STUDENT LOAN SCHEME

Annual Report

NOVEMBER 2007

Incorporating the Financial Statements to 30 June 2007

MINISTRY OF EDUCATION
Te Tāhuhu o te Mātauranga

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

November 2007

Foreword

I am pleased to present the 2007 Student Loan Scheme Annual Report and 2006/07 Financial Statements.

2006 was the fifteenth year since student loans first became available and the year which introduced interest-free student loans. There was an 8 percent increase in the number of borrowers last year, compared with 2005. There was also an increase of nearly 17 percent in the number of first-time borrowers. Some of these increases may be attributable to the introduction of interest-free loans. The loan scheme is meeting its objective of making tertiary education affordable for all New Zealanders who choose to study.

Tertiary education makes an important contribution towards the government's priorities. It equips New Zealanders with the skills and knowledge needed for a productive and adaptable workforce; it contributes to economic transformation; it helps to strengthen our sense of national identity; and it contributes to improved social outcomes. If New Zealand is to maintain its position in the world it needs an educated and innovative population and the loan scheme is helping to achieve this goal.

Research has shown that tertiary education provides benefits to the individual in terms of better employment opportunities, higher income and general wellbeing. A well-educated population also benefits society as a whole by providing the skills needed to promote national development and compete globally. This dual benefit underpins the shared responsibility of government and students (or their families) for meeting the costs of tertiary education.

The loan scheme provides access to funding for course fees, course-related costs and living costs – so that individuals can defer paying for their share of the costs until the benefits of their study are realised in the income they earn. In this way, the loan scheme increases access to tertiary education. This is reflected in the growing number of funded enrolments in tertiary education, which has increased from 202,000 in 2000 to 262,500 in 2006.

Since its introduction in 1992, 712,400 people have used the loan scheme – representing about 22 percent of New Zealanders aged 15 and over. Over that time, 216,300 loans have been fully repaid. In 2006, 167,400 students (56 percent of all those eligible to borrow) drew down $1,099.8 million from the loan scheme.

Government continues to monitor and review the loan scheme to ensure it continues to improve access to tertiary education so that people of all ages and backgrounds can take part. In 2006, legislation introducing interest-free student loans and a one-year amnesty for borrowers living overseas came into effect. These policy changes aim to cut the costs of tertiary study for many people, remove one of the barriers to borrowers wanting to return to New Zealand, and help people to meet their loan obligations. Further changes to the legislation in 2007 have improved the repayment conditions for those who go overseas with student loans – easing the repayment load for many borrowers. Recent changes to the funding rules for tertiary education providers will have the effect of controlling growth in the number of student loans, as student loans will be available for study towards funded qualifications only.

New international accounting standards were introduced in 2005 and these changed the way in which we view and value the loan scheme.

This annual report gives me an opportunity to provide information about the loan scheme, its performance and value. It's also an opportunity to increase public understanding of the loan scheme and how it works.

Karen Sewell

Karen Sewell
Secretary for Education

Contents

HIGHLIGHTS

STUDENT LOAN SCHEME PORTFOLIO

As at 30 June 2007:

- The fair value of the loan scheme was approximately $5,443 million. (Refer to chapter 5.3.)
- The book value of the loan scheme – calculated using International Financial Reporting Standards – was $6,011 million. (Refer to chapter 4.4.)
- The nominal face value of loan balances was $9,412.7 million. (Refer to chapter 4.4.)
- 499,259 people had a student loan. (Refer to chapter 4.3.)

Since the loan scheme began:

- 712,405 people have used the loan scheme – 21.7 percent of the population aged 15 and over. (Refer to chapter 4.3.)
- 216,254 loans have been fully repaid. (Refer to chapter 4.4.)
- Inland Revenue had collected $3,800 million in loan repayments at 30 June 2007. (Refer to chapter 4.4.)
- $1,842 million in interest charged has been written off. (Refer to chapter 4.4.)

During 2006/07:

Government passed the Student Loan Scheme Amendment Act 2007, which changed the repayment conditions for overseas borrowers and provided a three-year repayment holiday for borrowers who wish to live overseas after study. These changes were designed to remove disincentives and encourage borrowers to return to New Zealand from overseas. (Refer to chapter 3.1.)

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 2006:

- The number of tertiary students (domestic and international) in 2006 was 491,000, compared with 254,100 domestic and international students in 1994. (Refer to chapter 2.2.)
- The percentage of New Zealanders aged 15 and over who have participated in tertiary education has increased to 13.7 percent – up from 8.9 percent in 1994. (Refer to chapter 2.2.)
- Enrolments by women in public tertiary education providers have increased by 56.8 percent. (Refer to chapter 2.2.)
- Enrolments in public providers by Māori and Pasifika peoples have increased by 284.7 percent. (Refer to chapter 2.2.)
- The number of people with a bachelors degree or higher qualification has increased by nearly 100 percent – from 224,000, to nearly 448,000. (Refer to chapter 2.2.)

ABOUT STUDENTS BORROWING FROM THE STUDENT LOAN SCHEME IN 2006

- 167,420 students (56 percent of eligible students) took out a loan from the loan scheme. (Refer to chapter 4.1.)
- There were 60,016 new borrowers. (Refer to chapter 4.1.)
- The total amount borrowed in the year was $1,099.8 million. (Refer to chapter 4.2.)
- 93 percent of borrowers borrowed to pay course fees, 62 percent borrowed to help meet course-related costs and 48.5 percent borrowed to meet living costs. (Refer to chapter 4.2.)
- 23.9 percent of borrowers borrowed to pay for course fees only. (Refer to chapter 4.2.)
- 12 percent of borrowers borrowed to pay for living costs and received student allowances as well. (Refer to chapter 4.2.)
- 72 percent of borrowers were under the age of 30 and 3.4 percent were 55 or over. (Refer to chapter 4.1.)
- 16.7 percent of borrowers identified themselves as Māori, 15 percent as Asian and 7 percent as Pasifika peoples. (Refer to chapter 4.1.)
- The average amount borrowed was $6,610; the median amount borrowed was $5,663. (Refer to chapter 4.2.)

ABOUT THOSE MAKING REPAYMENTS IN 2006

- 89 percent were under 45 years of age, 55 percent were under 30 and 5.6 percent over 50. (Refer to chapter 4.3.)

OF THOSE WHO USED THE LOANSCHEME BETWEEN 1997 AND 2006

- About 56 percent were women. (Refer to chapter 4.3.)
- 48 percent were European, 21 percent were Māori, 9 percent were Asian and 7 percent were Pasifika peoples. (Refer to chapter 4.3.)
- 42 percent had studied at a university or college of education, 33 percent at a polytechnic and 21 percent at a private training establishment. (Refer to chapter 4.3.)
- 46 percent had studied at non-degree level, 35 percent at bachelors level and 6 percent at postgraduate level. (Refer to chapter 4.3.)

As at 30 June 2007:

- The average loan was $16,833 and the median loan balance was $11,087. (Refer to chapter 4.4.)

During 2006/07:

- 15,059 loans were fully repaid. (Refer to chapter 4.4.)

VALUING AND FORECASTING THE STUDENTLOAN SCHEME

- The median repayment time for those who finished study in 1999 and remained in New Zealand was forecast to be seven years. (Refer to chapter 5.5.)
- The median repayment time for those who finished study in 2003 and remained in New Zealand was forecast to be six years. (Refer to chapter 5.5.)
- By 30 June 2015, the portfolio is forecast to grow to $16 billion and by 30 June 2020 the portfolio is forecast to grow to $21 billion. (Refer to chapter 5.0.)

Over the next five years:

- The average annual increase in total borrowing is forecast to be 4.2 percent per annum. (Refer to chapter 5.4.)
- The average annual increase in the number of loan borrowers is forecast to be 2 percent per annum. (Refer to chapter 5.4.)

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 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 2006 to 30 June 2007.

The report explains the purpose of the loan scheme, 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, explains recent changes to the loan scheme, and has detailed information about borrowers and borrowing and repayment trends. Information about the valuation of the loan scheme and forecasting is also provided.

Tables behind graphs and historical data

The data underlying the graphs in this report and tables providing more detailed historical data are available on the Education Counts website www.educationcounts.edcentre.govt.nz. These tables are 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 borrowing 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 was supplied by the Ministry of Education. Other data has come from Statistics New Zealand's integrated dataset on the loan scheme's borrowers. Data from these sources has been 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.

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

The integrated dataset

The integrated dataset is managed by Statistics New Zealand according to the requirements of the Statistics Act 1975 and following 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 is 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.

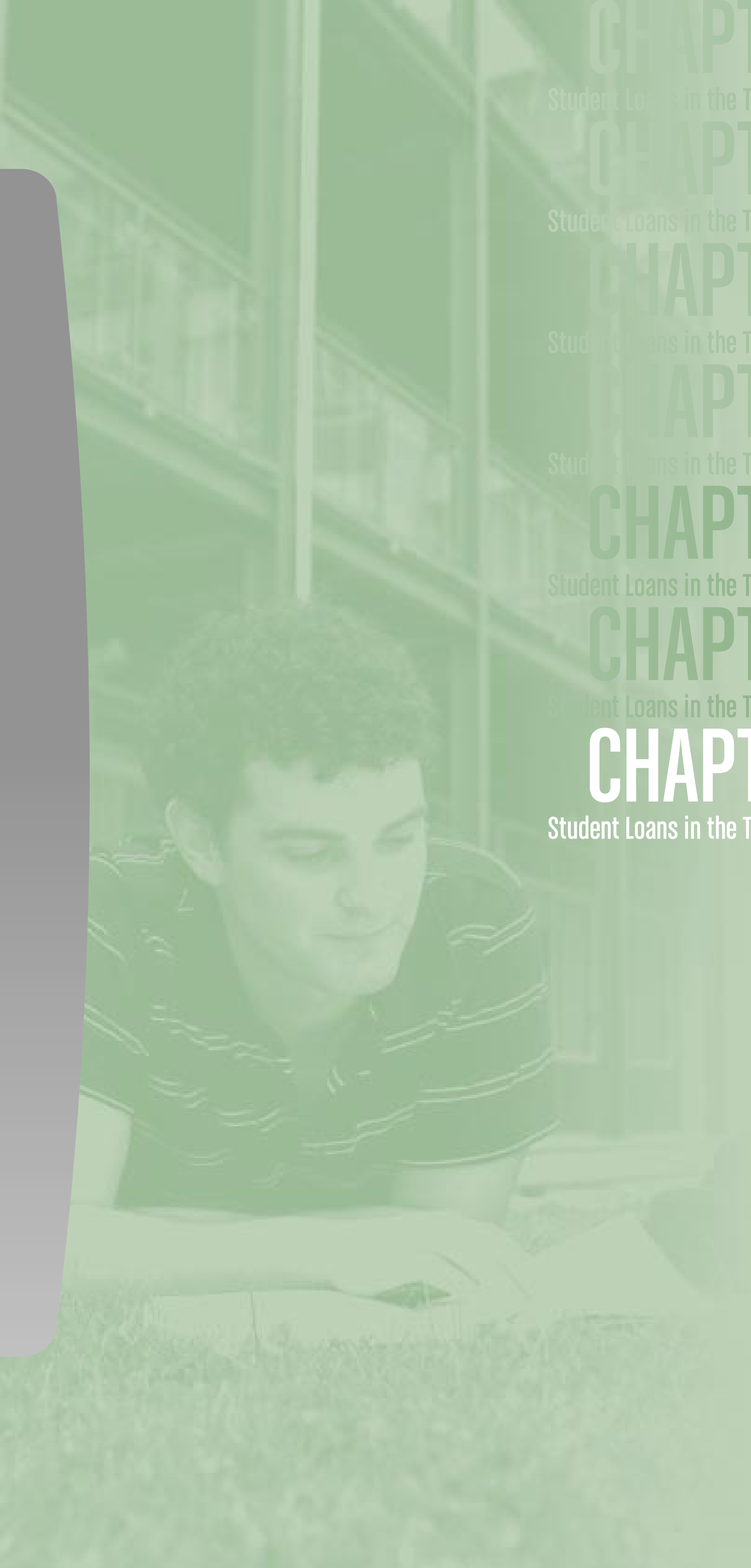
The dataset has recently been updated with records up to 31 March 2006.

Nominal dollars

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

Data from 2000

In 2000, responsibility for managing the loan scheme transferred from the Ministry of Education to the Department of Work and Income (now StudyLink, a service of the Ministry of Social Development). In some areas, new information standards were created at the time of the transfer. As a result, some data series start from 2000, rather than when the loan scheme began in 1992.



CHAPTER ONE

Student Loans in the Tertiary Education System

1.0 Introduction

Government's priorities

Government has outlined three themes that will shape its priorities for the next decade: Economic Transformation, Families – Young and Old, and National Identity. These themes aim to ensure that all New Zealanders enjoy prosperity and a good quality of life, and to make New Zealand the best place in the world for future generations of New Zealanders to live. Tertiary education contributes to these goals.

Economic Transformation

Tertiary education equips New Zealanders with the skills and competencies needed for a productive, adaptable workforce. It helps to develop business leaders with the entrepreneurial and management capabilities to make New Zealand businesses grow and compete globally.

Tertiary organisations deliver research and knowledge that create commercial opportunities for New Zealand firms. In addition, tertiary organisations help develop international education as a sustainable high-value export sector and they will increasingly be required to perform and compete in a globally competitive market.

Families – Young and Old

Achievement in tertiary education has wide-ranging benefits for individuals, their families and the wider community. Educational success is not only related to economic success but to improved social outcomes, greater personal wellbeing and security, and improved outcomes for children. By ensuring all New Zealanders can achieve to their potential in tertiary education, the system contributes to our nation's social development and the health and security of New Zealand families.

National Identity

Our tertiary education institutions are central to New Zealand's national identity. They act as custodians and interpreters of our culture, our history and our view of our place in the world. Teaching and research are central to the way in which we understand and connect with each other, our natural environment and the wider world.

Tertiary education organisations are important for supporting Māori success by maintaining and developing Māori language and culture. Many New Zealanders learn about and participate in art and culture, sport and other aspects of national life while studying with tertiary education organisations. The broad skills and competencies developed in tertiary education enable New Zealanders to participate in society; to understand and appreciate diverse cultures; and to contribute to social and cultural debate by applying the knowledge and understanding they have gained.

The Tertiary Education Strategy

The Tertiary Education Strategy (TES) and the Statements of Tertiary Priorities (STEPs) set out the government's goals and priorities for New Zealand's tertiary education system. These goals and priorities are designed to support the national goals and priorities outlined above.

The first TES was for 2002/07 and took a broad and inclusive approach to cover the diversity of tertiary education. A new TES for 2007/12 was published in December 2006. It incorporates the STEP for 2008/10 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.

The TES 2007/12, shown in the following diagram, provides new goals and a new focus for the tertiary education system. It describes how the student support system is expected to contribute to meeting tertiary education outcomes as follows.

'The government will continue to support broad-based participation in lifelong learning by New Zealanders through:

- *Supporting affordable, equitable access to tertiary education through tuition subsidies and a range of student support, including student allowances, merit- and needs-based scholarships, and student loans which are interest-free for students who remain in New Zealand*
- *Ensuring that students' own financial contributions through fees are affordable, predictable and fair.'*

The structure of the Tertiary Education Strategy 2007/12

Government's Goals for New Zealand

- Economic Transformation
- Families – Young and Old
- National Identity

Expected contribution of Tertiary Education

Success for all New Zealanders through lifelong learning	Creating and applying knowledge to drive innovation	Strong connections between tertiary education organisations and the communities they serve
· Ensuring maximum educational opportunity for all New Zealanders · Strong foundations in literacy, numeracy and language · Successful transitions from school to tertiary education and work · Building relevant skills and competencies for productivity and innovation · Building skills and competencies for social and cultural development	· Strengthening research-led teaching · Focusing resources for greatest effect · Improving transfer and application of knowledge	· Connections to improve quality and relevance of education and knowledge · Connections to support economic transformation · Connections to support social and cultural outcomes

Areas for Focus (rows above)

Distinctive Contributions

Ensure each tertiary education organisation contributes according to their strengths.
Expectations and priorities 'interpreted' through distinctive contributions.

Priority Outcomes for Tertiary Education:

- Increasing educational success for young New Zealanders – more achieving qualifications at level 4 and above by age 25
- Increasing literacy and numeracy levels for the workforce
- Increasing the achievement of advanced trade, technical and professional qualifications to meet regional and national industry needs
- Improving research connections and linkages to create economic opportunities

Strategy achieved through:

- Support for students
- New approach to planning, funding, quality assurance and monitoring for tertiary education organisations
- Informed contribution of stakeholders, employers and communities

1.1 Funding tertiary education

As tertiary education is one of the keys to development and growth, all countries want to expand their tertiary systems and use tertiary education to raise the level of skills in their population. However, this costs a great deal. Most countries face a dilemma in meeting the increasing costs of an expanding system. In New Zealand, one way successive governments have approached this is by sharing the costs.

