million	2006/07 $ million	2007/08 $ million	2008/09 $ million
PAYE system	239.3	313.9	344.2	394.4	452.1
From borrower	271.0	172.5	142.3	155.7	167.0
Total	**510.3**	**486.4**	**486.5**	**550.1**	**619.1**

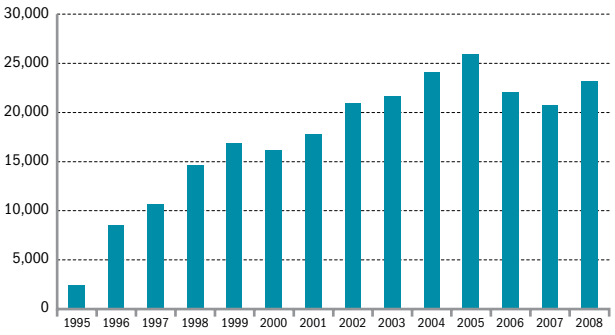
Source: Inland Revenue.

The growth in repayments reflects the continuing increase in the number of students completing their studies and earning an income. Until recently this trend has been taking place in a strong labour market. This year Inland Revenue has also enhanced its proactive actions programme (using sample checking) to identify borrowers on an incorrect tax code and changing them where necessary to the correct tax code.

At the time this report was produced, over 260,000 borrowers had repaid their loan since the loan scheme began and 17,700 borrowers had repaid their loans this year. These numbers are expected to increase as more loans are finalised in the future. Because the finalisation of loans can be backdated, there is a time lag of about two years before definitive data on fully repaid loans becomes available.

Inland Revenue has collected a total of $4,968 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 $5,661 million. Figure 33 shows the number of loans fully repaid to Inland Revenue at 30 June.

Figure 33 Loans fully repaid to Inland Revenue at 30 June

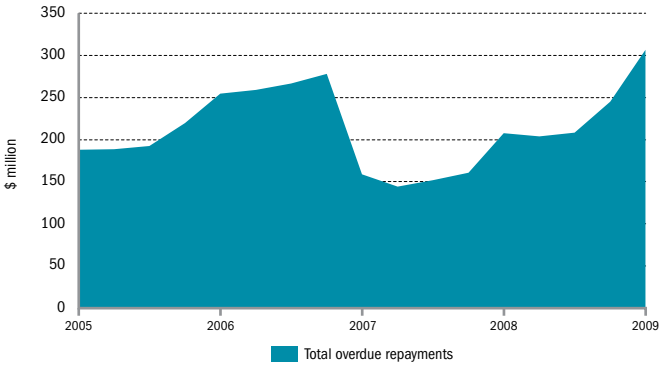


Source: Inland Revenue.

Overdue student loan repayments

At the end of June 2009, $306.0 million in student loan repayments was overdue. There were 114,000 borrowers with overdue repayments – representing 20 percent of all borrowers and 3.4 percent of the nominal value of outstanding loans. Of the borrowers with overdue repayments, 54 percent had less than $2,000 owing. Figure 34 shows overdue payments from 2005 to 2009.

Figure 34 Overdue student loan repayments at 30 June



Source: Inland Revenue.

The large reduction in overdue repayments in June 2007 was the result of the overseas borrower amnesty which ran from April 2006 to March 2008. Initially all eligible borrowers had their late payment penalties reversed or not applied to their account. Borrowers who did not apply for the amnesty received an amnesty penalty of either 5 percent of their loan balance at the end of March 2008 or an amount equal to their original late payment penalties, whichever was lower. Borrowers who have not met their amnesty payment obligations have also had an amnesty penalty applied to their account, but this was apportioned on the basis of the amnesty obligations they have met.

The new definition of an 'overseas-based borrower' and the introduction of the Customs data matching have allowed Inland Revenue to assess borrowers' repayment obligations more accurately. This has meant that many overseas-based borrowers who previously did not receive an annual assessment are now being

assessed. The data match enables Inland Revenue to identify borrowers who have left New Zealand, by matching personal details against Customs' arrival and departure information.

A result of this change has been a large increase in overseas-based borrowers' overdue repayments. The arrears for this customer group rose by 110 percent compared with the same time last year. Of all the student loan borrowers with loan arrears, 30 percent (34,100) are overseas-based.

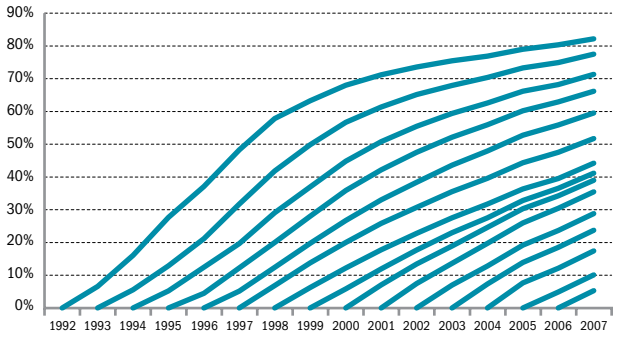
Although Inland Revenue has improved its ability to assess overseas borrowers, it is debt which is difficult to collect. However, the removal of the convenience fee on debit and credit card payments has had a positive effect by increasing payments from these borrowers. Inland Revenue expects to see continuing growth in this form of payment.

Repayment rates

The main determinants of repayment rates are employment and income. As people's incomes rise, their repayment obligations increase. Therefore, repayment rates tend to start slowly and increase as they gain experience in the workforce.

The proportion of those who have repaid their loans year by year for each cohort of leaving borrowers is shown in Figure 35.

Figure 35 Proportion of borrowers who have fully repaid each year for each cohort of leaving borrowers



Source: Statistics New Zealand, integrated dataset.

Looking at the group of people who left study at the end of 1997, we see that by 31 March 2008 – just over 10 years later:

- 52 percent had repaid in full, with men and women equally likely to have repaid
- those who had been successful in completing a qualification were more likely to have repaid in full – 59 percent, compared with 47 percent of those who hadn't completed
- borrowers of European ethnicity were more likely to have repaid in full than Māori or Pasifika (58 percent, compared with 41 percent and 35 percent respectively)
- those who studied at degree level or higher were more likely to have repaid in full than those whose study had been for a certificate or diploma – 58 percent, as opposed to 49 percent.

As noted in chapter 2 of this report, there are different methodologies with which to calculate the number of loans fully repaid. One methodology, used in Figure 35 above, is based on the percentage of people who still had loan accounts open at the end of 2007. An alternative methodology is to calculate the percentage of loan accounts repaid rather than the percentage of people who had repaid. This alternative methodology takes into account the fact that some people repay their loan accounts and return to study at a later date and open a new loan account. This alternative methodology increases the percentage of fully repaid loans from 82 to 85 percent for 1992 leavers, from 44 to 51 percent for 1998 leavers, and 17 to 20 percent for 2004 leavers.

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. Write-offs do not necessarily occur in the same year as the death or bankruptcy of a borrower.

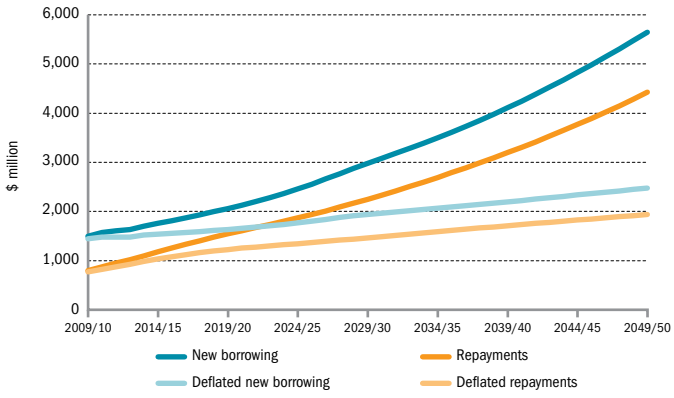
The total value of loans written off due to death was $8.5 million.