Tuition subsidies ensure the cost of tertiary education is shared between government, students and their families. Subsidies enable government to provide funding for more students than would otherwise be possible, and therefore expand participation. In addition, subsidies acknowledge that the benefits of tertiary education are shared:

- A better-educated workforce means our economy has greater skills to call upon.
- Evidence suggests that tertiary education contributes 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 have higher levels of satisfaction with their lives.

Many individuals, however, do not have the money to meet their share of the cost until they experience the benefit of their tertiary study several years into the future. The loan scheme enables those students to meet their share of tertiary education costs by allowing them to pay their share over time as their earnings increase.

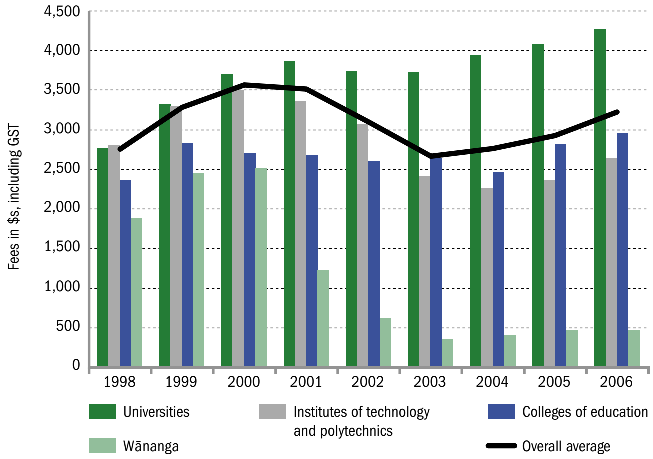
While the share of the total costs of tertiary education borne by students rose from 27 percent in 1998 to 33 percent in 2000, it fell back to 27 percent by 2006 due to fee stabilisation and rising subsidy rates.

Funding policy and its effect on tertiary fees

Between 1998 and 2000, government reduced the funding rates it paid to tertiary education providers. This led to providers increasing their fees; the average tuition fee per equivalent full-time student in public tertiary education institutions increased by 29 percent during this period.

From 2001, government introduced policies aimed at stabilising fees and the average fee per equivalent full-time student fell by 24 percent[1] between 2001 and 2003. It then increased by 17 percent between 2004 and 2006. Some of this increase was due to a fall in the proportion of students in low-cost courses, especially in wānanga.

Figure 1 Domestic tuition fees per equivalent full-time student in tertiary education institutions by provider type 1998-2006



Notes:

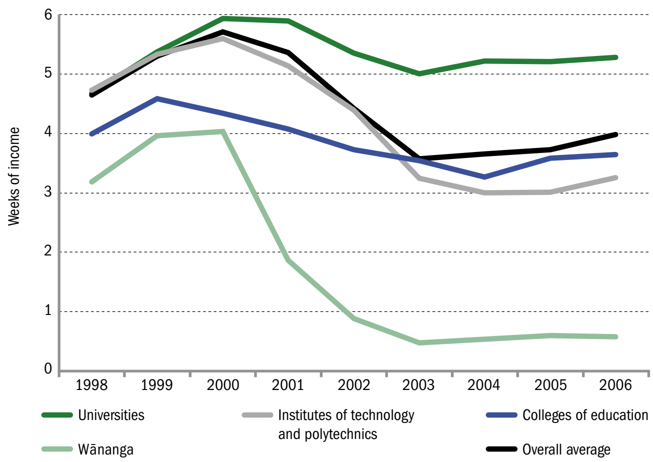
1. Auckland University of Technology is treated as a university for the entire period.
2. Auckland College of Education merged with the University of Auckland on 1 September 2004, and Wellington College of Education merged with Victoria University of Wellington on 1 January 2005. The remaining two colleges of education merged with their local universities on 1 January 2007.
3. Fees include GST.
4. The fees data for colleges of education in 2006 is an estimate.
5. The trends in fees in the institutes of technology and polytechnics (ITPs) and wānanga during the period 2000-2004 are influenced by the number of courses with zero fees offered in those sub-sectors.

Source: Ministry of Education and Tertiary Education Commission.

Tertiary education becomes more affordable

Fee stabilisation has meant that tertiary education has become more affordable since 2000, when the average full-year, full-time tuition fee at a university was equivalent to six weeks' average weekly income for employed persons. By 2006, this had fallen to 5.3 weeks' average weekly income.

Figure 2 Ratio of the average domestic student tuition fee at tertiary education institutions to average weekly income for the employed 1998-2006



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

1 The extent of the fall in average fees from 2001 to 2004 was magnified by several polytechnics and wānanga reducing their fees for some qualifications to zero during this time.

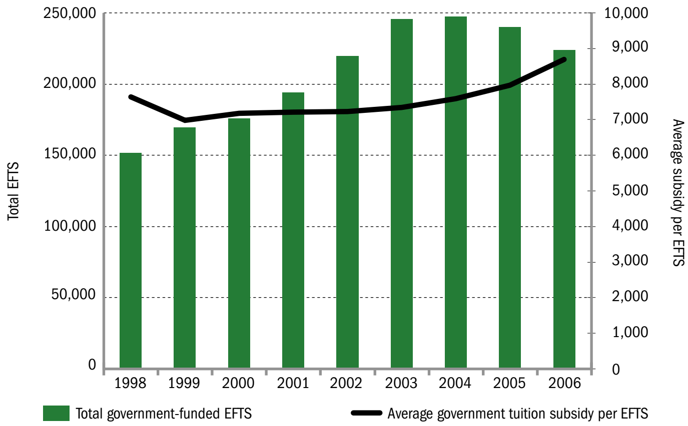
Increased spending on tuition subsidies

Government provides financial assistance to students participating in tertiary education by paying tuition subsidies to tertiary education providers and providing student allowances and student loans. Of this, tuition subsidies are the largest component.

Since 2000, government funding in the form of tuition subsidies has increased. In 2006/07, $2,087 million in tuition subsidies were allocated to tertiary education providers, compared with $1,262 million in 1999/2000. The increased funding is due to an increase in tertiary student numbers and in subsidy rates.

Between 2000 and 2006, the number of government-funded student places (measured in equivalent full-time student units) increased by 27 percent, from 175,706 to 223,785. From 2000 to 2006, the tuition subsidy rate (the funding per equivalent full-time student) increased by 20 percent for public tertiary education organisations.

Figure 3 Total government-funded equivalent full-time student places and average funding per equivalent full-time student in public tertiary education organisations 1998-2006



Notes:

1. The rapid increase in participation in tertiary education that began in the late 1990s began to flatten in 2004. Between 2004 and 2006 there was a reduction in total 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.
2. Tuition subsidy includes student component funding, base grants, clinical add-ons, fee stabilisation, special supplementary grant, the strategic priorities fund and, between 2004 and 2006, the Performance-Based Research Fund.

Source: Ministry of Education and Tertiary Education Commission.

Table 1 Government financial support for tertiary study 1997/98-2006/07

Fiscal year	Student allowances $ million	Tuition subsidies $ million	Student loans $ million
1997/98	344	1,144	657
1998/99	378	1,167	624
1999/2000	376	1,262	701
2000/01	391	1,344	873
2001/02	401	1,551	934
2002/03	387	1,751	952
2003/04	380	1,907	997
2004/05	359	1,882	969
2005/06	354	1,982	1,046
2006/07	382	2,087	1,176

Notes:

1. The figures for 2006/07 are provisional.
2. Student allowances are before tax or gross amounts.
3. Tuition subsidies include appropriations to the Performance-Based Research Fund.
4. Student loan amounts are capital amounts.
5. Funding is GST inclusive where applicable.

Source: Annual reports of Ministry of Education and Ministry of Social Development.

Government expenditure on tuition subsidies, student allowances and student loans was 2.2 percent of the country's Gross Domestic Product in the 2006/07 fiscal year, unchanged from 2005/06.

1.2 The student support system

Reducing barriers to participation

The student support system aims to enhance access to tertiary education by reducing barriers to participation. It has two main components, the loan scheme and the Student Allowances Scheme,[2] both of which provide direct funding to students. All New Zealand students enrolled in approved qualifications[3] can access the loan scheme, whereas student allowances are only available to students who meet income-based and age-related eligibility criteria. The government also gives financial support to some students through a range of scholarships.

Principles of the student support system

The government's 2003 discussion document *Student Support in New Zealand* introduced the following principles that underpin the student support system and reinforce the TES 2007/12:

- 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.

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

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

How the system compares internationally

New Zealand's student support system is in line with that of comparable overseas countries. With the exception of some European countries that charge no fees or very low fees, the tuition fees charged for tertiary education in New Zealand are comparable with countries that belong to the Organisation for Economic Cooperation and Development and lower, on average, than those charged in Australia and the United Kingdom.

In addition:

- Income-tested allowances ensure that the students in greatest need receive support.
- The loan scheme offers more protection to lower-income earners than many overseas loan schemes because repayments are based on income for those who remain in New Zealand.
- The new interest-free policy will mean the loans of borrowers living in New Zealand won't increase.

1.3 The Student Loan Scheme

Enabling access to tertiary education

The loan scheme contributes to the TES by helping a large number of New Zealanders who would otherwise find it financially difficult to study, to access tertiary education:

- It allows government to share the costs of tertiary education with students and their families, without imposing constraints on participating 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 of high quality, which 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 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 costs of their studies.

Shared management

Five government agencies are involved in the delivery of student loans – the three agencies that manage the scheme (the Ministry of Education, the Ministry of Social Development and Inland Revenue) plus the Tertiary Education Commission and the New Zealand Qualifications Authority:

- 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.

CHAPTERTWO
Outcomes of the Student Loan Scheme
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Outcomes of the Student Loan Scheme
CHAPTERTWO
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Outcomes of the Student Loan Scheme
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CHAPTER TWO

Outcomes of the Student Loan Scheme

2.0 Introduction

The student support system aims to enhance access to tertiary education by reducing barriers to participation. The loan scheme helps to achieve this:

- It enables students to access money to pay their fees and, for some, to offset some of their living costs.
- It allows government to share the costs of tertiary education with students and their families, without imposing constraints on participation in tertiary education.
- Repayments are based on income. Borrowers who do not manage to earn a good income as a result of the study they have completed will repay much less or even nothing. People who do gain from their tertiary education pay their full share of the costs of their studies.

The loan scheme contributes to tertiary education outcomes:

- It helps people to gain qualifications that are of high quality and, therefore, improve their quality of life, employment opportunities and income prospects.
- It provides finance that reduces barriers to study.
- It shares the costs of tertiary education appropriately between government, students and their families.
- It targets 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 Student Loan Scheme outcomes

The agencies that manage the scheme have developed a statement of their shared outcomes for the loan scheme:

Affordable and accessible tertiary education improves the social and economic well-being of New Zealanders.

The diagram below illustrates how the Ministry of Education, the Ministry of Social Development, Inland Revenue, the New Zealand Qualifications Authority and the Tertiary Education Commission[4] each contribute to the shared outcome for student loans, it describes the linkage to each agency's outcomes and interventions and it explains how the loan scheme is linked to the government's goals for New Zealand. It also recognises the contributions of other government agencies to the shared outcome.

4 The Tertiary Education Commission (TEC) is responsible for approving programmes/qualifications for student loan purposes.

2.2 Evidence for Student Loan Scheme outcomes

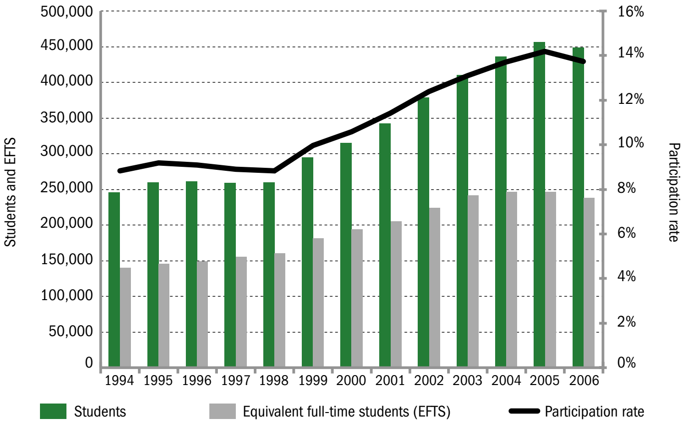
Increasing rates of participation in tertiary education

Participation in tertiary education in New Zealand has increased significantly since the loan scheme was introduced in 1992. As it has improved and maintained the affordability of tertiary education, the student support system has helped move our tertiary education system from an elite system with relatively low participation, to a more accessible system with higher levels of participation.

Growth in participation is reflected in the following trends:

- The number of tertiary students (including domestic[5] and international students) has nearly doubled, from 254,100 in 1994 to 491,000 in 2006.
- There were 448,400 domestic students in 2006.
- The proportion of all New Zealanders aged 15 and over who participated in tertiary education in 2006 rose to 13.7 percent, up from 8.9 percent in 1994.

Figure 4 Participation by domestic students in tertiary education 1994-2006



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. Participation rate is the percentage of the population aged 15 and over who were students that year.
4. Excludes industry training, non-government-funded PTEs, formal courses of a week or less, and all non-formal learning.

Source: Ministry of Education.

The downturn in enrolments in 2006 was in response to the government's moves to strengthen the quality and relevance of tertiary education – especially non-degree tertiary education.

The expansion in enrolments has been especially marked among women, Māori and Pasifika. From 1994 to 2006:

- enrolments by women in public tertiary education providers grew by 56.8 percent
- enrolments in public providers by Māori and Pasifika grew by 284.7 percent.

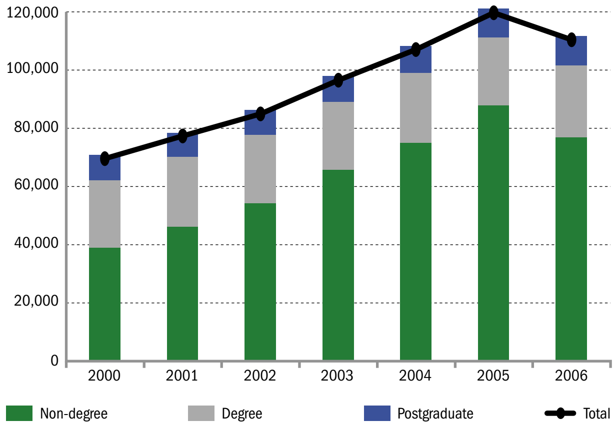
While the loan scheme is not the only factor contributing to increased participation, its introduction has enabled the government to provide funding for more places in tertiary education organisations. Without this funding, many providers would have to limit entry to courses.

More people with tertiary qualifications

As enrolments in tertiary education have risen, so has the number of people completing tertiary qualifications. Census data shows a steady rise in the number of people holding tertiary qualifications, especially at degree level, between 1996 and 2006:

- The number of people with a bachelors degree or higher qualification increased by almost 100 percent, from just over 224,000 to nearly 448,000.
- The proportion of the population aged 25 to 64 with a tertiary qualification rose from 10 percent in 1996 to 18 percent in 2006.

Figure 5 Domestic students completing tertiary qualifications by level 2000-2006



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.

Source: Ministry of Education.

While the graph shows a downturn in the number of completions in 2006, this is a consequence of a 12 percent fall in the number of completions of non-degree qualifications that followed the government's moves to strengthen the quality and relevance of non-degree provision. There was a 4 percent increase in postgraduate completions and a 5 percent increase for degree-level qualification completions.

Economic benefits

Qualifications gained in the New Zealand tertiary education system, with the support of the loan scheme, lead to greater earnings. This indicates that employers value the skills acquired during tertiary study. This is an indicator of the acquisition of human capital and therefore the extent to which our student support system and the tertiary education sector contribute to our national economic development.[6]

5 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.

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

Data from the 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 show that employers pay a premium for completed qualifications. Of bachelors degree students who have left study, data shows that after five years those who graduated enjoy a 33 percent income margin over those who did not.[7] After seven years, the margin rises to 37 percent.

Census data shows that those with a tertiary qualification have a higher chance of employment:

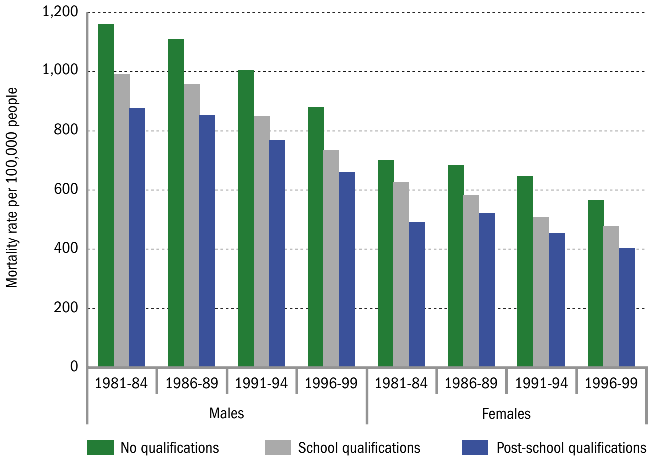
- People with no qualifications had an unemployment rate of 4.1 percent.
- People with school qualifications had an unemployment rate of 3.9 percent.
- People with higher degrees had an unemployment rate of 2.5 percent.

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. A Ministry of Education report[8] describes the relevant parts of these studies.

University of Otago researchers have also found that those with tertiary qualifications have improved mortality rates,[9] as illustrated in Figure 6.

Figure 6 Standardised mortality rates (from all causes) of the New Zealand population aged 25-77 by gender and Census cohort 1981-1984 to 1996-1999



Note: These mortality rates have been standardised by age group and ethnic group.

Source: Atkinson, J. (2005) New Zealand Census-Mortality Study Web Table, Department of Public Health, Wellington School of Medicine and Health Sciences, University of Otago. http://www.otago.ac.nz/NZCMSWebTable [Accessed 10 June 2006].

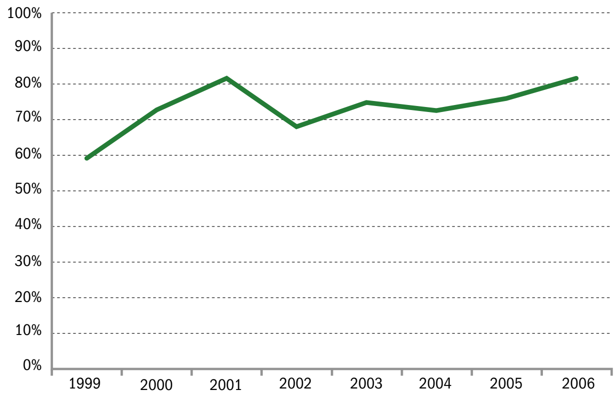
2.3 Changes in behaviour

Borrowing behaviour

The most 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 in 2006 from 49 percent to 56 percent. Uptake rates are strongly influenced by the balance between full-time and part-time enrolments. Part-time students have a lower incidence of borrowing as the costs they face are lower and many have other sources of finance: the most useful way of looking at changes in borrower behaviour is to focus on how full-time students use the loan scheme.

The estimated uptake rate among full-time students rose to 82 percent in 2001 but ranged between 72 percent and 76 percent between 2003 and 2005. In 2006 it rose to 82 percent.

Figure 7 Student loan uptake rates for full-time students 1999-2006



Source: Ministry of Education and Ministry of Social Development.

The increase in uptake rates among full-time students between 1999 and 2001 reflects the introduction in 2000 of the 'no interest while studying' policy. The 2006 increase in borrowing uptake reflects the introduction of the interest-free student loans policy in April 2006.

Changes in repayment behaviour

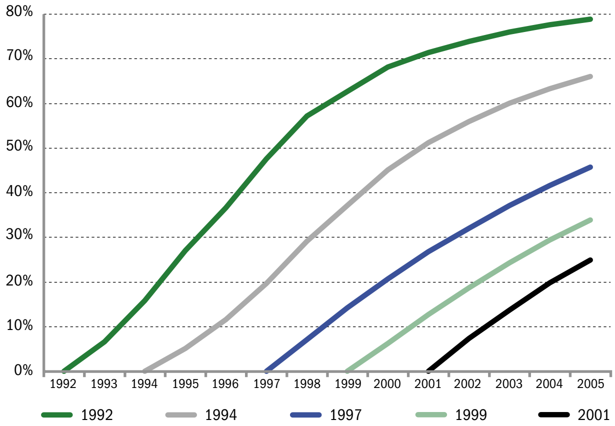
The following graph shows the percentage of people who have completely repaid their loans according to the year that they left study.

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

8 Smart, W. (2006) *Outcomes of the New Zealand tertiary education system – a synthesis of the evidence,* Wellington: Ministry of Education.

9 Smart (2006) op cit.

Figure 8 Percentage of borrowers fully repaid by 31 March in each year – those who left study in 1992, 1994, 1997, 1999 and 2001



Source: Statistics New Zealand, integrated dataset.

By 1997, almost half of those who left study in 1992 had repaid in full. However, this cohort had very low borrowings as fees were relatively low and they had had only one year's borrowing.

Leavers in 1997 and later repaid their loans more slowly. Of those who left study in 1997, around 45 percent had repaid by 31 March 2006 – eight years after leaving study. A quarter of those who left in 2001 had repaid by 31 March 2006.

Those who left study in 2000 and later 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)
- high employment in the last five or six years.

Looking to the future, the forecast median repayment time is seven years. There is more information on forecasts in chapter 5.

These forecasts took account of economic conditions such as the availability of jobs and estimates of salary levels, as well as changes in the loan scheme policy.

2.4 Unintended outcomes

Some people have suggested that the loan scheme may discourage home ownership and cause people to delay having children. As well, some people have said that many people – especially women – may never repay their loans. This section explores the evidence for signs of these outcomes.

The impact on home ownership, having children and mental health

A recent study[10] on household wealth explored the statistical relationships between the presence and size of student loans and home ownership. It conducted a similar analysis of the relationship between loans and having children.

This study reached the following conclusions:

- The presence and size of a student loan does not appear to affect the probability of a couple having a mortgage.
- Non-partnered individuals with loans are statistically less likely to have a mortgage than non-partnered individuals without student loans.
- The size of a student loan has a modest yet statistically significant effect on the probability of a non-partnered individual having a mortgage.
- The presence of a student loan has no effect on mortgage size, but the loan's size does have a (weak) effect on the size of a mortgage.
- Neither the presence nor the size of a student loan appears to reduce the number of children a couple has.
- Non-partnered individuals with a student loan are (slightly) more likely to have more children than non-partnered individuals without loans.

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 HECS cannot be blamed for falling fertility rates.

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.[11]

Non-repayment

The loan scheme has a repayment threshold, so there is no repayment obligation for those with very low incomes, and the unpaid portion is written off on death. The loan scheme allows for the fact that some people will never repay their loans, such as:

- people who suffer illness or disability that reduces or removes their work opportunities
- people who do not work because they are involved in child-rearing
- people who leave New Zealand and remain overseas for an extended time.

While the loan scheme provides for people who never repay, it is not intended that someone will hold a student loan throughout their adult life.

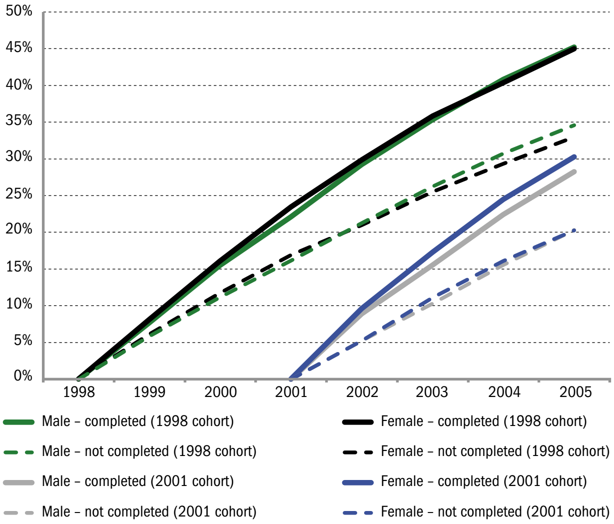
It is evident from Figure 8 in chapter 2.3 that, as time goes on, the number repaying in full increases each year, but at a decreasing rate. There are some borrowers who never succeed in repaying their loan completely and some who make no progress towards repayment over an extended period.

The following graph shows that the probability of repaying a loan depends on whether the borrower has completed a qualification but gender has little effect.

10 Scobie, G., Gibson, J. & Le, T. (2005) *Household wealth in New Zealand*, Wellington: Institute of Policy Studies, Victoria University of Wellington.

11 Kemp, S., Horward, J. & Fergusson, D. (2006) Student loan debt in a New Zealand cohort study, *New Zealand Journal of Educational Studies*, Wellington: New Zealand Council for Educational Research and New Zealand Association for Research in Education. 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.

Figure 9 Percentage of borrowers who left study in 1998 and 2001 who had completely repaid their loans by 31 March 2005 by gender and completion status



Notes:

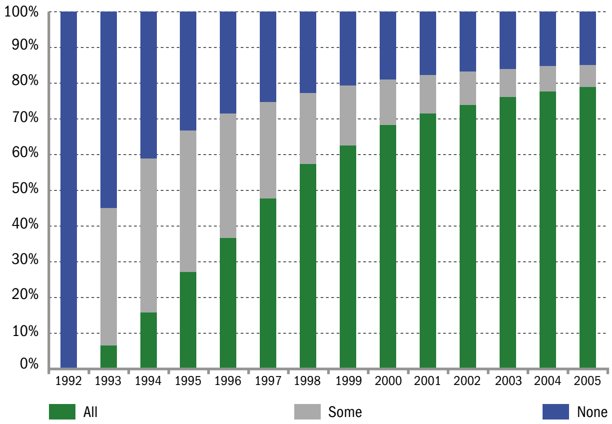
1. The leaving cohorts are those who last studied in 1998 and 2001, had borrowed from the loan scheme, and had a student loan balance of $10 or more at 31 March in the following year. Excluded are 3.4 percent who had repaid their student loan before 31 March in the year after leaving study.
2. Full repayment is deemed to occur when the student loan balance has fallen below $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.

Source: Statistics New Zealand, integrated dataset.

Figure 9 shows that women tend to repay slightly more quickly in the first few years after leaving study. Over time, however, the gap closes. By 2001, the proportion of men who had completed a qualification in 1997 and who had repaid in full had gone beyond the proportion of women. Among those who hadn't completed, the lines crossed in 2003, but the differences are slight.

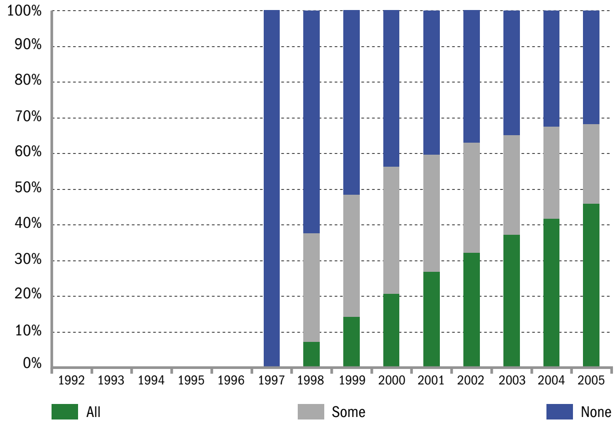
Information from the integrated dataset indicates that a proportion of borrowers are unlikely to repay their loans in full. Around 15 percent of the 1992 leavers had repaid nothing of their loans 13 years after leaving study.

Figure 10a Proportions of borrowers who left study in 1992 who had repaid all, some or none of their student loans by 31 March 2005



Source: Statistics New Zealand, integrated dataset.

Figure 10b Proportions of borrowers who left study in 1997 who had repaid all, some or none of their student loans by 31 March 2005



Source: Statistics New Zealand, integrated dataset.

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 by the end of 2004:

- are more likely to have left study without completing a qualification – 44 percent had made no progress, compared with 25 percent of those who had completed their qualifications
- are more likely to have taken lower-level qualifications – 39 percent of those who studied below degree level had made no progress, compared with 29 percent who studied at bachelors level or higher
- are more likely to be male than female – 37 percent of men had made no progress, compared with 35 percent of women; and this difference becomes more pronounced at degree level and higher, with 32 percent for men and 27 percent for women
- are more likely to be Māori or Pasifika than of other ethnic groups – nearly half of all Māori and Pasifika students had made no progress, compared with 28 percent for those of European ethnicity.

It is not yet possible to look at the effects of interest-free loans on those who make little progress towards repayment. While there will always be some people whose progress to repayment is slow, the numbers who make no progress will reduce.

The analysis of the longer-term outcomes of a policy such as the loan scheme is complex and it takes many years for trends to emerge. Without sophisticated statistical modelling, it is hard to draw clear causal associations. As the loan scheme matures and new waves of data are added to the integrated dataset, the agencies will be able to strengthen their analysis.

CHAPTER THREE

Recent Changes to the Student Support System

3.0 Introduction

Government monitors the student support system to ensure it continues to enhance access to tertiary education, and that it remains true to the principles introduced in the Student Support in New Zealand discussion document (see chapter 1.2).

As part of its ongoing monitoring and review, government has made the following changes affecting the student support system:

- From 1 April 2007, the Student Loan Scheme Amendment Act 2007:
  - introduced new rules for borrowers overseas to help ensure that repayments remain manageable and do not discourage borrowers from returning home
  - improved administration of the loan scheme.
- During Budget 2007, government announced a number of refinements to the student support system.
- A new approach to planning, funding and monitoring the tertiary education system is being phased in from 1 January 2008.
- The Fee and Course Costs Maxima (FCCM) policy was reviewed in early 2007.

3.1 New rules for borrowers overseas

Until 1 April 2007, borrowers who went overseas before their loans were repaid were expected to work towards repayment of the full loan balance within 15 years. Each year, the borrower was required to pay one-fifteenth of the outstanding principal and all the interest accruing on the loan. Many borrowers – especially those with larger loans and those who had low earnings while overseas – found repayments very difficult and many ended up in arrears.

The recent changes for borrowers overseas acknowledge the tradition of young people undertaking an overseas experience following study and they recognise its value to New Zealanders and our economy as New Zealanders return enriched with new experiences, ideas and insights. They aim to help ensure that repayments remain manageable and do not discourage borrowers from returning home.

A repayment holiday

Borrowers will be able to take a three-year repayment holiday if they are going overseas. While borrowers will not have to make repayments during this time, their loans will still attract interest.

Entitlement to a three-year repayment holiday will be automatic for those who:

- went overseas after 1 April 2007
- were overseas as at 1 April 2007 and kept up to date with their repayment obligations
- were overseas as at 1 April 2007 and had been overseas for less than a year.

New repayment obligations

Overseas borrowers not eligible for a repayment holiday will have a new repayment obligation based on the size of their loan balance, which is easier to understand. The repayment obligation is set out in Table 2.

Table 2 Overseas borrowers' repayment obligation from 1 April 2007

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

Source: Inland Revenue.

For many overseas borrowers, these new rules mean their annual repayment requirements will be lower, and their repayment obligations will be easier to understand – both factors are expected to help encourage regular repayments.

Borrowers will still be able to make additional repayments to pay off their loan faster, or to pay off their loan in full at any time.

Interest-free loans extended

The exemption to the 183-day rule,[12] which applies to interest-free loans for borrowers studying full-time at postgraduate level overseas, has been extended to include undergraduates studying full-time at bachelors-degree level. This change will apply to loans taken out before leaving New Zealand.

Amnesty extended

The amnesty on penalties declared last year for non-resident borrowers in arrears with their payments has been extended by one year to 31 March 2008. The amnesty offers borrowers overseas a 'fresh start' if they have fallen behind in their repayments. The extension allows borrowers identified by data-matching between Inland Revenue and the New Zealand Customs Service[13] to come within the amnesty.

To be eligible for the amnesty, borrowers must be:

- non-resident for tax purposes on 31 March 2006, and have had late payment penalties as at 1 April 2007, or
- overseas as at 31 March 2006 but have not advised Inland Revenue that they had left New Zealand.

Eligible borrowers must apply to Inland Revenue by 31 March 2008 to avoid a one-off penalty being charged on their loan balance at the end of the amnesty period. The penalty will be the lesser of:

- 5 percent of the borrower's total loan balance as at 31 March 2008, or
- the sum of their late payment penalties.

Borrowers accepted into the amnesty must meet the amnesty repayment obligations for two years. If not, a penalty that is inversely proportional to the payments made so far will be charged to their loan balance.

12 Student loans for borrowers living in New Zealand for 183 or more consecutive days (about six months) are interest free. This is the 183-day requirement.