The student loans of borrowers adjudicated bankrupt are written off under the Insolvency Act 1967. In 2008/09, $11.1 million was written off due to bankruptcy.

Projected repayment

Repayments are expected to increase in the future – by an average of nearly 9 percent a year over the next four years. Over the longer term, as borrowing grows, so will repayments. Figure 36 shows the expected growth in borrowing and in repayments over the next 40 years. The figures are presented in nominal terms and are also adjusted for forecast inflation to give an idea of the expansion of the scheme in 2009 dollar terms. Repayments are expected to be $794 million in 2009/10.

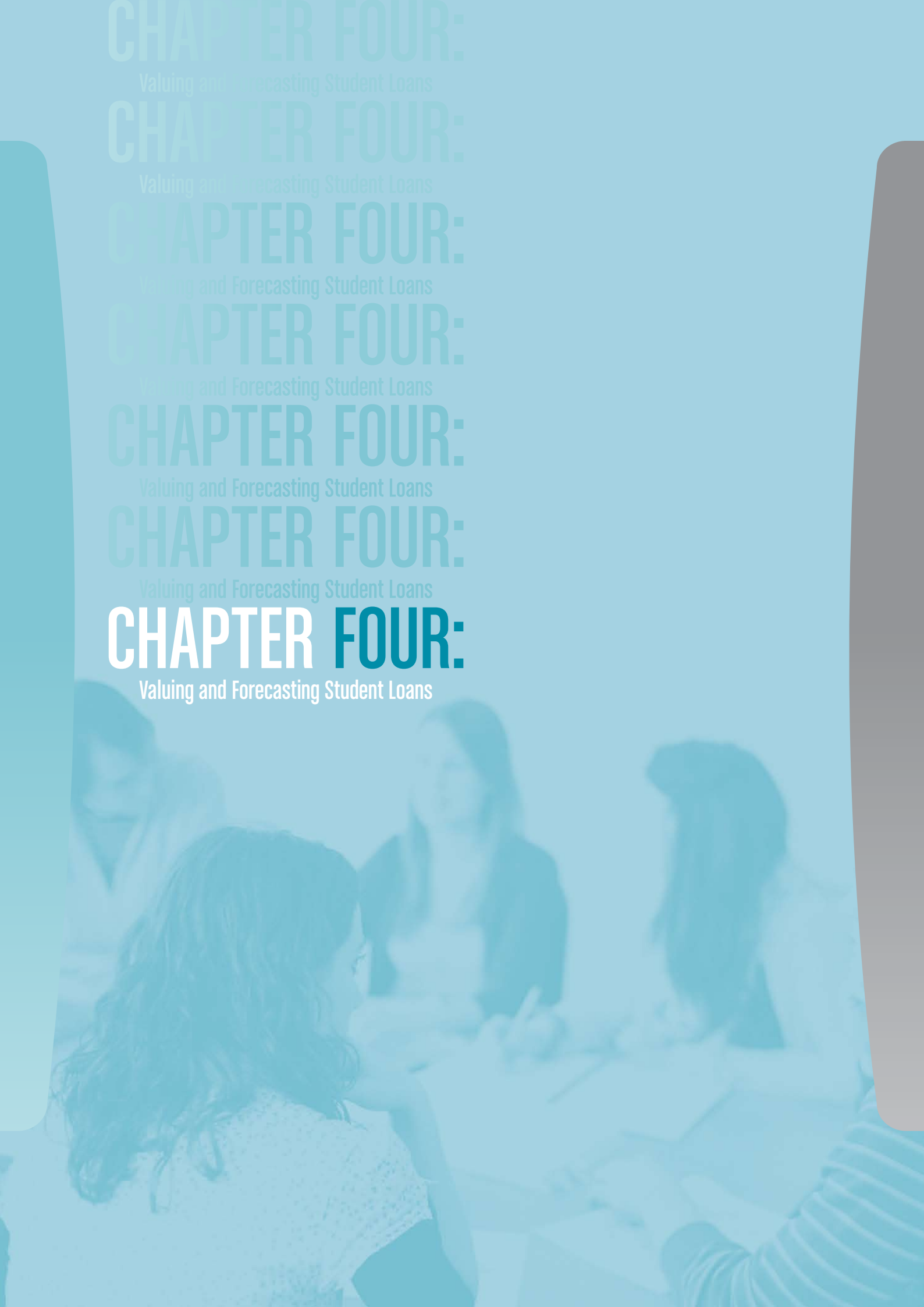
Figure 36 Long-term projections of new lending and repayments in millions of dollars, nominal and adjusted for inflation



Source: Ministry of Education, Student Loans Integrated Model.

CHAPTER FOUR:

Valuing and Forecasting Student Loans



4.0 Introduction

This chapter looks at the latest valuation of the Student Loan Scheme at 30 June 2009 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.

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 2009 was **$10,259 million**.

Carrying value

The carrying value is the value of the Student Loan Scheme asset which is maintained in the scheme's accounts. It is adjusted during the year as new loans are issued and repayments made. Adjustments are also 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.[44]

The **carrying value** as at 30 June 2009 was **$6,553 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.

Fair value differs from the carrying value, 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 2009 was **$5,464 million**.[45]

Initial fair value write-down

The initial fair value 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 on to 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 fair value write-down is recognised as an expense.

Interest unwind

The schedule of revenue and expenditure includes revenue from what is called an 'interest unwind'. At the end of the financial year, the cash flows from existing loans on the balance sheet have moved one year closer to being repaid. The discount that was initially applied to them must be adjusted to reflect the fact that time has moved forward by a year. In effect, this is a reversal, or unwinding, of the reduction in value brought about by the discounting process.

4.1 Valuation

Each year the student loan asset is valued in accordance with 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. Should the NZ IFRS value be greater than the carrying value, the carrying value can be increased through a reversal of a previous impairment. An impairment is recognised in the accounts as an expense.

At 30 June 2009, the value of student loans was assessed as $6,553 million, which implied an impairment of $779 million that has been recognised in the scheme's financial statements. Although the nominal balance had increased by $686 million (see Table 11), the impairment meant that the carrying value after revaluation was $189 million lower than it had been a year earlier.

The annual valuation includes measurement of the fair value, which is disclosed in a note to the accounts. This, too, declined during the year, by $56 million.

For a more detailed explanation of the method used to determine the impairment, carrying value and fair value refer to chapter 5.5.

Movements in the carrying value over the year

The source of movements in the carrying value in 2008/09 are set out in Table 10.

The opening carrying value from the last valuation is:

- increased by new lending during the year (including administration fees applied at the time each loan is first drawn)
- discounted for the initial write-down of that new lending to fair value that is made
- reduced by repayments that are made during the year
- increased by interest unwind, income that accrues to loans that have been written down to fair value as the write-down is 'unwound' over time
- adjusted for any impairment resulting from a revaluation of the student loan asset according to NZ IFRS principles.