13 Data-matching of borrowers with Customs data to identify borrowers who have gone overseas without telling Inland Revenue began in 2007.

3.2 Improved administration of the Student Loan Scheme

Late payment penalty rate reduced

The late payment penalty for all borrowers – living overseas and in New Zealand – will reduce from 2 percent a month to 1.5 percent a month.

Information-matching

Inland Revenue and the New Zealand Customs Service will match information to help determine whether a borrower is eligible for an interest-free loan, is based in New Zealand or overseas, and is resident or non-resident. Border-crossing information will be matched with information supplied for student loan purposes.

Borrowers who are going overseas for more than six months are still legally required to let Inland Revenue know that they will be out of the country.

Simpler rules for determining the repayment system

The rules that determine the repayment system for student loan borrowers have been simplified:

- Overseas-based borrowers are not eligible for an interest-free student loan and are subject to the new overseas repayment provisions. Borrowers are classified as overseas-based if they have been overseas for 184 or more consecutive days (about six months).
- New Zealand-based borrowers are eligible for an interest-free student loan. They need to make loan repayments based on their income.

3.3 Student support initiatives

The following initiatives announced in Budget 2007 will increase access to the Student Allowances Scheme and to Step Up Scholarships. These changes mean that more than 12,000 students will receive extra financial assistance and, as a consequence, are expected to borrow less under the loan scheme.

Parental income threshold increases

The student allowances parental income threshold will be increased by 10 percent from $40,303.12 per year to $44,333.64 per year from 1 January 2008. This raises the cut-off point at which students become ineligible for student allowances to $75,269.48 per year for those living away from home and $69,081.48 per annum for those living at home – making more students from low- to middle-income families eligible for full or partial allowances. Some students will be entitled to higher allowances.

Student allowances personal income threshold – annual adjustment

The student allowances personal income threshold will be adjusted annually for inflation, on an ongoing basis. This will be implemented through the Annual General Adjustment process, effective from 1 April 2008 and will also include corresponding increases to the lower and upper couple income thresholds.

The student allowances personal income threshold was increased from $135.13 gross per week to $180 gross per week in the 2005 Budget. At that time, the government also introduced a dollar-for-dollar abatement of the allowance amount once a recipient's earnings exceeded the threshold. Before this change, a student's entire entitlement to an allowance was removed for any week in which income over the income threshold was earned.

Step Up Scholarships

The Step Up Scholarship pilot will be altered to increase the number of scholarships available and to improve the access and equity opportunities for students from low-income backgrounds. This is likely to have implications for young Māori and Pasifika people, who are over-represented amongst those from low-income backgrounds and traditionally under-represented in degree-level study.

Currently, the scholarships are limited to students who are eligible for student allowances and studying approved qualifications in either human or animal health, or science and technology. From 1 January 2008, these streams will be replaced by two new streams:

- first-time tertiary students starting a degree in any subject area (with preference for students studying in areas of skill shortage)
- students with a tertiary qualification below degree level who are starting degree-level study in targeted subject areas.

Applicants must be aged between 16 and 24, and all recipients have to pay a flat rate student contribution of $1,000 towards their tuition fees each year. Intermediate years of study[14] will be included as part of the scholarship tenure. The requirement for fees to be more than $3,000 per year will no longer exist.

3.4 A new approach to planning, funding and monitoring the tertiary education system

Government has made changes to the wider tertiary education funding system so that New Zealanders are able to access tertiary education that is of greater quality, relevance and value for money. A key part of the government's reforms has been to move away from the annually funded, demand-driven, input-based education system to a three-yearly, controlled and outcome-based system.

14 The first year of study before beginning the professional years of some degrees – such as medicine, engineering, and dentistry.

From 1 January 2008, the government will progressively introduce a new approach to planning, funding, quality assurance and monitoring in the tertiary education system. This approach is intended to support tertiary education organisations to shift their funding focus from participation to achievement and the long-term needs of stakeholders. Changes have been made to increase the focus on wise investment decisions, supported by capability-building and collaborative working relationships.

The new investment system will introduce a control on funding and will follow a three-year funding path, which will be managed as a rolling triennium. The government will set this control and determine how much is allocated to each sub-sector (universities, institutes of technology and polytechnics, etc). The funding path will take account of inflation pressures, expected demographic change, student demand and competing priorities within and outside the education sector. These changes will give greater funding certainty to the government, and to tertiary education organisations.

Implications for student loans and allowances

While student loans and allowances are outside the direct control of the new funding system, it is likely to lead to a slowdown in their uptake. Only qualifications funded by government can be approved for the purpose of student loans and allowances – so people who choose to do other qualifications will not be eligible for student loans or allowances.

In addition, other factors are expected to have different effects on the uptake of student loans, allowances and borrowing:

- The stabilisation of tuition fees will continue and this will keep student loan borrowing down.
- The successful implementation of the STEP[15] (see chapter 1.0) is expected to result in more people progressing into tertiary education, succeeding, and spending more time in tertiary education at a higher level of study. This means that the uptake of student loans and allowances and the amount borrowed are likely to increase over time.

The success of the STEP will mean that students and the government will get better value for their investment in tertiary education. If students study at higher qualification levels, their income is likely to be higher after study. In addition, some fields of study, especially the technical areas, will give students better returns. Thus the factors associated with high borrowings are associated with higher incomes and with quicker repayment. Analysis of information from the student loan integrated dataset supports these conclusions.[16]

3.5 Review of the Fee and Course Costs Maxima policy

Since 2001, the government has stabilised fees as part of its commitment to help keep tertiary education affordable for students. The original fee stabilisation policy was replaced from 2004 with a Fee and Course Costs Maxima (FCCM) policy. The FCCM was introduced to provide certainty for students as to future costs while also giving some flexibility to providers in their fee setting.

The current FCCM policy has three main features:

- It has a set of fee maxima, at course level and based on funding categories, for non-degree and undergraduate courses.
- There is a percentage limit on annual fee rises for courses below the maxima (the annual fee movement limit).
- There is a $500 limit on annual increases for postgraduate courses (the postgraduate fee increase limit).

There was a review of the FCCM policy in 2007. The Ministry of Education released a discussion document, *Aligning fee policy with the tertiary education reforms*, on the shape of future fee policy within the reformed tertiary education sector[17] in May 2007. While the FCCM policy is not a student support policy, it does have the effect of limiting the reliance of students on the loan scheme. This policy, therefore, has an impact on the modelling and forecasting of loan balances.

15 Statement of Tertiary Education Priorities.

16 Nair, B. (2007) *Measuring the returns on investment in tertiary education three and five years after study,* Wellington: Ministry of Education. Available from http://educationcounts.edcentre.govt.nz/publications/tertiary/indexDate.html (June 2007).

17 Ministry of Education (2007) *Aligning fee policy with the tertiary education reforms* discussion document, Wellington: Ministry of Education. Available from http://www.minedu.govt.nz/index.cfm?layout=document&documentid=11980&data=l (May 2007).

CHAPTER FOUR

Student Loan Scheme - State of the Play

4.0 Introduction

This chapter has information about:

- the students borrowing through the loan scheme in 2006 and the amounts they borrowed
- borrowers and their loan balances with Inland Revenue on 30 June 2007.

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

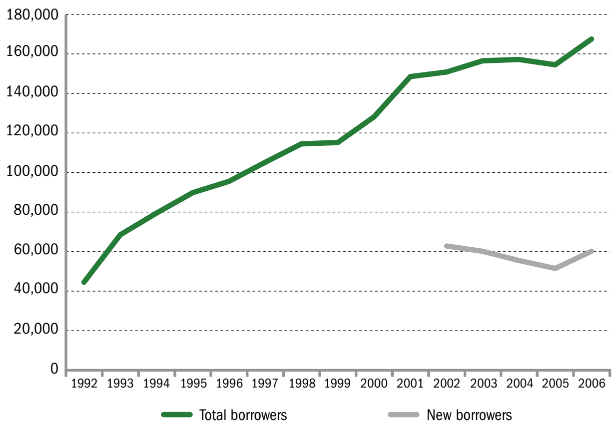
The information on borrowing is largely drawn from the Ministry of Social Development, while Inland Revenue has supplied data on the repayments and loan balances of all borrowers, including those who have left study.

4.1 Students borrowing

In 2006, 167,420 students borrowed under the loan scheme, an increase of 8.4 percent on the 154,411 borrowers in 2005. This increase is in large part due to 2006 being the year in which interest-free loans were introduced. It means that 5.2 percent of the New Zealand population aged 15 and over borrowed from the loan scheme in 2006.

Uptake of student loans in 2006

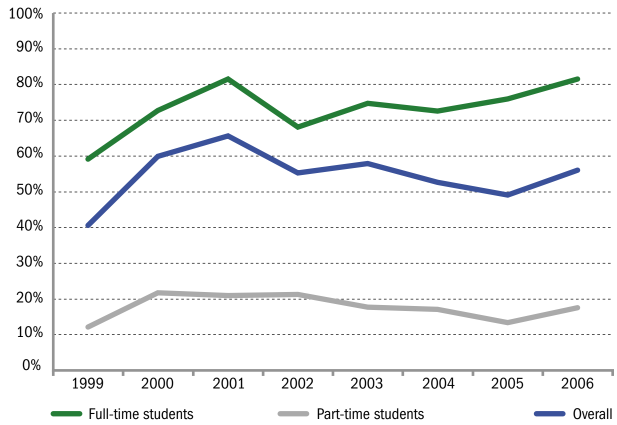
Figure 11 Student loan borrowers in each academic year 1992-2006 and new borrowers 2002-2006



Source: Ministry of Education and Ministry of Social Development.

The student loan uptake rate is the proportion of students eligible to borrow who actually do so. In 2006, the uptake rate was 56 percent. This compares with 49 percent in 2005, 58 percent in 2003, 66 percent in 2001, and 41 percent in 1999. The changes in uptake rates are a consequence of changes to loan policy. The increase between 1999 and 2001 was due to the introduction of 'no interest while studying', and the increase in 2006 reflects the impact of the interest-free loan policy.

Figure 12 Student loan uptake rates 1999-2006



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

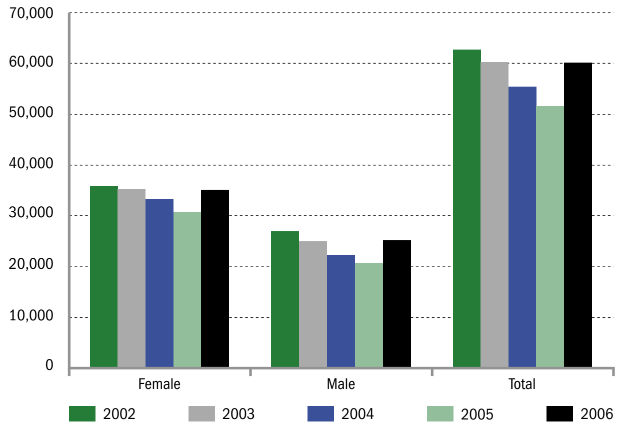
Source: Ministry of Education and Ministry of Social Development.

New borrowers

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.

We use the term 'new borrowers' for people entering the loan scheme for the first time in the year that the report covers. (For example, a new borrower in this report entered the scheme for the first time in 2006, and in last year's report a new borrower entered the scheme in 2005.) As it is not possible to match the records of borrowers during the 1990s to those from 2000 onwards,[18] it is likely that from 2000 a small number of new borrowers did in fact previously borrow during the 1990s. Therefore, a degree of caution is needed when drawing conclusions from the following comments.

Figure 13 New borrowers by gender and total 2002-2006



Note: Data is provisional.

Source: Ministry of Social Development.

The number of new borrowers rose in 2006, reversing a trend since 2002. This rise, from 51,443 in 2005 to 60,016 in 2006, is largely due to changes to the loan scheme such as the removal of interest charges for borrowers living in New Zealand and new provisions for borrowers overseas. The increase has restored the number of new borrowers to the level recorded in 2003.

18 Due to data structure changes and the separation of source data when the loan accounts administration was transferred to the Department of Work and Income (now the Ministry of Social Development) in 2000.

Table 3 Average age of new borrowers who had not previously borrowed from StudyLink 2002-2006

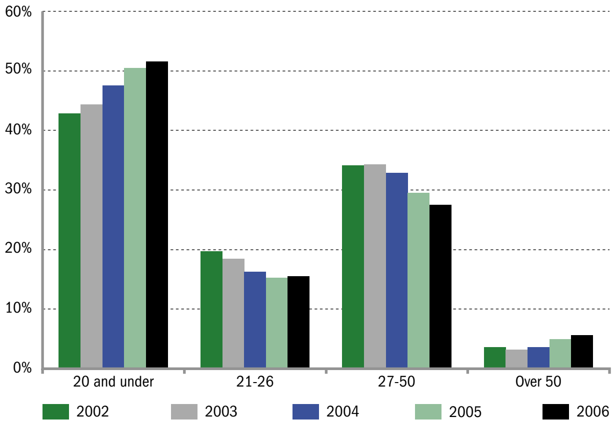
Age	2002	2003	2004	2005	2006
Average	27	26	26	26	26
Median	22	22	21	20	20
Total number of new borrowers	**62,763**	**60,131**	**55,379**	**51,443**	**60,016**

Notes:

1. These are new borrowers who had not otherwise borrowed since the Ministry of Social Development took over student loans in 2000.
2. Data is provisional.

Source: Ministry of Social Development.

Figure 14 Age of new borrowers 2002-2006



Note: Data is provisional.

Source: Ministry of Social Development.

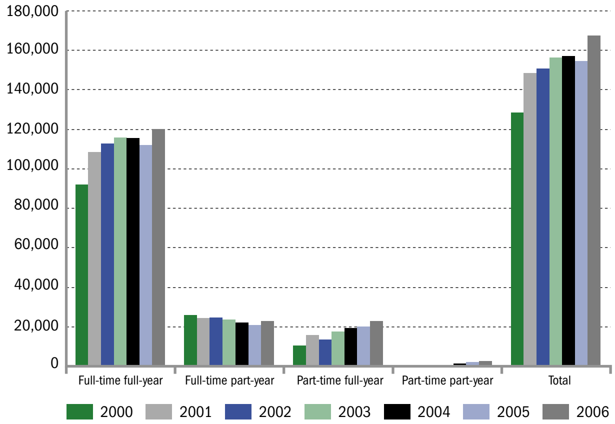
Borrower characteristics

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. Access to student loans was further extended in 2005. Those 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 work.[19]

The increase in part-time enrolment continued in 2006. Approximately 55 percent of all domestic students in 2006 were enrolled on a part-time basis, compared with nearly 45 percent in 2000. Approximately 25,200 eligible part-time students (or 17.5 percent of those eligible) borrowed from the loan scheme in 2006. The proportion of eligible full-time students borrowing in 2006 was 81.5 percent.

Figure 15 Borrowers by study status 2000-2006

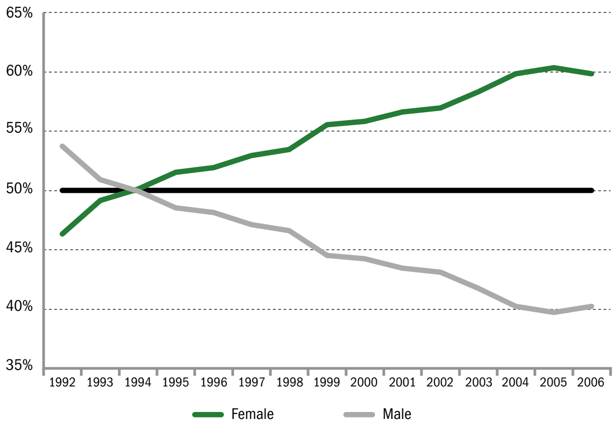


Source: Ministry of Social Development.

Gender

There are more women than men enrolled in tertiary education. In 2006, almost 54.9 percent of tertiary students were female, compared with 47.6 percent in 1994. The increase in the proportion of female students has been matched by an increase in the proportion of female borrowers. In 2006, however, there was a slight reduction in the proportion of female borrowers (down 0.5 percent) with a corresponding small increase in the proportion of male borrowers (up 0.5 percent).

Figure 16 Percentage of borrowers by gender 1992-2006



Note: The Y-axis does not start at zero.

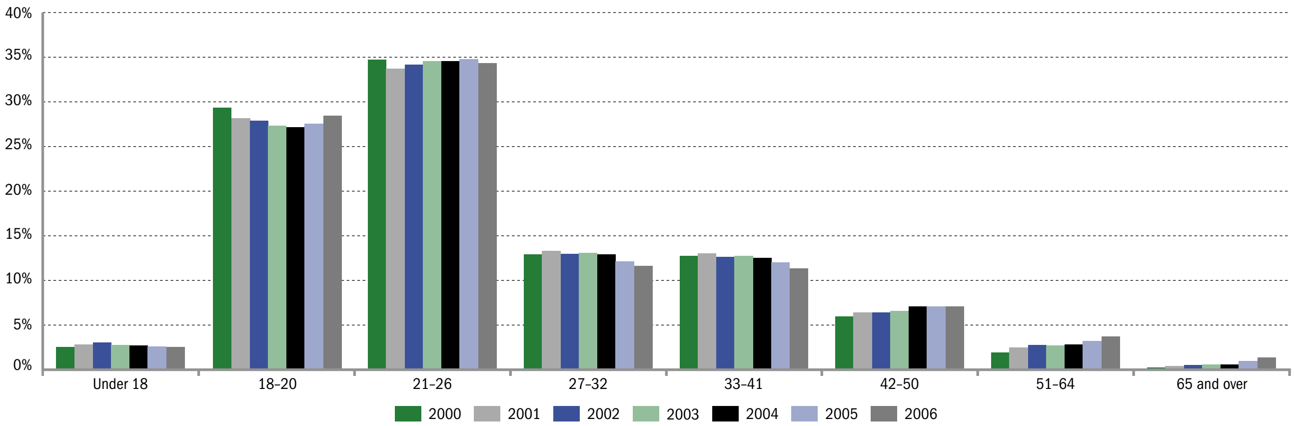
Source: Ministry of Education and Ministry of Social Development.

Age

The following graph shows the age profile of all student loan borrowers for each year of borrowing since 2000. In 2006, borrower numbers increased in all age groups. The largest increase was in groups aged 47 and over, with the next highest being those aged 18 to 20. The ageing of borrowers follows trends in tertiary enrolments; since 1994, 45.5 percent of all enrolment growth has been among those aged 40 or over.

19 These vocational restrictions were removed from 1 January 2007.

Figure 17 Percentage of borrowers by age – people actively borrowing 2000-2006



Source: Ministry of Social Development.

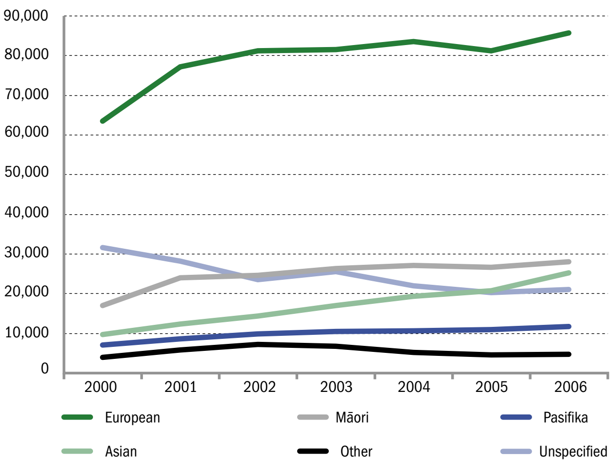
In 2006, 72 percent of all student loan borrowers were aged under 30. Those borrowers aged 55 or over represented 3.4 percent of all borrowers – up from 2.6 percent in 2005. The number of borrowers aged 65 or over has risen to 2,196 in 2006 – up from 1,405 in 2005 and 223 in 2000. Of these, 859 were new borrowers, representing a 46.3 percent increase in new borrowers aged 65 or over from 2005.

The ageing of the overall student population and growing recognition of the social value of lifelong learning have contributed to the increasing numbers of older people borrowing in recent years.

Ethnicity

In 2006, 51.1 percent of borrowers and 57.5 percent of students identified themselves as European; 16.7 percent of borrowers and 21.2 percent of students identified themselves as Māori; 15 percent of borrowers and 16 percent of students identified themselves as Asian; and 7 percent of borrowers and 6.6 percent of students identified themselves as Pasifika.[20]

Figure 18 Borrowers by ethnic group 2000-2006



Note: This graph is from the total response version of the StudyLink ethnic data. If borrowers declare two ethnic groups, they are counted in each. If they declare three or more, they are counted in 'Other'.

Source: Ministry of Social Development.

4.2 Amounts borrowed

Total borrowings

In 2006, students borrowed $1,099.8 million from the loan scheme. The total amount borrowed each year grew significantly during the 1990s as the loan scheme developed and enrolments rose. The increase in the amount borrowed was also a consequence of the steady rise in fee levels over that period. In 1999, the entitlement to borrow for course-related costs was reduced, leading to a fall in total borrowing that year. The reduction in that entitlement was reversed a year later and contributed to total borrowing rising by 37 percent between 1999 and 2000 (from $566 million to $776 million).

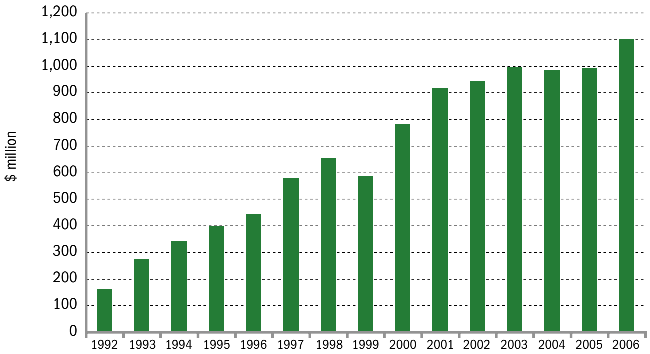
From 2001 to 2005, the aggregate amount borrowed was relatively stable. There are three main reasons for the reduction in the growth in borrowing over this period:

- The government controls on fees since 2001 meant that fees – the largest component of borrowing – stabilised.
- Enrolment growth began to taper off, reducing the increase in the numbers enrolled in loan-eligible qualifications.
- There was an increase in enrolments by part-time students, who have smaller entitlements and are 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 have generated an increase in borrower numbers (8.4 percent) and in the amount borrowed (11.9 percent).

20 As 12.1 percent of people applying for loans chose not to respond to questions defining their ethnicity, the actual ethnic split of borrowers may differ from the figures above.

Figure 19 Total loan borrowing by year 1992-2006



Source: Ministry of Social Development and Ministry of Education.

Average and median borrowing in a year

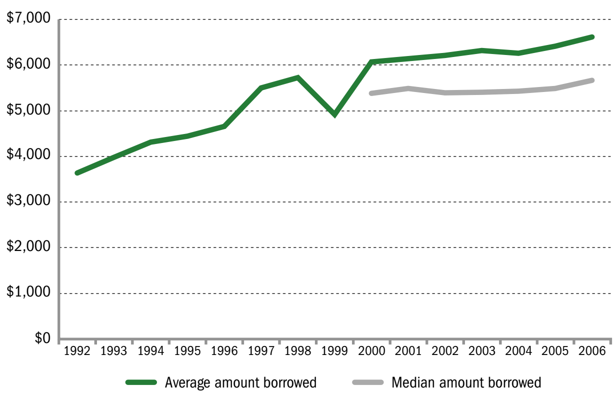
The average amount borrowed increased by $202 (3.2 percent) to reach $6,610 in 2006, compared with an increase of $150 in 2005. The median amount borrowed in 2006 was $5,663, an increase of $178 (3.2 percent) from 2005.

The average amount borrowed[21] showed a steady increase between 1992 and 1998, in part reflecting increases in student fees. The decrease in average borrowing in 1999 was due to the decrease in the maximum course-related costs entitlement from $1,000 in 1998 to $500 in 1999[22] and to other changes that restricted the purposes for which finance from the loan scheme could be used.[23]

Average borrowing increased again in 2000 when some of the changes 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[24] implemented in 2001 meant that tuition fees charged by most tertiary education providers did not increase in those years.

From 2004, fees have been regulated by the FCCM policy.[25] Under this policy, providers are permitted to increase fees but only within strict limits.

Figure 20 Average amount borrowed by year 1992-2006 and median amount 2000-2006



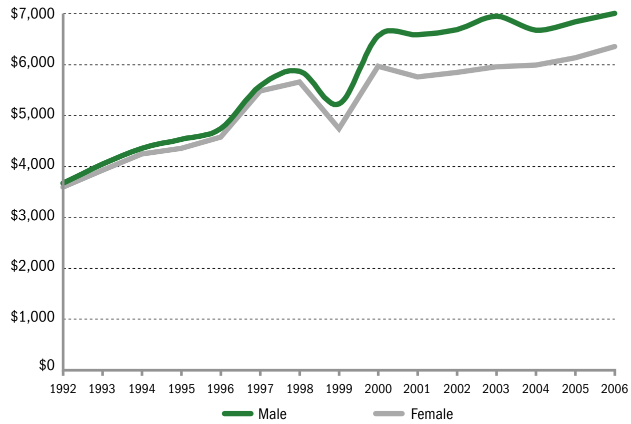
Note: The decrease in average borrowing for 1999 was due to the decrease in the maximum course-related costs entitlement from $1,000 in 1998 to $500 in 1999.

Source: Ministry of Social Development.

Gender differences

While men and women are equally likely to borrow through the loan scheme, women tend to borrow slightly less.

Figure 21 Average amount borrowed by gender and year 1992-2006

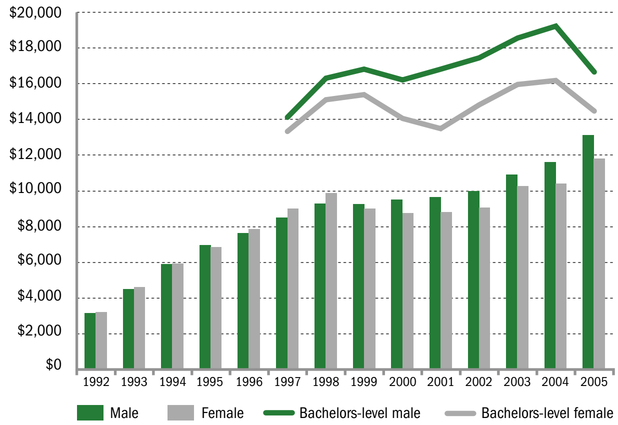


Source: Ministry of Social Development and Ministry of Education.

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 reason for this is that women have a higher rate of completion of qualifications and are more likely to be enrolled at degree level, and are therefore more likely to remain in study for longer.

Figure 22, drawn from the integrated dataset, gives the median leaving balances of men and women from 1992 to 2004.

Figure 22 Median leaving loan balance for 1992-2005 leaving cohorts by gender – all borrowers and those who studied at bachelors level 1997-2005



Source: Statistics New Zealand, integrated dataset.

The greatest volume of borrowing has tended to be by students at bachelors-degree level.[26] Figure 22 also tracks the loan balances of those who studied at this level and left between 1997 and 2003.

21 The average amount borrowed includes all amounts drawn down from a loan account (excluding the $50 administration fee and 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.

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

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

24 See the glossary in appendix 4 for details.

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

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

Loans by component

Most borrowers use the loan scheme to pay the compulsory fees charged by the tertiary education provider. In 2006:

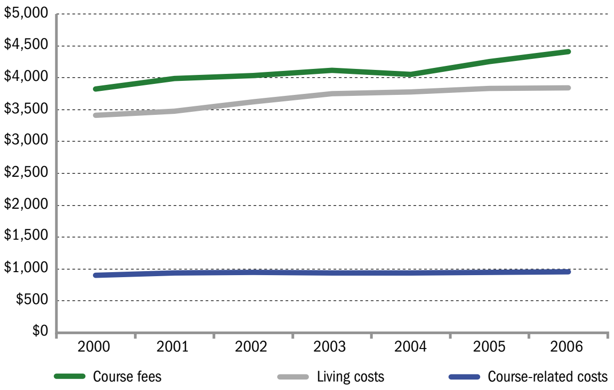
- 93.4 percent borrowed to pay fees
- 62.4 percent borrowed to help meet course-related costs
- 48.5 percent borrowed towards meeting their living costs
- 23.9 percent borrowed for fees only
- 59.5 percent of those eligible to borrow fees did so.

From 2000 to 2006:

- about 61 percent of all money drawn from the loan scheme was used to pay fees
- the amount drawn for course-related costs varied between 8.4 and 9.7 percent
- the amount drawn for living costs varied between 28.4 and 31.2 percent.

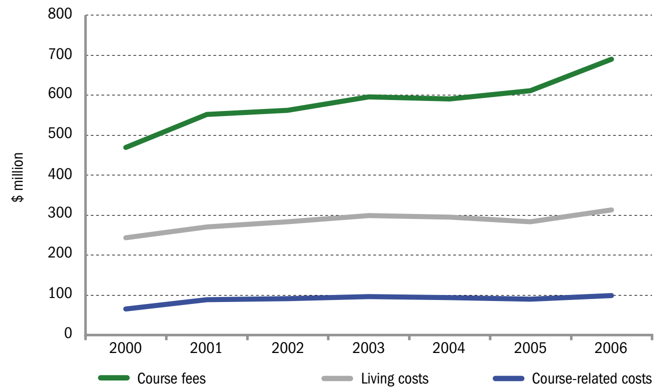
The average amount borrowed to pay fees has not increased very much from 2000 to 2006. In part, this reflects the government's fee stabilisation policy introduced in 2001 (see chapter 3.5), and the higher incidence of part-time enrolments in tertiary education. The increase in the total amount borrowed for fees reflects the increase in the number of borrowers. These trends are represented in Figures 23 and 24.

Figure 23 Average amount drawn by loan component 2000-2006



Source: Ministry of Social Development.

Figure 24 Total amount drawn by loan component 2000-2006



Source: Ministry of Social Development.

Provider type

Nearly half of all those who borrowed fees under the compulsory fees component of the loan scheme in 2006 were enrolled at universities. This proportion has remained relatively stable over recent years.

The uptake of loans at wānanga is significantly lower than at other provider types. This reflects the availability of zero-fee qualifications at wānanga and the high proportion of wānanga students enrolled on a part-time basis. The number of borrowers at wānanga also reduced significantly in 2006 and this is largely due to changes in funding that led to a reduction in enrolments.

There was an 18.4 percent increase in the number of private training establishment students borrowing fees in 2006 and the average amount borrowed for course fees by private training establishment students increased from $5,172 in 2005 to $5,485.

The reduction in the number of borrowers enrolled at colleges of education follows the amalgamation of Auckland College of Education with the University of Auckland in 2004 and of Wellington College of Education with Victoria University in 2005. The remaining two colleges of education merged with their local universities on 1 January 2007.

Table 4 Students who borrowed fees by provider type 2000-2006

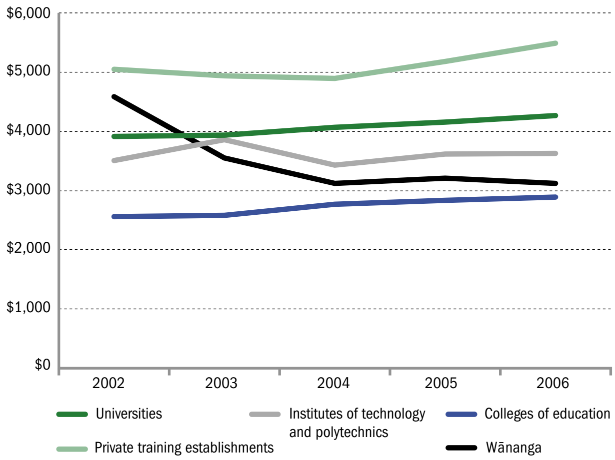
	2000	2001	2002	2003	2004	2005	2006
Universities	62,273	66,635	69,653	71,982	73,183	74,586	81,035
Institutes of technology and polytechnics	37,768	39,720	40,452	40,767	39,196	36,400	38,077
Colleges of education	5,189	5,307	5,445	5,556	5,434	2,528	2,517
Private training establishments	17,754	27,007	23,537	25,924	26,973	29,136	34,485
Wānanga	2,100	2,895	3,118	3,564	3,783	3,465	2,826
Total	**125,084**	**141,564**	**142,205**	**147,793**	**148,569**	**146,115**	**158,940**

Notes:

1. From 2000, loan components other than fees were not recorded by provider type.
2. A student studying at more than one provider type has been counted in each provider type.

Source: Ministry of Social Development.

Figure 25 Average course fees borrowed by provider type 2002-2006



Source: Ministry of Social Development.

Qualification level

In 2006, there were marked differences between the borrowing levels of men and women at most qualification levels and these are shown in the following table.