44 For a fuller description see the Statement of accounting policies on page 49 of this report.

45 See also Student loan fair value on page 51 of this report.

Table 10 Movement in the carrying value 2008/09

	$ million
Opening value	6,741
New lending	1,350
Administration fee	10
Initial write-down	-532
Repayments	-710
Interest unwind income	473
Impairment	-779
Closing value (after impairment)	6,553

Source: Student Loan Scheme Financial Statements.

Reasons for change in value over the year

Many factors have contributed to the reductions in both carrying value and fair value of the scheme during the 2008/09 financial year. The main ones are set out below.

A major source of impairment arises from the current macroeconomic conditions. Salary and wage growth is now expected to be considerably weaker in the short to medium term. This affects the expected future income levels of borrowers and therefore their expected repayments. Slower repayments lead to a lower value of the loans to the Crown.

Better data and modelling have enabled more accurate estimates of the value of student loans in a number of areas, each of which has led to lower valuation estimates:

- Initiatives introduced by Inland Revenue in 2008 to reduce the level of underpayments by some borrowers have led to some improvements, though not to the extent that had been assumed in the previous valuation.
- Improved modelling of those underpaying has enabled better estimates of future repayment levels.
- Improved data has enabled better definition of those borrowers who are based overseas and their borrowing behaviour.

A large number of student loan borrowers did not provide the necessary information to Inland Revenue to enable them to benefit from interest write-offs that applied for the 2000 to 2006 tax years. It is expected that an estimated $96 million will be credited to those borrowers who had interest incorrectly accrued on their loan while studying and this has been accounted for in the 2008/09 valuation. The carrying value of student loans is reduced by the expected value of those credits.

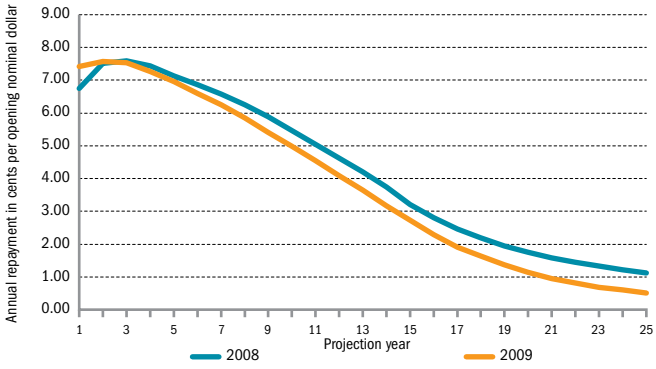
On the other hand, the Government has introduced a 10 percent bonus to be granted to borrowers making a voluntary repayment of $500 or more. This move is expected to have a modest positive impact on the value of loans. It has been considered appropriate to recognise the impact of this policy in the 2008/09 valuation.

The combined effect of changes is to reduce the carrying value to 63.9 percent of the nominal value, the same percentage that applied at 30 June 2007. The reduction is partly a reflection of deteriorating macroeconomic conditions and partly a reversal of some assumptions in previous modelling that are now considered optimistic in the light of changing conditions.

The fair value also declines – from 57.7 percent to 53.3 percent of the nominal value. Different discount rates used in the two valuations explain differences between them. The fair value, being based on current market interest rates and risk premiums, is relatively heavily discounted and is thus lower than the carrying value, which has discount rates locked in for each cohort of new borrowers at the time they first borrow.

The overall discount rate used in the fair valuation changed very little in 2008/09. But the carrying value related to a loan portfolio that included a further cohort of new borrowers that had a relatively high discount rate locked in. With these rates applying to a growing proportion of the portfolio, the carrying value became more heavily discounted during 2008/09. This led to the larger reduction (in both absolute and percentage terms) in the carrying value (see Figure 37 below).

Figure 37 Comparison of projected repayments

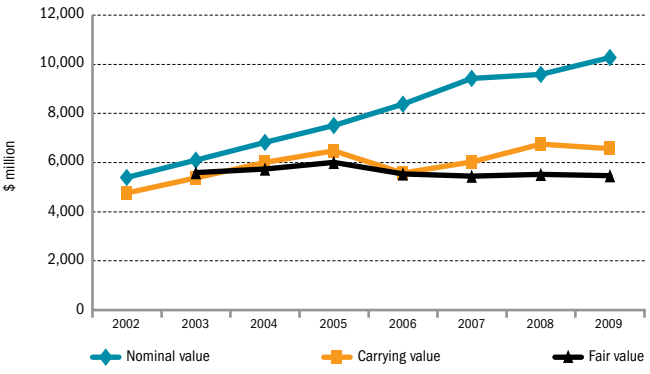


Source: Student Loan Scheme Financial Statements.

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 38 and Table 11 show the trends in the nominal value of the scheme, the carrying value and the fair value over the last seven years.

Figure 38 The value of the Student Loan Scheme at 30 June



Source: Student Loan Scheme Financial Statements.

Notes:

1. The carrying value from 2006 onwards is prepared according to New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).
2. The carrying value up until 30 June 2005 was prepared according to New Zealand Financial Reporting Standards.
3. The fair value was first determined in 2003.

Table 11 The loan scheme's nominal value, carrying value and fair value at 30 June 2003–2009

		2003 $ million	2004 $ million	2005 $ million	2006 $ million	2007 $ million	2008 $ million	2009 $ million
Values	Nominal value	6,094	6,821	7,499	8,370	9,413	9,573	10,259
	Carrying value	5,370	5,995	6,465	5,569	6,011	6,741	6,553
	Fair value	5,592	5,734	5,994	5,537	5,443	5,521	5,464
					Cents per dollar of nominal value			
Ratios	Carrying value to nominal value	88.1	87.9	86.2	66.5	63.9	70.4	63.9
	Fair value to nominal value	91.8	84.1	79.9	66.2	57.8	57.7	53.3

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 Expense and cash outlay of the scheme

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 writedowns and impairments of loans, offset by interest unwind income – as recognised according to NZ IFRS principles.

The net cash outlay of the scheme (the amount of cash disbursed by way of new lending less the cash brought in through repayments) is also of interest.

Table 12 shows the net expense and cash outlay of the scheme over the last three years.

Table 12 Scheme expense and cash outlay for the year ending 30 June 2007–2009

		2007 $ million	2008 $ million	2009 $ million
Cash outlay	New lending	1,176	1,201	1,350
	Repayments	-555	-629	-710
	Net cash	621	572	640
Expense of scheme	Fair value write-down on new borrowing	488	487	532
	Interest unwind income	-360	-407	-473
	Impairment and other write-down	151	-231	779
	Net expense	279	-151	838

Source: Student Loan Scheme Financial Statements.

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

This table indicates that in 2008/09, $1,350 million was lent out. Repayments amounted to $710 million, meaning that the net cash outlay was $640 million. The new borrowing incurred an expense through an initial write-down of $532 million. Income of $473 million accrued during the year by way of the interest unwind. The valuation of the scheme at 30 June 2009 produced an impairment of $779 million, leaving a net expense of $838 million for the year.

Forecast expenses of the scheme

The annual valuation also assesses the fair 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 2008/09, the initial write-down was 39.15 cents in the dollar. In 2009/10, this will rise to 47.39 cents. One way of looking at this is that of every dollar the Crown lends, 52.61 cents is treated as an asset and 47.39 cents as an expense.[46] The main reasons for this change are economic conditions, better information on borrower behaviour and improved modelling.

Assuming that expenses remain constant over the government's baseline period (to 2012/13), the forecast value of the Student Loan Scheme over that period is shown in Table 13. The current valuation fully accounts for impairment known at this time. Thus there is no impairment shown for future years.