Table 5 Student loan borrowers by qualification level, gender and average amounts borrowed 2005-2006

Qualification level	Gender	2005		2006	
		Number of borrowers	Average amount borrowed	Number of borrowers	Average amount borrowed
Doctorates	Female	461	$5,294	573	$5,390
	Male	512	$5,341	581	$5,433
	Total	973	$5,319	1,154	$5,411
Masters, honours, postgraduate certificates and postgraduate diplomas	Female	5,490	$5,541	6,088	$5,657
	Male	4,063	$6,116	4,287	$6,201
	Total	9,553	$5,786	10,375	$5,882
Bachelors degrees, graduate certificates and diplomas	Female	46,397	$6,562	48,729	$6,764
	Male	31,951	$6,999	33,583	$7,181
	Total	78,349	$6,740	82,312	$6,934
Diplomas	Female	12,987	$5,362	12,959	$5,368
	Male	7,879	$7,727	8,177	$7,943
	Total	20,866	$6,255	21,136	$6,364
Certificates	Female	30,047	$5,289	30,621	$5,477
	Male	18,214	$5,655	19,591	$5,745
	Total	48,261	$5,427	50,212	$5,581
Other	Female	774	$5,923	4,642	$6,683
	Male	532	$7,243	3,101	$7,395
	Total	1,306	$6,461	7,743	$6,968
Total		**154,411**	**$6,408**	**167,420**	**$6,610**

Notes:

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

Source: Ministry of Social Development.

The availability of scholarships for higher-level study may explain the lower average borrowing at postgraduate level.

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 a week from the loan scheme, less any student allowances, to help meet living costs.

In 2006:

- 12 percent of all 2006 borrowers borrowed living costs under the loan scheme and also received student allowances. While the proportion (12 percent) is the same, there has been an 8 percent increase in these borrowers since 2005.
- 33.6 percent of people receiving student allowances used the loan scheme to supplement their living costs in 2006, compared with 32.5 percent in 2005.

Table 6 Student allowances compared with student loan living costs borrowings in 2006

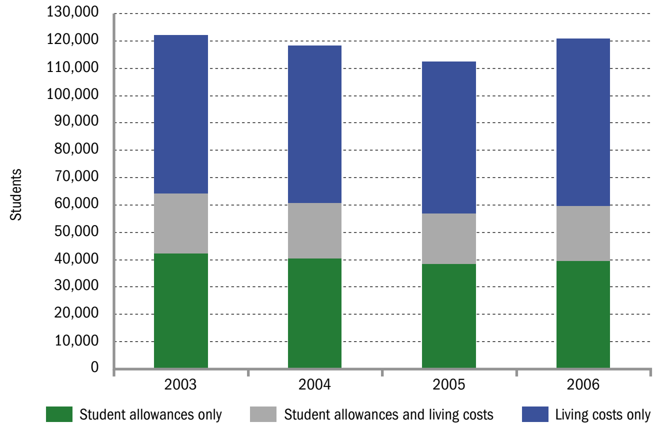
	Number of students	Average allowances	Average living costs	Average allowances and living costs
Student allowances only	39,487	$6,568		$6,568
Student allowances and living costs	19,944	$5,689	$1,703	$7,393
Living costs only	61,315		$4,534	$4,534
Total (living costs and/or allowances)	120,746	$3,088	$2,584	$5,671

Source: Ministry of Social Development.

On average, in 2006:

- those who received student allowances received $6,568
- those who received student allowances and used the living costs entitlement under the loan scheme borrowed $1,703 from the loan scheme and received $5,689 in student allowances – meaning they got a total of $7,393 from both schemes
- those who relied solely on the living costs entitlement under the loan scheme received $4,534.

Figure 26 Students borrowing living costs and receiving student allowances 2003-2006



Source: Ministry of Social Development.

4.3 People repaying loans

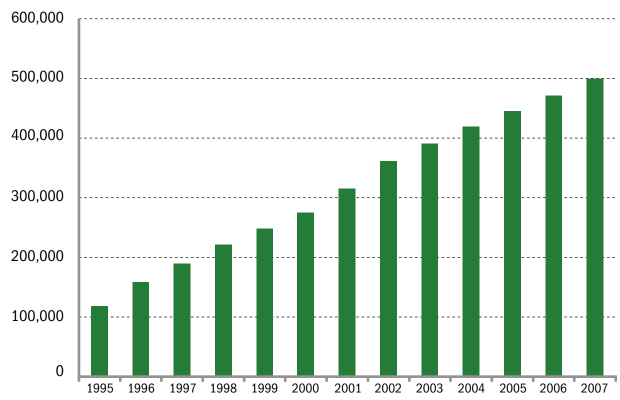
Loans with Inland Revenue

A total of 712,405 people have used the loan scheme since it began. This represents around 22 percent of the New Zealand population aged over 15. As the loan scheme matures and participation in tertiary education increases, a larger proportion of New Zealand's population can be expected to have student loan balances with Inland Revenue.

At 30 June 2007, 499,259 people had a student loan. This is a 6.1 percent increase from 2006 and an 82 percent increase from 30 June 2000.

Those with loans at 30 June 2007 represented 15.2 percent of the population aged 15 and over, compared with 14.4 percent the previous year and 12.8 percent at 30 June 2004.

Figure 27 Borrowers with Inland Revenue at 30 June 1995-2007



Source: Inland Revenue.

Characteristics of people with loans

Of those with loan balances, 55 percent were aged under 30, 89 percent were under 45 and 5.6 percent over 50. These proportions will change over time 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 with student loans represented 32 percent of the population between 15 and 30 years, while borrowers over 50 years were less than 2.4 percent of the population in that age range.

The number of people over the age of 60 with loan balances rose from 3,275 to 7,726 between 2003 and 2007. To some extent, this reflects the increase in enrolments amongst older people since 2000, with a consequent rise in borrowing amongst older age groups. It also reflects the ageing of the population of those with loans. However, at 1.6 percent, those aged 60 years or over are still a small proportion of all borrowers.

Information from the integrated dataset indicates that, of those who borrowed under the loan scheme after 1997 and had a student loan at 31 March 2006:

Ethnicity

- 48 percent were European
- 21 percent were Māori
- 9 percent were Asian
- 7 percent were Pasifika peoples.

Gender

- 56 percent were female.

Provider/sub-sector type

- 42 percent studied at a university or college of education
- 33 percent studied at a polytechnic
- 21 percent studied at a private training establishment.
- 4 percent studied at a wānanga.

Qualification level

- 35 percent studied at bachelors level
- 33 percent studied at certificate level
- 13 percent studied at diploma level
- 6 percent studied at postgraduate level.

Borrowers overseas

Until 31 March 2007, borrowers living overseas were called non-resident borrowers and this status was linked to a borrower's residency for tax purposes.

From 1 April 2007, borrowers living overseas are referred to as overseas-based borrowers. An 'overseas-based borrower' is anyone not eligible for an interest-free student loan. As at 30 June 2007, nearly 58,000 borrowers[27] were known to be overseas. Due to the change in definition it is not possible to compare this statistic with figures from previous years.

A data-matching programme (see chapter 3.2) has been set up to administer interest-free student loans. 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 historic data match has identified approximately 38,000 borrowers who had not notified Inland Revenue of their departure. These additional borrowers account for the increase in 'borrowers overseas' compared with figures reported last year for those known to be non-resident.

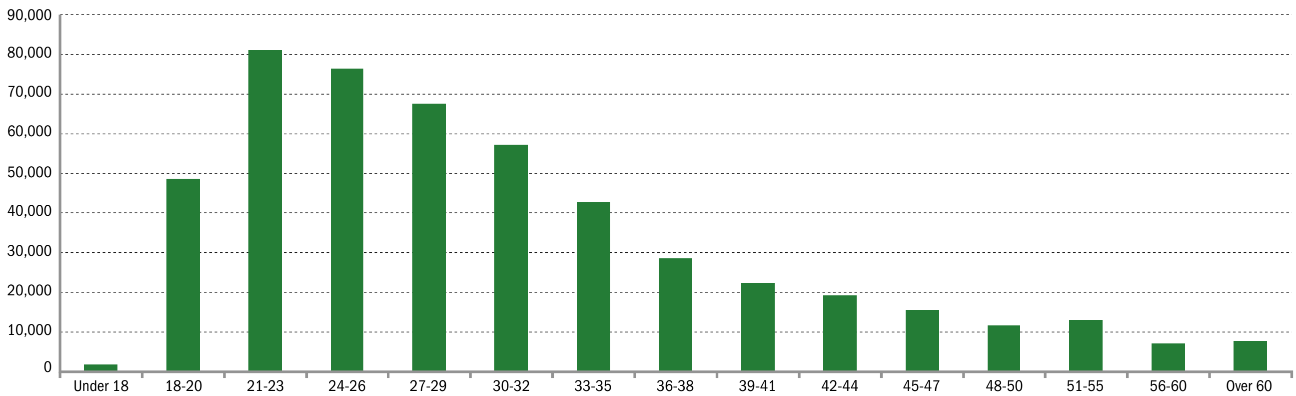
Amnesty

An amnesty for borrowers living overseas came into effect on 1 April 2006. The aim of the amnesty was to remove one of the barriers to borrowers wanting to return to New Zealand and encourage borrowers into making regular student loan repayments.

This first amnesty ran from 1 April 2006 to 31 March 2007 and applied to borrowers who were:

- non-resident and had arrears at the start of this amnesty period, or
- overseas at the start of the amnesty period, had not advised Inland Revenue of their absence and had non-resident arrears.

Figure 28 Borrowers with Inland Revenue at 30 June 2007 by age



Source: Inland Revenue.

27 This figure is subject to change due to the transition period between definitions and borrowers retrospectively meeting the 183-day rule.

Borrowers who qualified for the amnesty could apply to have their student loan late payment penalties written off up to the date of their application. When a borrower applied for the amnesty they agreed to meet the amnesty repayment obligations for two years from the date of their application.

Inland Revenue accepted 1,990 amnesty applications under the first amnesty (between 1 April 2006 and 31 March 2007) and the amount of debt that was reversed totalled $27 million, of which $12 million was late payment penalties. The remaining $15 million was repayment obligations. These were added back onto the loan balance and incur interest over the length of time a repayment obligation has been outstanding.

New legislation that came into effect on 1 April 2007 included an extension of the amnesty from 1 April 2007 to 31 March 2008. (See chapter 3.1.)

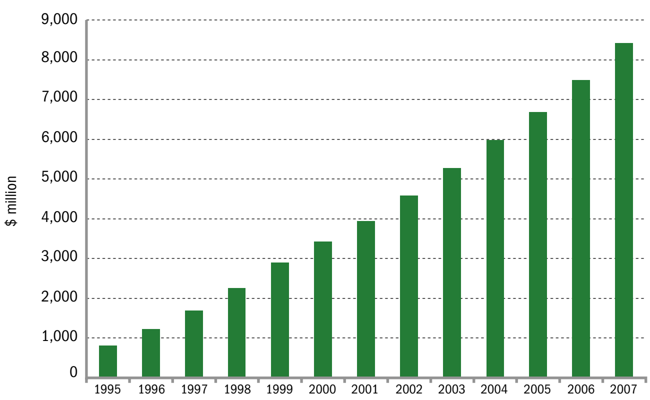
4.4 Loan balances

Total balances

At June 2007, the book value of student loan balances was $6,011 million, compared with $5,569 million the previous year. The increase is due to new loans provided in the current year less repayments made. This is the second year that the loans have been valued according to International Financial Reporting Standards (NZ IFRS), details of which can be found in chapter 6.

The nominal face value of loan balances was $9,413 million, compared with $8,370 million on 30 June 2006. This represents an increase in face value of 12 percent. Of this balance, $8,404 million was held by Inland Revenue and $1,009 million by the Ministry of Social Development.

Figure 29 Nominal value of student loans held by Inland Revenue at 30 June 1995-2007



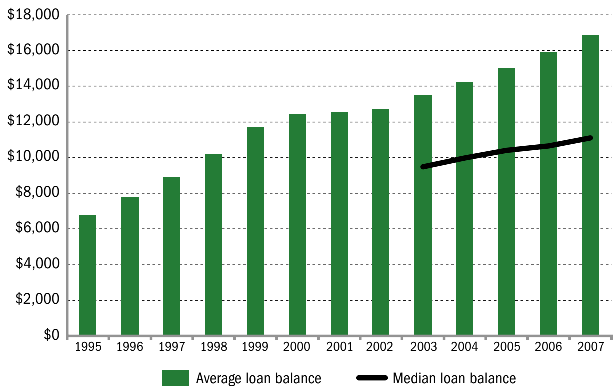
Source: Inland Revenue.

Average and median balances

The average loan balance with Inland Revenue was $16,833, an increase of 5.9 percent from $15,883 on 30 June 2006. The average loan has risen by 36 percent since 2000.

The median loan balance on 30 June 2007 was $11,087, compared with $10,652 on the same date in 2006 – a rise of 4 percent. Twenty-nine percent of all loans were less than $6,000 while only 4.4 percent were above $50,000 (compared with 3.9 percent in 2006).

Figure 30 Average student loan balance with Inland Revenue at 30 June 1995-2007 and median balance 2003-2007



Source: Inland Revenue.

The average loan balance is higher than the median because there is a relatively small number of large loan balances, which lift the average. The distribution of balances is shown in the following table.

Table 7 Range of loan balances held by Inland Revenue at 30 June 2007

Range of loan balances	Borrowers	Percentage	Cumulative percentage
$1 – $1,999	48,085	9.6%	9.6%
$2,000 – $3,999	43,747	8.8%	18.4%
$4,000 – $5,999	51,738	10.4%	28.8%
$6,000 – $7,999	45,616	9.1%	37.9%
$8,000 – $9,999	40,119	8.0%	45.9%
$10,000 – $14,999	78,349	15.7%	61.6%
$15,000 – $19,999	49,571	9.9%	71.6%
$20,000 – $24,999	37,835	7.6%	79.1%
$25,000 – $29,999	26,520	5.3%	84.4%
$30,000 – $34,999	20,706	4.1%	88.6%
$35,000 – $39,999	15,604	3.1%	91.7%
$40,000 – $44,999	11,073	2.2%	93.9%
$45,000 – $49,999	8,569	1.7%	95.6%
$50,000 – $54,999	5,879	1.2%	96.8%
$55,000 – $59,999	4,248	0.9%	97.7%
$60,000 – $79,999	8,038	1.6%	99.3%
$80,000 – $99,999	2,346	0.5%	99.8%
over $99,999	1,216	0.2%	100.0%
Total	**499,259**	**100.0%**	

Source: Inland Revenue.

Information from the integrated dataset had the following findings on 31 March 2006:

- Māori borrowers had the lowest average loan balance.
- European borrowers had the highest average loan balance.
- The average loan balance for those who had last studied at bachelors-degree level or higher was much higher than the

overall average loan balance. This reflects the higher fees and longer periods of study at those levels.

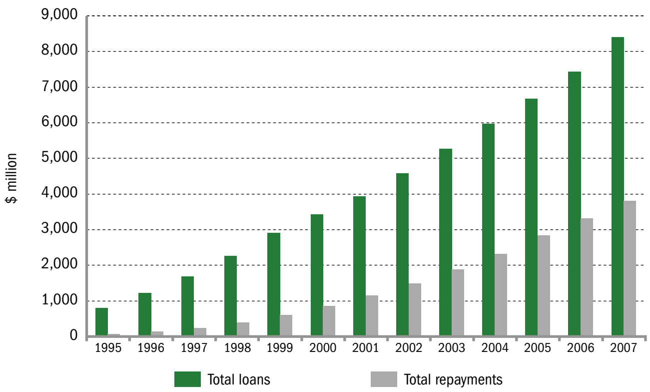
- Those who had studied at universities had higher loan balances on average than those who had studied at polytechnics, colleges of education, wānanga and private training establishments – reflecting the longer duration of university qualifications.
- The average loan balance was higher for men than for women.

Repayments

Repayments collected

Inland Revenue has collected $3,800 million in loan repayments since the loan scheme began. Of this, $2,161.5 million has been collected by employers through the pay as you earn (PAYE) system. The balance ($1,638.4 million) has been paid directly by self-employed borrowers, overseas borrowers, and borrowers who have made additional repayments.

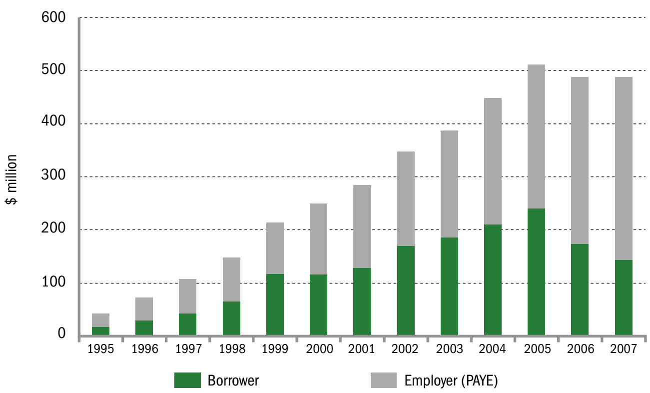
Figure 31 Cumulative student loan repayments received by Inland Revenue compared with aggregate loan balances 1995-2007



Source: Inland Revenue.

Figure 32 shows the loan repayments received by Inland Revenue, split by repayments direct from borrowers to Inland Revenue and repayments made by employer deductions under the PAYE system, in each fiscal year.

Figure 32 Value of gross student loan repayments received by Inland Revenue 1995-2007 – borrower/employer split



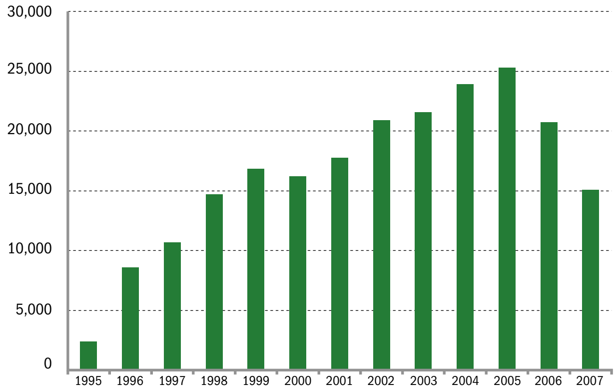
Source: Inland Revenue.

The decline in the volume of repayments outside the PAYE system and in the number of loans being repaid is most probably the result of changes in repayment behaviour after the removal of interest charges for most borrowers. The administrative system for loan repayments does not distinguish between payments outside the PAYE system. These payments are from self-employed people, borrowers who are overseas and from borrowers making extra payments.

Loans fully repaid

The number of loans fully repaid in 2006/07 was 15,059. Since the loan scheme began, 216,254 loans have been repaid in full. This represents more than 30 percent of all loans drawn down.

Figure 33 Loans fully repaid to Inland Revenue at 30 June 1995-2007



Note: Because a student loan account can be finalised after the end of the fiscal year, the number of loans repaid for a previous year may change.

Source: Inland Revenue.

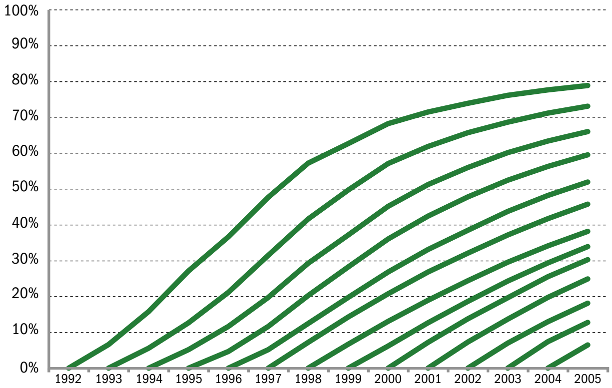
The likely explanation for the fall in fully repaid loans relates to changes in repayment behaviour that accompanied the introduction of interest-free loans.

Repayment rates

The main determinants of repayment rates are employment and income. As people's incomes rise, their repayment obligations increase. Therefore, people's 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 34.

Figure 34 Proportion of borrowers who have fully repaid each year for each cohort of leaving borrowers 1992-2005



Source: Statistics New Zealand, integrated dataset.

Studies of repayment rates have the following findings:

- Women repay more quickly than men in the early years after study.
- Five to six years after leaving study, the proportion of men and women who have repaid in full becomes roughly equal.
- Successful completion of a qualification is associated with quicker repayment.
- Those who study at higher qualification levels tend to repay more quickly despite having higher leaving balances.
- If all other factors are held constant, those with smaller loans tend to repay more quickly.

Interest-free student loans

Interest-free student loans came into effect on 1 April 2006. Student loan borrowers eligible for interest-free loans (they must be living in New Zealand for 183 consecutive days or more) had their interest reversed – written off automatically after the end of the tax year (31 March 2007).

For the year ending 30 June 2007, a total of $531.1 million was written off under the interest-free policy.

Of the total number of student loan borrowers, 87 percent received an interest-free write-off for the tax year ending 31 March 2007. The amount written off relating to the tax year ending 31 March 2007 was $454.5 million.

Exemptions

Of those eligible for interest-free loans, borrowers who did not satisfy the 'living in New Zealand' criterion can apply for an exemption to make their loan interest-free. Exemptions apply to circumstances such as overseas study and volunteer work.

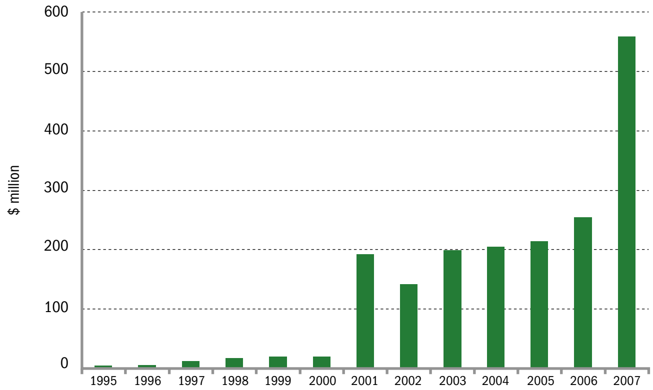
From 1 July 2006 to 30 June 2007, there were 178 exempt borrowers. Eligibility for these exemptions was extended from 1 April 2007 to include borrowers studying at undergraduate level.

Other interest write-offs

Before the introduction of interest-free student loans on 1 April 2006, many borrowers were already entitled to have all or some of the interest on their loans written off. In 2000, full interest write-offs were introduced for all full-time students and for part-time students on low incomes, while low-income people have had some interest write-offs since the loan scheme began. From 1 April 2007, these other interest write-offs are no longer available.

The following graph shows total interest write-offs by fiscal year.

Figure 35 Value of interest write-offs at 30 June 1995-2007



Notes:

1. The decrease in the total amount written off for the fiscal year to June 2002 occurred because some write-off rules apply only to the base interest. During the fiscal year to June 2002, the base interest rate was set at 3.1 percent for nine months of the period (to 31 March 2002) and 5.1 percent for the last three months. The lower base interest rate in the tax year to 31 March 2002 meant that amounts written off were lower.
2. The majority of interest write-offs for the 1999/2000 income year were credited to the borrowers' loan accounts in October 2000. This means the values in the above table are understated for 1999 and 2000 and overstated for 2001.

Source: Inland Revenue.

Interest write-offs are calculated on a tax year basis (to 31 March of each year). A total of $1,842 million in interest has been written off since the loan scheme began.

In the year to 30 June 2007:

- more than 464,000 borrowers had interest written off totalling $558.4 million – of this, $531.1 million related to the interest-free policy
- other interest write-offs which no longer apply from 1 April 2007 totalled $27.4 million – this includes full interest write-off for full-time students and for low-income, part-time students, base interest write-offs[28] and base interest reductions.[29]

Loan balances written 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. There were 313 borrowers who died during 2006/07 – resulting in $1.7 million being written off.

The student loans of borrowers adjudicated bankrupt are written off under the Insolvency Act 1967. There were 954 borrowers registered as bankrupt during 2006/07 – resulting in $9.1 million being written off.

28 See the glossary in appendix 4 for definition.

29 See the glossary in appendix 4 for definition.

Since the loan scheme was introduced:

- 5,121 borrowers have had a loan balance written off due to bankruptcy[30]
- $80 million has been written off for deceased and bankrupt borrowers.

Tables 8 and 9 show the amounts and numbers of write-offs for deceased and bankrupt borrowers.

Interest write-offs due to death or bankruptcy

Table 8 Value of deceased and bankruptcy write-offs at 30 June 2003-2007

Year	Deceased	Bankruptcy
	$ million	$ million
2003	2.3	3.5
2004	4.5	8.5
2005	3.6	9.5
2006	4.2	10.5
2007	1.7	9.1

Source: Inland Revenue.

Table 9 Number of deceased and bankruptcy write-offs at 30 June 2003-2007

Year	Deceased	Bankruptcy
2003	342	491
2004	284	607
2005	359	734
2006	401	807
2007	313	954

Notes:

1. Because a student loan account can be finalised after the end of the fiscal year, the number of deceased and bankrupt borrowers for an earlier year may change.
2. The number of borrowers in this table does not necessarily directly relate to the amounts written off for the corresponding year.

Source: Inland Revenue.

Write-offs do not necessarily occur in the same year as the death or bankruptcy. The amount written off (Table 8) relates to the year the write-off occurred, whereas the number (Table 9) relates to the year the borrower died or was adjudicated bankrupt.

It can take some time for a bankruptcy to be settled and for the actual write-off to occur. Finalising the bankrupt's account and writing off the loan balance cannot happen until the Official Assignee produces a final report on the case. In some situations, this can take up to three years after filing for bankruptcy. Therefore, care should be taken when comparing Table 8 with Table 9.

Projected repayment

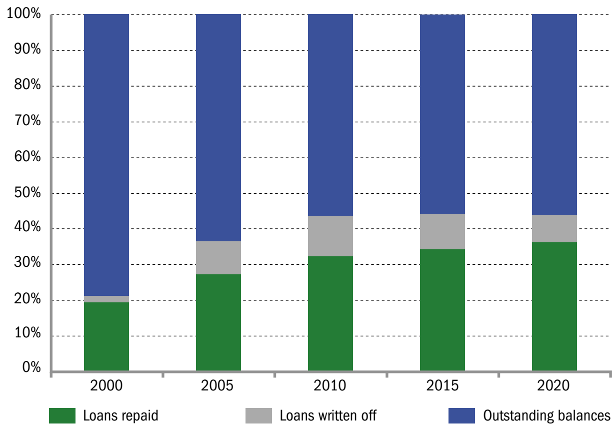
At the end of 2006, around 28 percent of all loan balances accumulated under the loan scheme since it began (through interest, penalties and drawings) had been repaid and about 12 percent written off.

This means that 60 percent of the aggregate accumulated loan balance remains outstanding. As the loan scheme matures, these proportions will change:

- In 2000, 19 percent had been repaid and 1.75 percent written off.
- By 2010, it is expected that about a third of the aggregate accumulated loan balances will be repaid, 11 percent written off and around 57 percent remain outstanding.
- By 2015, it is forecast that 35 percent will be repaid, 8 percent will be written off, and 57 percent will be outstanding.

Figures 36 and 37 show the trend in the value of the aggregate accumulated loan balances against the trend in repayment.

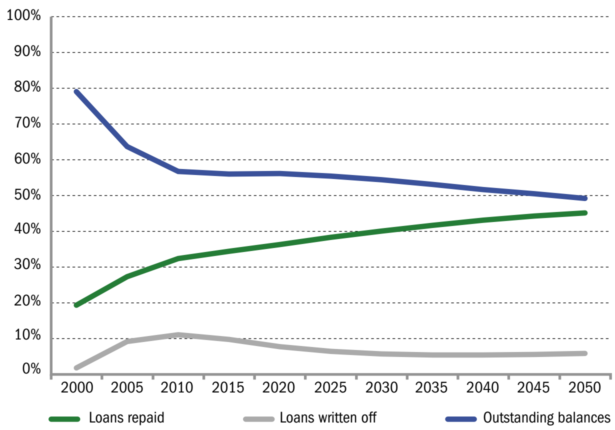
Figure 36 Projected proportions of loan repayments made, loans written off and outstanding balances 2000, 2005, 2010, 2015 and 2020



Source: Ministry of Education and Inland Revenue.

Long-term projections suggest that by 2050 around 45 percent of the aggregate accumulated loan balance (including interest, penalties and drawings) will have been repaid, with less than 6 percent written off, and around 49 percent outstanding.

Figure 37 Projected proportions of loan repayments made, loans written off and outstanding balances 2000-2050



Source: Ministry of Education and Inland Revenue.

Before the introduction of the interest-free loan policy, it was projected that repayments of student loans would exceed drawings in the year 2016. Now, this is not expected to occur before 2050.

30 Inland Revenue does not bankrupt student loan borrowers solely on the basis of student loan borrowings or overdue repayment obligations.

CHAPTER FIVE

Valuing and Forecasting the Student Loan Scheme

5.0 Introduction

This chapter looks at the costs and value of the loan scheme. It gives information on the model that produces cost and valuation estimates, it describes the fair valuation of the loan scheme, and it gives forecasts of loan balances and repayment times.

A new forecasting model has been phased in, providing the government agencies that manage the loan scheme with better information about borrower behaviour and about repayment patterns. This means that the agencies now have a better understanding of the costs of lending, of the value of the loan asset and of the factors that influence changes in costs. The information in this chapter reflects these improvements. The new model is described in 5.1 below.

The loan scheme is a significant government asset.[31] On 30 June 2007, the nominal or face value of loans was $9,413 million while the loan asset is recorded in the financial statements as $6,011 million. The current forecast is that the portfolio will grow to $16 billion by the middle of 2015. Current estimates suggest that by that time the asset value is likely to be around $10 billion.

The loan scheme's costs are shared between students and the government in the following ways:

- Government covers the cost of changes to implement new policies or improve delivery.
- Borrowers meet part of the administration costs through a one-off fee of $50 for each year that they borrow.[32]
- Government meets the remaining administration costs.
- Government meets most of the capital costs to run the loan scheme.
- Borrowers overseas meet a share of the government's estimated capital costs through interest payments.

The government recognises its share of these costs by appropriating money that covers a proportion of new lending. In 2006/07, the government lent $1,176 million to students.[33] This was recognised to have a cost of $479 million while the remainder – $697 million – was added into the student loan asset.

5.1 The forecasting and costing model

This report uses forecasting and costing data from the Ministry of Education's new actuarial valuation model of the loan scheme – the Student Loans Integrated Model (SLIM). Now that it has been fully implemented, SLIM has replaced the previous models used for modelling and forecasting student loans.

SLIM models borrowing, repayments and other aspects of the loan scheme. One of the purposes of SLIM is to calculate the fair value of the loan scheme. The fair value calculated using SLIM has been included as a note to the accounts in annual reports since October 2003. Since then, SLIM has also been used to assess the impact and cost of new policies. It is used to estimate repayment times and, importantly, it is used in the calculations needed for reporting under the IFRS[34] accounting framework. It is also used to help prepare bi-annual fiscal and economic updates.

SLIM is built on data from the integrated dataset on loan scheme borrowers, meaning it is using actual data to reach its conclusions, rather than the simulations used in earlier models of the loan scheme. Appendix 2 has more information about SLIM, including the assumptions on which the model is built and some comparisons between the model's predictions and actual experience.

Loan scheme changes and predictability

Recent changes to the loan scheme are expected to change borrowing and repayment patterns. Given the extent of change, forecasting on the loan scheme can rely less than usual on past observations and is therefore subject to greater uncertainty.

5.2 Short-term forecasts

Twice a year, as part of the government's fiscal update cycle, Inland Revenue forecasts student loan repayments while the Ministry of Social Development forecasts new lending. This is done for the current fiscal year and for four further years. Table 10 gives the lending and repayment for the year that ended on 30 June 2007 and the forecasts from the Budget 2007 economic and fiscal update.

Table 10 Lending and repayment forecasts 2007/08-2010/11

Financial year	Actual	Forecast			
	2006/07 $ million	2007/08 $ million	2008/09 $ million	2009/10 $ million	2010/11 $ million
New lending	1,185	1,278	1,334	1,389	1,444
Repayments	555	621	705	763	839
Net cash outflow	629	656	629	626	605

Source: Ministry of Social Development, Inland Revenue and Treasury: *Budget 2007 Economic and Fiscal Update May 2007.*

Table 10 shows a steady annual increase in the forecasts of both lending and repayment. The 22 percent lending increase between 2006/07 and 2010/11 results from forecasts of increased enrolments in tertiary education, the trends in the type of enrolments and the trends in loan uptake. Repayments are forecast to rise more quickly – by 52 percent over the same period. Between 2005 and 2007 repayments fell as a consequence of the introduction of the interest-free student loans policy. The increases observed in the forecasts result from the increased number of borrowers and the rises in incomes that flow into higher repayments.

31 Money owed to government is recorded financially as an asset. This is similar to the way in which banks record mortgages in their financial statements.