Table 13 Forecast of scheme expense and cash outlay for years ending 30 June 2009–2013

		Actual	Forecast			
		2009 $ million	2010 $ million	2011 $ million	2012 $ million	2013 $ million
Cash outlay	New lending	1,350	1,478	1,551	1,585	1,616
	Repayments	-710	-794	-869	-944	-1,013
	Net cash	640	684	682	641	603
Expense of scheme	Fair value write-down on new borrowing	532	700	735	751	766
	Interest unwind income	-473	-513	-546	-577	-606
	Net expense	59	187	189	174	160

Source: *Budget and Economic Fiscal Update 2009* (BEFU 2009) and Ministry of Education.

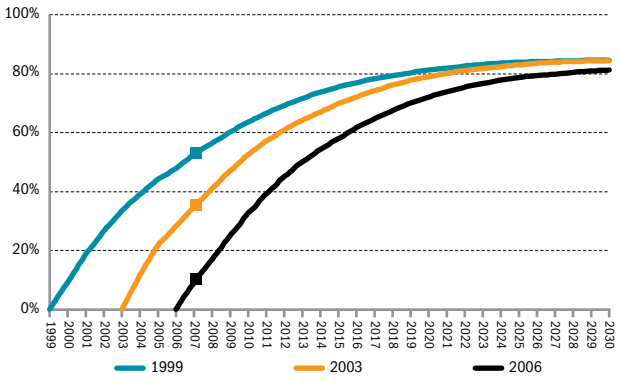
Note: New lending and repayment numbers are from BEFU 2009. The cost of scheme numbers have been reworked from the BEFU 2009 to reflect the valuation results as at 30 June 2009.

4.3 Forecasts of student loan 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.[47] On leaving, each of these groups faced slightly different conditions due to 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). 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 39 shows the overall repayment times for the leaving cohorts in 1999, 2003 and 2006. The repayment times in the graph are the combination of past repayment time (before 31 March 2008) and future projected repayment time, with the solid dots showing the point at which the actual data changes to the modelled data.

Figure 39 Repayment times for borrowers who left study in 1999, 2003 and 2006.



Source: Ministry of Education, Student Loans Integrated Model.

Notes:

1. Repayment times are a mix of the experienced repayment time to 31 March 2008 and the projected remaining repayment time.
2. The solid dot shows the point at which the actual data switches to forecast data.

46 Another way of looking at this is that the economic cost of new lending is 47.39 cents in the dollar.

47 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.

Figure 39 shows little difference between the three groups. The median repayment time – represented by the horizontal line at the 50 percent mark – ranged from 6.6 years for the 2003 cohort, through 7.0 years for the 2006 cohort to 7.5 years for the 1999 cohort. In fact, the median was reached for the 1999 cohort during 2006.

These slight differences in repayment times reflect the differences in conditions faced by the three groups.

- 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 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.
- Those in the 2003 leaving cohort would have had the benefit of the 'no interest while studying' policy (which was introduced in 2000) – in most cases 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 40 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 2005 and 2006 annual reports, we forecast the median and 25th and 75th percentile[48] repayment times for people leaving study in those years. Table 14 compares those forecasts with these latest ones.

Table 14 Forecast repayment times for borrowers who left study in 2004, 2005 and 2006

		Repayment time from leaving year		
		25th percentile	Median	75th percentile
2004 leaving cohort	**2004 annual report forecast**	3.6	6.9	12.0
	2009 forecast	2.7	6.7	14.7
2005 leaving cohort	**2005 annual report forecast**	3.5	6.7	10.6
	2008 annual report forecast	3.5	7.1	15.2
	2009 forecast	3.1	6.9	15.2
2006 leaving cohort	**2006 annual report forecast**	3.7	6.9	10.5
	2009 forecast	3.0	7.0	15.8

Source: Ministry of Education, Student Loans Integrated Model and the Tertiary Education Student Loan Analysis model.

Note: Repayment times are calculated in years.

The 2006 forecasts were made using a different model of the Student Loan Scheme, the Tertiary Education Student Loan Analysis (TESLA) model. This model was superseded in 2007 by the Student Loans Integrated Model (SLIM). This change of model means that differences in the forecasts are inevitable and, in particular, the more recent forecasts are more precise. The 2006 forecast took account of the interest-free student loans policy whereas the policy was still to charge interest once borrowers had left study when the 2005 forecasts were made. The interest-free policy, however, made relatively small differences to repayment times, because lower levels of loan balance were offset by lower levels of voluntary repayments. Another major change reflected in the 2009 modelling is better information about borrowers who go overseas. In 2005 and 2006, before the matching of data between Inland Revenue and Customs, the number of borrowers overseas was underestimated. As will be evident from section 4.4 below, those who remain in New Zealand have much lower repayment times than people who go overseas. This is one of the two factors that led to an underestimate of the 75th percentile repayment times. Non-resident borrowers are over-represented in the group with the longest repayment times. The second factor that contributes to the earlier underestimates of the 75th percentile repayment time is the changes in the labour market. One of the effects of reduced growth in incomes is an increase in the numbers who do not reach the repayment threshold for a period. This has the effect of increasing repayment times for the group that has the longest repayment time.

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, ethnicity and type of study.

Gender

Women tend to have slightly shorter median repayment times than men in the 1999 and 2003 cohorts. In the 2006 cohort, the men are expected to repay slightly more quickly. Table 15 gives the median repayment times, plus the 25th and 75th percentiles.

Table 15 Forecast repayment times for borrowers who left study in 1999, 2003 and 2006 by gender

		Repayment time from leaving year		
	Gender	25th percentile	Median	75th percentile
1999 leaving cohort	**Male**	3.2	7.8	16.2
	Female	2.5	7.0	15.5
	All	2.8	7.5	15.7
2003 leaving cohort	**Male**	2.8	6.6	14.6
	Female	2.3	6.5	14.3
	All	2.5	6.6	14.4
2006 leaving cohort	**Male**	2.9	6.8	15.9
	Female	3.1	7.2	15.7
	All	3.0	7.0	15.8

Source: Ministry of Education, Student Loans Integrated Model.

Notes:

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

48 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.

Level of study

For the 1999 and 2003 leaving cohorts, borrowers who took higher qualifications are expected to have shorter median repayment times, while in the 2006 cohort, the median repayment time for those who took a bachelors degree was higher than for those who studied for certificates and diplomas. This reflects the greater length of bachelors degrees (and consequently, higher borrowing). It is also significant that the forecast median repayment times for borrowers who studied at the certificate level have begun to fall – in the 1999 group, certificate-level borrowers had the highest median repayment time but among 2006 leavers the median for those who took certificates was the lowest. It is likely that this shift reflects the effects of the reviews of the quality and relevance of sub-degree provision that led to a refocusing of much lower-level provision and to a fall-off in enrolments at certificate level.

Table 16 Forecast repayment times for borrowers who left study in 1999, 2003 and 2006 by level of last study

	Study levels	Repayment time from leaving year		
		25th percentile	Median	75th percentile
1999 leaving cohort	**Certificates**	3.0	7.7	19.6
	Diplomas	2.7	7.3	14.4
	Bachelors	2.6	7.2	16.1
	Postgraduate	1.7	4.4	17.2
	All	2.8	7.5	15.7
2003 leaving cohort	**Certificates**	3.0	6.6	16.9
	Diplomas	2.5	6.8	13.1
	Bachelors	2.1	6.6	14.6
	Postgraduate	1.3	4.4	16.4
	All	2.5	6.6	14.4
2006 leaving cohort	**Certificates**	2.8	6.0	13.4
	Diplomas	2.9	7.0	15.5
	Bachelors	3.7	8.8	19.1
	Postgraduate	2.3	6.8	17.2
	All	3.0	7.0	15.8

Source: Ministry of Education, Student Loans Integrated Model.

Notes:

1. Repayment times are calculated in years.
2. Shaded area indicates 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 and postgraduate students is high. This largely reflects the observation, made in chapter 3 of this report, that people who had studied higher-level qualifications, and especially bachelors graduates, are more likely to spend time overseas following study and this leads to longer repayment times.

Ethnicity

In all three leaving cohorts, borrowers of European ethnicity are forecast to have the shortest median repayment time, followed by Māori. Among the 1999 and 2003 leavers, Pasifika had the longest median repayment times but in the 2006 cohort the borrowers of Asian ethnicity had longer median repayment times.

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

	Ethnicities	Repayment time from leaving year		
		25th percentile	Median	75th percentile
1999 leaving cohort	**European**	2.4	5.9	13.0
	Māori	3.5	9.0	16.6
	Pasifika	5.5	11.0	22.8
	Asian	2.8	10.2	-
	Other	3.2	10.1	-
	All	2.8	7.5	15.7
2003 leaving cohort	**European**	1.9	5.6	12.7
	Māori	3.9	7.8	15.0
	Pasifika	4.9	9.1	18.2
	Asian	2.0	7.5	-
	Other	3.0	8.3	-
	All	2.5	6.6	14.4
2006 leaving cohort	**European**	2.7	6.5	13.8
	Māori	3.4	7.2	15.2
	Pasifika	3.8	7.9	17.6
	Asian	3.5	10.3	-
	Other	3.3	8.3	-
	All	3.0	7.0	15.8

Source: Ministry of Education, Student Loans Integrated Model.

Notes:

1. Repayment times are calculated in years.
2. Shaded area indicates the statistic is a projection. Other numbers are actual observations.
3. Dash indicates that the repayment projection falls beyond the parameters of the model used.

In part, the longer repayment times for Māori and Pasifika reflect the fact that many Māori and Pasifika study at lower qualification levels and, as noted above, this often leads to longer repayment times. If so, then the lower median repayment times for former certificate students in the 2006 leaving cohort would account for the fact that the margin between Europeans and Māori and Pasifika is much less in that cohort.

4.4 Forecast repayment times for borrowers who stay in New Zealand

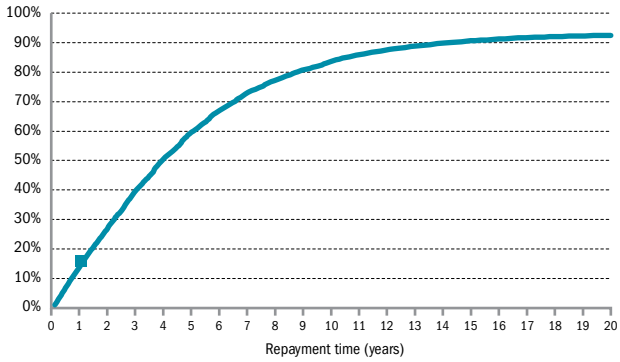
Those who stay in New Zealand throughout the period of their loans make faster repayment progress. This is because those in New Zealand find it easier to repay – mostly via deductions from their earnings. Inland Revenue can readily keep in contact with New Zealand-based borrowers. And New Zealand-based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

By contrast, overseas-based borrowers have interest added to their loans, face a more difficult repayment obligation that doesn't take account of their incomes and, in many cases, take a repayment holiday of up to three years. In addition, it is difficult for Inland Revenue to maintain contact with overseas-based borrowers so

there is a higher risk of an overseas borrower falling behind on payments and incurring penalties.

So one way to look at repayment times is to focus simply on those who remain in New Zealand. In this section, we look solely at the borrowers in the 2006 leaving cohort who do not go overseas in the projected years, or at least until after their loans are repaid. The forecast repayment time is shown in Figure 40 and Table 18 below.

Figure 40 Forecast repayment times for borrowers who left study in 2006 and remain New Zealand-based



Source: Ministry of Education, Student Loans Integrated Model.

Note: The solid dot represents the division between the actual repayment performance in the year 2007 and the forecast repayments in the year 2008 and beyond.

Table 18 Forecast median and quartile repayment times for borrowers who left study in 2006 by New Zealand-based or overseas-based

2006 leaving cohort	Repayment time from leaving year		
	25th percentile	Median	75th percentile
Projected NZ-based	1.8	3.9	7.5
Projected overseas-based	9.6	15.8	-
All	3.0	7.0	15.8

Source: Ministry of Education, Student Loans Integrated Model.

Notes:

1. Repayment times are calculated in years.
2. Dash indicates that the repayment projection falls beyond the parameters of the model used.

Of those borrowers in the 2006 leaving cohort not going overseas in projected years, half are expected to have repaid their loan within about four years of leaving. By contrast, the median for those modelled as going overseas in future years was about 16 years.

Characteristics

The tables below show the characteristics of overall repayment time for borrowers in the 2006 leaving cohort not going overseas in projected years.

Gender

Of those who remain based in New Zealand, females have longer median repayment times than males in the 2006 leaving cohort. This implies that one cause of the lower median overall repayment time among women is the greater propensity of men to travel overseas following study.

Table 19 Forecast repayment time for borrowers who left study in 2006 and remain New Zealand-based by gender

	Gender	Repayment time from leaving year		
		25th percentile	Median	75th percentile
2006 leaving cohort projected NZ-based	**Male**	1.7	3.7	7.0
	Female	1.9	4.1	7.7
	All	1.8	3.9	7.5

Source: Ministry of Education, Student Loans Integrated Model.

Note: Repayment times are calculated in years.

Level of study

The median repayment times for those who left study in 2006 and remain in New Zealand were longest for those who took bachelors degrees, while postgraduates had the shortest.

Table 20 Forecast repayment time for borrowers who left study in 2006 and remain New Zealand-based by level of study

	Study levels	Repayment time from leaving year		
		25th percentile	Median	75th percentile
2006 leaving cohort projected NZ-based	**Certificates**	2.0	3.9	7.1
	Diplomas	1.7	3.8	7.1
	Bachelors	1.7	4.3	8.2
	Postgraduate	1.0	2.8	6.6
	All	1.8	3.9	7.5

Source: Ministry of Education, Student Loans Integrated Model.

Note: Repayment times are calculated in years.

Ethnicities

Europeans in the 2006 cohort who remain in New Zealand have the shortest forecast median repayment time.

Table 21 Forecast repayment time for borrowers who left study in 2006 and remain New Zealand-based by ethnicity

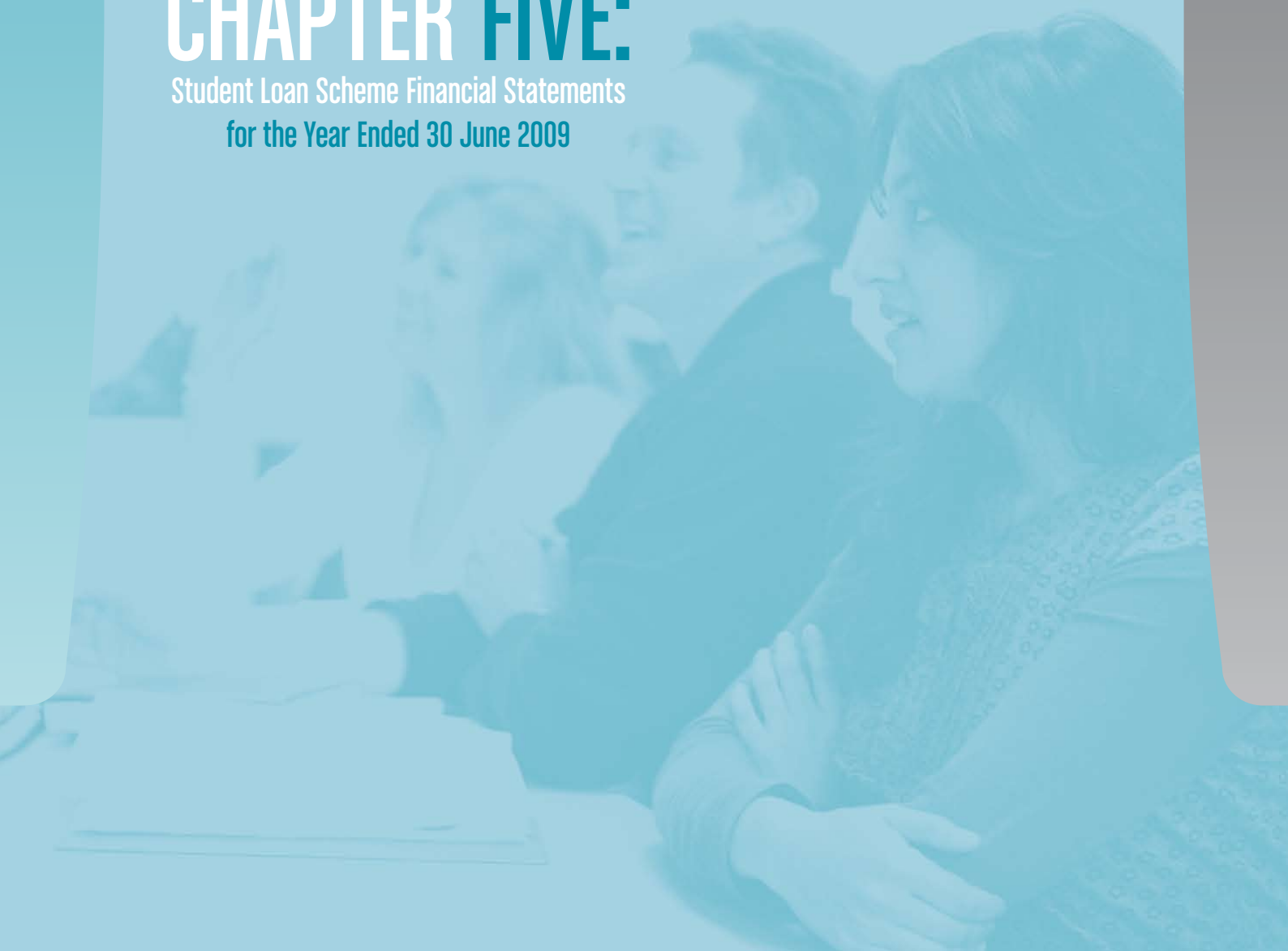
	Ethnicities	Repayment time from leaving year		
		25th percentile	Median	75th percentile
2006 leaving cohort projected NZ-based	**European**	1.5	3.5	6.7
	Māori	2.3	4.5	8.1
	Pasifika	2.4	4.6	7.9
	Asian	1.9	4.5	10.9
	Other	1.6	3.8	7.5
	All	1.8	3.9	7.5

Source: Ministry of Education, Student Loans Integrated Model.

Note: Repayment times are calculated in years.

CHAPTER FIVE:

Student Loan Scheme Financial Statements for the Year Ended 30 June 2009



5.0 Financial statements for the year ended 30 June 2009

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 2009 of $6,553 million ($6,741 million at 30 June 2008).

5.1 Schedule of revenue and expenditure for the year ended 30 June 2009

Table 22 Schedule of revenue and expenditure for the year ended 30 June 2009

Actual 2008 $ million		Actual 2009 $ million	Main Estimates 2009 $ million	Supp. Estimates 2009 $ million
	Revenue			
407.3	Interest unwind	473.1	444.6	479.9
8.6	Administration fees - MSD	9.6	9.2	9.7
415.9	**Total revenue**	**482.7**	**453.8**	**489.6**
	Expenditure			
(230.6)	Impairment	779.2	110.0	210.0
486.7	Fair value write-down on new borrowings	532.4	525.5	556.2
-	Other	7.7	-	-
256.1	**Total expenditure**	**1,319.3**	**635.5**	**766.2**
159.8	**Net surplus/(deficit)**	**(836.6)**	**(181.7)**	**(276.6)**

- The accompanying accounting policies and notes on pages 49 to 51 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 2009.
- Details of the Consolidated Movements Schedule for the year ended June 2009 are shown in Note 1 on page 50.

5.2 Schedule of assets as at 30 June 2009

Table 23 Schedule of assets as at 30 June 2009

Actual 2008 $ million		Actual 2009 $ million	Main Estimates 2009 $ million	Supp. Estimates 2009 $ million
	Current assets			
630	Student loans	761	717	766
630	**Total current assets**	**761**	**717**	**766**
	Non-current assets			
6,111	Student loans	5,792	5,999	6,392
6,111	**Total non-current assets**	**5,792**	**5,999**	**6,392**
6,741	**Total assets**	**6,553**	**6,716**	**7,158**

- The accompanying accounting policies and notes on pages 49 to 51 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 2009.
- Details of the Consolidated Movements Schedule for the year ended June 2009 are shown in Note 1 on page 50.

5.3 Schedule of cash flows for the year ended 30 June 2009

Table 24 Schedule of cash flows for the year ended 30 June 2009

Actual 2008 $ million		Actual 2009 $ million	Main Estimates 2009 $ million	Supp. Estimates 2009 $ million
	Cash flows – investing activities			
	Cash was provided from:			
628.9	Repayments received	710.0	675.1	717.5
	Cash disbursed for:			
(1,200.5)	New borrowings	(1,350.3)	(1,296.4)	(1,410.9)
(571.6)	**Net cash inflow/(outflow) from investing activities**	**(640.3)**	**(621.3)**	**(693.4)**
(571.6)	**Net student loan cash inflow/(outflow)**	**(640.3)**	**(621.3)**	**(693.4)**

- The accompanying accounting policies and notes on pages 49 to 51 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 2009.
- Details of the Consolidated Movements Schedule for the year ended June 2009 are shown in Note 1 on page 50.

5.4 Statement of accounting policies for the year ended 30 June 2009

Reporting entity

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

Statutory authority

The Student Loan Scheme is administered jointly by the Ministry of Education, the Inland Revenue Department and the Ministry of Social Development, under the Student Loan Scheme Act 1992. Also relevant to the administration of the scheme are the Credit Contracts and Consumer Finance Act 2003 and the Education Act 1989.

Budget figures

The budget figures are those presented in the Budget Night Estimates (Main Estimates) and those amended by the Supplementary Estimates (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 6.8 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 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 for the year ended 30 June 2009

Note 1: Consolidated movements schedule for the year ended 30 June 2009

Table 25 Consolidated movements schedule for the year ended 30 June 2009

Actual Consolidated 2008 $ million		Actual Consolidated 2009 $ million	Inland Revenue 2009 $ million	Ministry of Social Development 2009 $ million
9,573.2	Nominal balance	10,259.3	9,108.5	1,150.8
(2,831.9)	Adjustment due to initial fair value recognition and impairment	(3,706.6)	(3,282.8)	(423.8)
6,741.3	**Total student loans**	**6,552.7**	**5,825.7**	**727.0**
6,011.0	**Student loans opening balance**	**6,741.3**	**6,040.3**	**701.0**
0.0	Borrowings transferred from Ministry of Social Development to Inland Revenue	0.0	1,138.8	(1,138.8)
0.0	Fair value write-down on borrowings transferred	0.0	(360.5)	360.5
1,200.5	Amount borrowed in current year	1,350.3	0.0	1,350.3
(486.7)	Fair value write-down on new borrowings	(532.4)	0.0	(532.4)
8.6	Administration fees on loans made in current year	9.6	0.0	9.6
(628.9)	Repayments made in current year	(710.0)	(619.1)	(90.9)
93.5		**117.5**	**159.2**	**(41.7)**
407.3	Interest on impaired student loans	473.1	409.0	64.1
(1.1)	Small balance write-offs	0.0	0.0	0.0
406.2	**Net increase/(decrease) in interest receivable**	**473.1**	**409.0**	**64.1**
230.6	Impairment losses reversed	3.6	0.0	3.6
0.0	Impairment	(782.8)	(782.8)	0.0
230.6	**Net increase/(decrease) other movements**	**(779.2)**	**(782.8)**	**3.6**
6,741.3	**Student loans closing balance**	**6,552.7**	**5,825.7**	**727.0**

Note 2: Recognition

Student loan nominal value

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

Student loan carrying value

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

The main factors relating to the $779 million impairment of student loans are: $215 million of changes to macroeconomic assumptions including lower projected salary inflation which reduces future borrower repayments; and $437 million of actuarial modelling changes associated with refinements to the model used this year to project underpayments for New Zealand-based and overseas-based borrowers. These factors account for 84 percent of the impairment.

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 26 Significant assumptions

	30 June 2009	30 June 2008
Carrying value		
Effective interest rate	9.43%	8.44%
Interest rate applied to loans for overseas borrowers	6.7%-6.8%	6.7%-6.8%
Consumers Price Index	1.5%-2.5%	2.5%-4.0%
Future salary inflation	1.5%-3.5%	3.5%-4.7%
Fair value		
Fair value ($000)	5,464,200	5,520,600
Discount rate	9.18%	9.19%
Impact on fair value of a 1% increase in discount rate ($000)	(275,800)	(321,000)
Impact on fair value of a 1% decrease in discount rate ($000)	308,000	366,000

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 2008 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 2009. 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 2009 has been determined to be $5,464 million ($5,521 million at 30 June 2008).

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 2009. At that date the fair value was calculated on a discount rate of 9.18 percent (9.19 percent at 30 June 2008) whereas a weighted average discount rate of 6.73 percent (6.56 percent at 30 June 2008) 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 27 Reconciliation of impairment allowance account

Impairment allowance account	30 June 2009 $ million	30 June 2008 $ million
Balance at beginning of year	303	533
Impairment losses recognised on receivables	779	–
Impairment losses reversed	–	(230)
Balance at end of year	1,082	303

Source: Inland Revenue and Ministry of Social Development.

Audit Opinion

To the readers of the Student Loan Scheme's financial statements for the year ended 30 June 2009

The Auditor-General is the auditor of the financial statements of the Student Loan Scheme. The Auditor-General has appointed me, Robert Manktelow, using the staff and resources of Audit New Zealand, to carry out the audit. The audit covers the financial statements of the Student Loan Scheme for the year ended 30 June 2009.

Unqualified Opinion

In our opinion the financial statements of the Student Loan Scheme on pages 45 to 51:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  - the Student Loan Scheme's financial position as at 30 June 2009; and
  - the results of its revenue, expenditure and cash flows for the year ended on that date.

The audit was completed on 12 October 2009, and is the date at which our opinion is expressed.

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

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

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.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Secretary for Education;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Secretary for Education and the Auditor

The Secretary for Education is responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Student Loan Scheme as at 30 June 2009 and the results of its revenue, expenditure and cash flows for the year ended on that date.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This 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 Institute of Chartered Accountants of New Zealand.

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

Robert Manktelow, 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 2009 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 2009 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: Elements of the Student Loan Scheme

The legal structure and authority of the Student Loan Scheme

Students enter into a credit contract with the Crown under the Credit Contracts and Consumer Finance Act 2003.

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

The assessment of student loan repayment obligations and the collection of student loan repayments are set out in the Student Loan Scheme Act 1992 and are administered by Inland Revenue.

Eligibility

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.

Students younger than 18 years old need parental consent before they can borrow.

Undischarged bankrupts are not eligible to apply for a student loan. An insolvent debtor status, the 'no asset procedure', was put in place by the Insolvency Act 2006 as an alternative to bankruptcy. This procedure lasts for 12 months instead of the normal three-year term for bankruptcy. 'No asset procedure' debtors are able to access the loan scheme.[49]

When a student has entered into the 'no asset procedure', they must declare it on their loan application or complete a change of circumstances form if they are currently receiving a student loan. Failure to declare is both a breach of the loan contract and an offence under the Insolvency Act 2006.

To be eligible a student must:

- be a New Zealand citizen or have been granted permanent residence in New Zealand, and
- be enrolled in an approved qualification[50] offered by a recognised tertiary education provider, and
- 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.

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. This can be either a statement from their provider listing the items needed for their course and an estimate of the cost, or receipts for expenditure incurred. Students studying part-time for part of the year are not able to access this component of the loan scheme.

Living costs

Only full-time students are eligible for the living costs entitlement for each week of the course, less any student allowances.[51] 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 2009/10 students can borrow up to $160.24 per week.[52]

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.

Administration fee

When a new loan account is established, an administration fee of $50 is charged. 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 administration fee is charged only once in each 12-month period.

If a student cancels the loan within seven days of the account being established, and repays any money that has been drawn down, the $50 administration fee (and any interest on it) will be waived. Otherwise, the administration fee is always included in the loan balance.

49 'No asset procedure' debtors' loans cannot be written off as the loans of bankrupts are.

50 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.

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

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

Loan repayments

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

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 2008 to March 2009, the threshold was $18,148 (for the 2009/10 tax year the threshold is $19,084). Compulsory repayments are made at the rate of 10 cents for every dollar of income over the repayment threshold.

Where a borrower earns more than the repayment threshold (through salary, wages, student allowances, or income support), 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 employers, 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-based 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 28.

Table 28 Overseas-based 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.

From 1 April 2007, some overseas-based borrowers are able to take a repayment holiday for three years. Borrowers do not have to make repayments, although their loans will 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 or online.

Borrowers who are overseas 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. Repayments from overseas can be made by telegraphic transfer, MasterCard or Visa.

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, from 1 April 2007, borrowers are charged a penalty of 1.5 percent (previously 2 percent) per month on outstanding amounts greater than $333 (previously $250). Penalties continue to be charged on the total outstanding (including penalties) until the amount is repaid in full.

Any borrower having difficulty repaying an overdue student loan debt is able to negotiate an arrangement for repayment. A borrower may also negotiate a lower repayment amount if the compulsory repayment obligation would cause serious financial hardship. In certain circumstances, a borrower may have an overdue amount added back to the loan principal.

Interest

Most borrowers no longer pay interest on student loans because they are New Zealand-based. To be eligible, student loan borrowers must be living in New Zealand for 183 consecutive days or more, or qualify for an exemption from being overseas-based borrowers.[53] In the tax year from April 2006 to March 2007 the interest was written off after the end of the tax year. After 1 April 2007, the interest write-off on loans held by Inland Revenue has been concurrent with the interest charge.

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.

Interest is made up of the base interest rate and an interest adjustment rate, which is sometimes called the inflation component. The total interest rate for the tax year from April 2007 to March 2008 was 6.8 percent. This was reduced to 6.7 percent for the tax year from April 2008 to March 2009.

Small balance write-offs

Small balance write-offs[54] occur where a borrower has repaid most of the loan and only a minor balance (a few dollars and/or cents) is outstanding. These amounts are written off in accordance with sections 51 and 60 of the Student Loan Scheme Act 1992.

53 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/.

54 If a borrower has a loan balance of less than $20 as at the last day of any income year, the loan balance is written off.

Appendix 2: Forecasting and costing

A stochastic model is used to forecast the value of the loan scheme and to cost policy options. The model starts with actual data and projects future trends in student loans, utilising the past behaviour of borrowers to model future events.

Student Loans Integrated Model (SLIM)

SLIM is built on the integrated dataset on student loans and allowances, so it draws on data about the actual behaviour of individual borrowers (including former loan borrowers). Actuaries engaged by the Ministry of Education have rebuilt the model each year, using the most up-to-date information. 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.

However, the loan scheme is in a far from steady state; policy changes such as the interest-free policy and a revised overseas repayment regime have affected borrowing and repayment behaviour and the full effects of those changes are not necessarily reflected in the data on which the model is built.

The administrative data upon which SLIM 2009 was built runs from the beginning of the loan scheme in 1992 to the end of March 2008, that is, after the second full year of the interest-free policy and after the first year of a new classification of overseas-based borrowers. 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 related to the reduction in the levels of underpayments due to recent measures by Inland Revenue, and the changes to the level of voluntary repayments due to the introduction of 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.

SLIM is based on a large number of categorical and regression tree models developed from the integrated dataset. The 2009 version of SLIM has 28 sub-models comprising 44,000 lines of decision-tree code. Together, these sub-models encapsulate former borrowers' borrowing, repaying, income growth, travelling overseas and other characteristics. A number of borrower features, including residency, income, study duration, borrowing amounts and voluntary repayments, are modelled and projected into the future.

Each sub-model uses 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.

Table 29 Summary of SLIM model assumptions

Area	Assumption
Enrolment and student loan uptake assumptions	As forecast for the *Budget Economic and Fiscal Update 2009*, using the most up-to-date enrolment and borrowing data available at that time.
Economic assumptions	For valuation purposes, 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, annual CPI growth is assumed to be 1.5 percent in 2009 increasing to 2.5 percent from 2014 onwards, and the long-term Average Weekly Earnings growth is 1.5 percent in 2009 and increases to 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, as explained in chapter 5. The fair value is based on discount rates that incorporate risk-free rates, derived for each year from the government bond market, plus a risk margin. These are equivalent to a single annual discount rate, which for this year's valuation is estimated to be 9.18 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 experience of the loan scheme's participants.
Voluntary repayments	The probability and amount of voluntary repayments are modelled from the integrated data relating to the first year following the introduction of the interest-free policy, i.e. the data from 1 April 2006 to 31 March 2007. It is assumed that the pattern from that year is representative of future years.
Threshold increases	Assumed to follow CPI growth.
Resident under-payments	The probability and amount of under payment by residents has been modelled from the second to last year of integrated data and adjusted for the expected effect of new measures being put in place by Inland Revenue to improve compliance.
Repayment holiday	Data was available this year indicating, of those overseas, who is on a repayment holiday and how many years of repayment holiday entitlement they have remaining. This data was used as a starting point in the projections. Also, based on past experience, all those going overseas for the first time were assumed to go on a repayment holiday.
Overseas amnesty	This was modelled based on figures supplied by Inland Revenue and only applies to the first year of projection. Of those randomly selected to represent those on the amnesty, 12.6 percent were assumed to become non-compliant in the first year of projection. For these borrowers, a one-off penalty was applied to their outstanding loan balance.
Bankruptcy	Age-specific, graduated rates were constructed based on the experience of the loan scheme. For example, the rate of bankruptcy at age 40 is 2.28 per 1,000 borrowers each year.
Mortality	Based on the experience of the loan scheme: males 57 percent and females 68 percent of the New Zealand Life Tables 2000-2002.

Source: Ministry of Education.

Appendix 3: Estimated administration cost

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 administration fee, which is charged to the borrower's account when it is first used.

Table 30 shows the estimated costs of the payment and collection agencies, the Ministry of Social Development and Inland Revenue respectively, and the total cost of operating the scheme after deduction of administration fees.

Table 30 Estimated administration cost 2004/05–2008/09

	2004/05 $ million	2005/06 $ million	2006/07 $ million	2007/08 $ million	2008/09 $ million
Ministry of Social Development	11.8	13.3	17.5	17.0	17.0
Inland Revenue	9.6	18.3	22.7	26.4	22.2
Gross administration cost	**21.4**	**31.6**	**40.2**	**43.4**	**39.2**
Less loan administration fees	7.5	8.0	8.7	8.6	9.6
Net administration cost	**13.9**	**23.6**	**31.5**	**34.8**	**29.6**

Source: Ministry of Social Development and Inland Revenue.

Notes:

1. All amounts exclude GST.
2. All figures for cost are estimates. They include estimated administrative cost and estimates of operating initiatives. For example, Inland Revenue made system changes to implement interest-free student loans and the amnesty, and the Ministry of Social Development made improvements to systems and support services. The figures do not include costs of other agencies such as the Ministry of Education or education providers.
3. Inland Revenue has revised and improved its costing methodology. Some figures from earlier years have been revised and therefore differ from those previously published.
4. Inland Revenue administration costs for 2008/09 were lower than in 2007/08 mainly because of one-off funding for the Student Loan Overseas Borrowers Project in 2007/08.

Appendix 4: Glossary

Academic year

The academic year is from 1 January to 31 December.

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.

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 when a borrower has to start repaying his/her loan because his/her income has crossed the repayment 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 repayment threshold.

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

'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 (that is, contributing towards a recognised qualification) and non-formal (that is, not contributing 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 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).

Impairment

A decrease in the value of a long-term asset to an amount less than that shown.

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 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.

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 rate setting

This is the annual process by which the Order in Council sets the loan scheme's interest rate.

Interest unwind

Refer to chapter 4.0.

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* to be found at www.educationcounts.govt.nz.

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.

Non-degree

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

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 definition 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.

Part-time

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

Pasifika

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

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 lead to a qualification.

Qualification

An official award given in recognition of the 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 obligation

The amount a borrower is required to repay toward their loan in any given income year. For resident 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 person can earn in a year before they have to start paying back their loan ($18,148 before tax from 1 April 2008 to 31 March 2009). 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 is resident in New Zealand in terms of section OE 1 of the Income Tax Act 1994. From 1 April 2007, we refer to New Zealand-based borrowers – this term includes all borrowers who qualify for an interest-free student loan.

Student allowances

Income-tested grants that provide living support while studying.

Student Loan Accounts Manager

Contracted by the Ministry of Education to manage loan accounts prior to the transfer of the loan scheme to Work and Income.

Student Loans Integrated Model (SLIM)

Refer to chapter 4 and appendix 2.

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.

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 2007/08, 6.7 percent for 2008/09 and is 6.8 percent for 2009/10. 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.

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).

Index of figures

Index of tables

New Zealand Government