32 This is added to the student's loan. See appendix 1.

33 Excluding loan administration fees.

34 International Financial Reporting Standards – the new accounting standard for financial assets.

5.3 Valuation and accounting

Under IFRS,[35] financial assets (including student loans) have to be recognised initially at their 'fair value' and student loans are classified as 'loans and receivables'. They are subsequently valued at their amortised cost. The loan balances may also be subject to 'impairment' – a reduction in their value that can result from objective evidence that all amounts due may not be collected. The closing loan balance recorded in the accounts at 30 June 2007 has been prepared according to these standards.

Fair valuation

The fair value of the loan scheme is the amount for which the government's student loan asset could be purchased in an arm's-length transaction between knowledgeable, willing parties. In calculating the fair value, an assessment is made of expected future cash flows. The cash flows are discounted at rates that depend on market estimates of future interest rates. These rates incorporate a risk premium. Since market interest rates are used each year, the fair valuation is subject to market fluctuations outside of the loan scheme's control.

Reporting the fair value in the accounts has been a requirement of the generally accepted accounting practices in recent years.

Table 11 Fair value note to the accounts at 30 June 2004-2007

	30 June 2004 $ million	30 June 2005 $ million	30 June 2006 $ million	30 June 2007 $ million
Nominal value	6,821	7,499	8,370	9,413
Fair value	5,734	5,994	5,537	5,443
Ratio	84.1%	79.9%	66.2%	57.8%

Source: Student Loan Scheme Financial Statements for the year ended 30 June 2007.

The fair valuation of the loan scheme at 30 June 2007 was $5,443 million. This is 57.8 percent of the nominal or face value of the loan scheme's closing balance ($9,413 million) on the same date. Last year, the fair value calculated as at 30 June 2006 was $5,537 million (66.2 percent), while in 2005 (before the interest-free student loans policy was introduced) the fair value was $5,994, or 79.9 percent of the face value.

The fall in fair value between 2005 and 2006 is largely attributable to the effects of the introduction of interest-free loans. Between 2006 and 2007, as a percentage of the nominal value of the aggregate outstanding loan balance, the fair value dropped by 8.4 percentage points. The principal reasons for this decrease were: changes in the discount rate, the new overseas repayment rules, new data (especially on the proportion of overseas borrowers and their repayment patterns), new information about the timing of loan repayments, and assumptions about changes in the New Zealand economy. In particular, the risk-free rate upon which the discount rate was based increased from 5.75 percent to 6.19 percent between these valuations.

IFRS valuation

The value of the loans as reported in the government's accounts is measured in accordance with the IFRS accounting standards. Under these standards, once the initial fair value write-down rate is struck for lending to new borrowers in any year, it remains fixed for the lending to those borrowers in subsequent valuations.[36] Therefore, market changes in the value of money will no longer affect the accounts for that year's lending. Future revaluations will only show changes that have been measured in the loan scheme.

SLIM is used for annual IFRS-compliant valuations for the financial statements of the government. It is also used to help prepare the government's bi-annual fiscal and economic updates.

The following table summarises the loan scheme's value in the financial statements of the government over the last four years.

Table 12 Book value of the loan scheme at 30 June 2004-2007

	Book value prepared according to earlier accounting standards		Book value prepared according to IFRS	
	30 June 2004 $ million	**30 June 2005 $ million**	**30 June 2006 $ million**	**30 June 2007 $ million**
Nominal value	6,821	7,499	8,370	9,413
Book value	5,995	6,465	5,569	6,011
Ratio	87.9%	86.2%	66.5%	63.9%

Source: Student Loan Scheme Financial Statements for the year ended 30 June 2007.

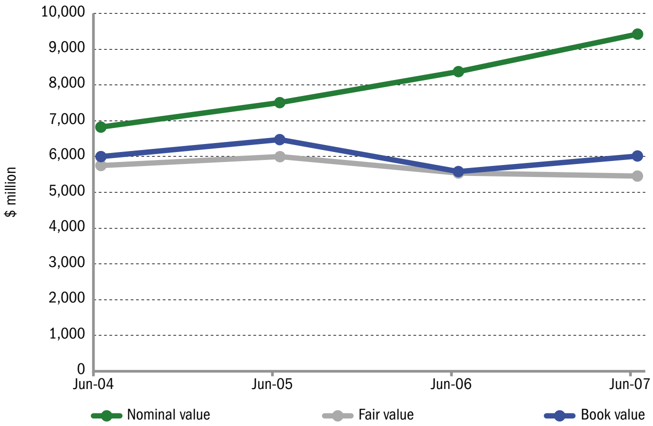
IFRS standards were first applied to the loan scheme in the financial year to 30 June 2006. The increase in the value between 30 June 2006 and 30 June 2007 reflects the fact that there was an increase over that period in the nominal aggregate loan balance as a result of new lending. In addition, some economic indicators show that average earnings have risen sharply in the recent past – boosting repayments of loans.

Figure 38 shows the book value of the loan scheme against its nominal value and its fair value between 2004 and 2007.

35 In particular, NZ IFRS IAS 39: Financial Instruments: Recognition and Measurement.

36 This is known as the effective interest rate.

Figure 38 The loan scheme's nominal value, book value and fair value at 30 June 2004-2007



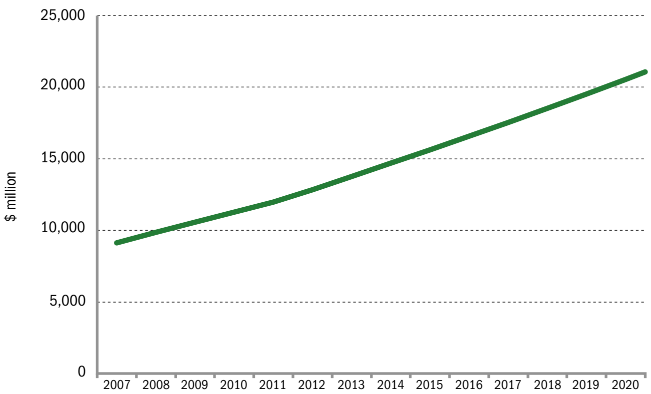
Source: Student Loan Scheme Financial Statements for the year ended 30 June 2007.

5.4 Long-term forecasting

Figure 39 shows a longer-term forecast prepared using the SLIM model results. This forecast uses the government's budget forecasts of lending and repayment up until 2011. Beyond that year, repayments are derived from an analysis of the SLIM model.[37]

By their nature, long-term forecasts are volatile and uncertain; modest changes tend to compound, leading to wide differences at long horizons.

Figure 39 Nominal loan balance projections 2007-2020



Source: Ministry of Education.

Before the implementation of the interest-free student loans policy in 2005, there was a decline in rates of loan uptake and also in the number of loan borrowers. There was a drop of 1.7 percent in the number of borrowers in 2005 compared with 2004.

In the most recent forecast, the average annual increase in the number of loan borrowers from 2007 to 2012 is estimated to be 2 percent per annum. The increase in the forecast rate of growth in borrowers reflects the impact of the interest-free policy and changes in the size and structure of the New Zealand population, participation rate forecasts and forecasts relating to economic conditions.

The average annual increase in total borrowing is expected to be 4.2 percent per annum from 2007 to 2012. The June 2005 estimate was a 3.8 percent average annual increase in total borrowings. Again, this projected increase is attributed to the introduction of the interest-free policy. From 2007 to 2012, the average increase in the average amount borrowed per borrower is expected to be around 2.1 percent per annum.

The estimates of overall outstanding student loan balances are sensitive to assumptions about participation in tertiary education. Reasonable variations in participation projections lead to estimates of total outstanding loan balances by 2020 ranging from $20.3 billion to $22.3 billion.

5.5 Predicted repayment times

SLIM models the changes in employment status, income and repayment rates that affect actual individual borrowers. The following tables and figures examine individuals' repayment times measured from when they finish their studies. The repayment experience of different groups of students has varied over time. The tables are restricted to those who last studied in 1999, did not study again in any of the years between 2000 and 2004 and remained in New Zealand. The modelling assumes that they are not returning to study before their loans are repaid.

Table 13 Percentiles of forecast repayment times for those who last studied in 1999, whose loans remained unpaid in March 2000 and who remain in New Zealand by gender

	10th percentile[38]	25th percentile	50th percentile /median	75th percentile
Forecast repayment time in years: Male	1.5	3.5	7.0	13.1
Forecast repayment time in years: Female	1.2	3.1	7.0	13.7

Source: Ministry of Education.

For more recent leavers, represented by those who last studied in 2003 and did not study in the following year and who remained in New Zealand, repayment times have fallen.

37 Each year the SLIM model is updated using the most recent integrated dataset. The results presented here are an analysis of the 2006 SLIM model. Note that the valuations (fair value and IFRS) have been prepared using the 2007 SLIM model.

38 The term 'percentile' is defined as follows: 10 percent of all borrowers have a repayment time less than or equal to that duration. Likewise, 25 percent of all borrowers repay less than or equal to the 25th percentile. The term 'median' is used for the 50th percentile or middle duration. Half the borrowers are above the median and half below.

Table 14 Percentiles of forecast repayment times for those who last studied in 2003, whose loans remained unpaid in March 2004 and who remain in New Zealand by gender

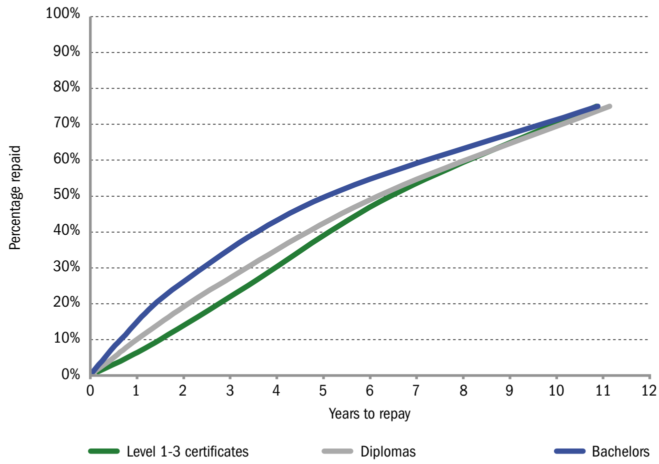
	10th percentile	25th percentile	50th percentile /median	75th percentile
Forecast repayment time in years: Male	0.9	2.5	5.8	10.9
Forecast repayment time in years: Female	0.8	2.3	5.7	10.6

Source: Ministry of Education.

Table 13 shows that half of those who left study in 1999 and stayed in New Zealand were forecast to have repaid within seven years. Table 14 shows that for the 2003 leavers, the median repayment time had fallen to 5.7 years for women and 5.8 years for men. The reduced repayment time for the 2003 leavers is largely due to the fee stabilisation policy that operated between 2000 and 2003, the removal of interest for those in study and the stronger labour market that the 2003 leavers encountered when they finished their studies.

Figure 40 looks at repayment times for recent leavers grouped according to the level of their studies. It combines three cohorts of leavers – those who last studied in 2001, 2002 and 2003. It models the distribution of the expected repayment times in years up to the 75th percentile.

Figure 40 Projected full repayment for recent leavers for selected levels of study (NZ based)



Source: Ministry of Education.

The median repayment time (or the 50th percentile) for those who studied at bachelors level was about five years. The 75th percentile – that three-quarters of the borrowers took less than – was nearly 11 years. People who studied at the diploma level took a little longer – the median repayment time was about six years. Those who had studied level 1-3 certificates took a little longer.

CHAPTER SIX

Student Loan Scheme Financial Statements

for the Year Ended 30 June 2007

CHAPTERSIX
Student Loan Scheme Financial Statements
CHAPTERSIX
Student Loan Scheme Financial Statements
CHAPTERSIX
Student Loan Scheme Financial Statements
CHAPTERSIX
Student Loan Scheme Financial Statements
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6.0 Financial statements for the year ended 30 June 2007

The financial statements for the loan scheme comprise schedules of revenue and expenditure, assets and cash flows relating to student loans. The Ministry of Social Development and Inland Revenue administer student loans on an agency basis within policy parameters set by the Ministry of Education, 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 loan scheme.

The schedule of assets shows a total asset value as at 30 June 2007 of $6,011 million ($5,569.2 million at June 2006).

6.1 Schedule of revenue and expenditure for the year ended 30 June 2007

Table 15 Schedule of revenue and expenditure for the year ended 30 June 2007

Actual 2006 $ million		Actual 2007 $ million	Main Estimates 2007 $ million	Supp. Estimates 2007 $ million
	Revenue			
358.1	Interest unwind	359.5	270.9	374.0
0	Interest income	91.3	0	142.0
8.0	Administration fees Ministry of Social Development	8.7	8.5	9.0
366.1	**Total revenue**	**459.5**	**279.4**	**525.0**
	Expenditure			
1,414.7	Initial fair value write-down	0	0	0
12.8	Impairment	151.1	15.5	393.0
328.4	Fair value write-down on new borrowings	487.5	347.6	519.4
1,755.9	**Total expenditure**	**638.6**	**363.1**	**912.4**
(1,389.8)	**Net deficit**	**(179.1)**	**(83.7)**	**(387.4)**

- The accompanying accounting policies and notes on pages 46 to 48 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, reference should be made to the consolidated audited financial statements of the Government, for the year ended 30 June 2007.
- Details of the consolidated movements schedule for the year ended June 2007 are shown in Note 1.
- Initial fair value write-down and subsequent impairment is disclosed net of release of opening bad debt provision.

6.2 Schedule of assets as at 30 June 2007

Table 16 Schedule of assets as at 30 June 2007

Actual 2006 $ million		Actual 2007 $ million	Main Estimates 2007 $ million	Supp. Estimates 2007 $ million
	Current assets			
960.5	Student loans	1,129.3	1,059.5	966.5
960.5	Total current assets	**1,129.3**	**1,059.5**	**966.5**
	Non-current assets			
4,608.7	Student loans	4,881.7	4,874.5	4,881.5
4,608.7	**Total non-current assets**	**4,881.7**	**4,874.5**	**4,881.5**
5,569.2	**Total assets**	**6,011.0**	**5,934.0**	**5,848.0**

- The accompanying accounting policies and notes on pages 46 to 48 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, reference should be made to the consolidated audited financial statements of the Government, for the year ended 30 June 2007.
- Details of the consolidated movements schedule for the year ended June 2007 are shown in Note 1.

6.3 Schedule of cash flows for the year ended 30 June 2007

Table 17 Schedule of cash flows for the year ended 30 June 2007

Actual 2006 $ million		Actual 2007 $ million	Main Estimates 2007 $ million	Supp. Estimates 2007 $ million
	Cash flows - operating activities			
	Cash was provided from:			
179.9	Interest repayments received	37.5	41.9	38.6
179.9	**Net cash inflow from operating activities**	**37.5**	**41.9**	**38.6**
	Cash flows - investing activities			
	Cash was provided from:			
371.1	Capital repayments received	517.9	591.9	520.7
	Cash disbursed for:			
(1,045.5)	Amount borrowed in current year	(1,175.9)	(1,149.0)	(1,224.4)
(674.4)	**Net cash outflow from investing activities**	**(658.0)**	**(557.1)**	**(703.7)**
(494.5)	**Net student loan cash outflow**	**(620.5)**	**(515.2)**	**(665.1)**

- The accompanying accounting policies and notes on pages 46 to 48 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, reference should be made to the consolidated audited financial statements of the Government, for the year ended 30 June 2007.
- Details of the consolidated movements schedule for the year ended June 2007 are shown in Note 1.

6.4 Statement of accounting policies for the year ended 30 June 2007

Reporting entity

The loan scheme is a Crown activity that forms part of the consolidated financial statements of the government. The loan scheme has dimensions of revenue, expenditure, assets and cash flows within the overall financial statements of the government.

Statutory authority

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

Budget figures

The budget figures are those presented as part of Budget 2007 (Main Estimates), those amended by the Supplementary 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, less any impairment loss.

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 losses are incurred 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 a loss event (or events) has an impact on the estimated future cash flows of the student loan book that can be reliably measured.

Impairment losses can be reversed where there is evidence that the impaired value has increased.

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 written off at 1 April each year where qualifying criteria are met.

Credit risk

For the 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 loan scheme to incur a loss.

The 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 loan scheme does not have any material individual concentrations of credit risk.

The credit risk is reduced by 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 affect the government's 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.

6.5 Notes to the financial schedules for the year ended 30 June 2007

Note 1: Consolidated movements schedule for the year ended 30 June 2007

Table 18 Consolidated movements schedule for the year ended 30 June 2007

Consolidated Actual 2006 $ million		Consolidated Actual 2007 $ million	Inland Revenue 2007 $ million	Ministry of Social Development 2007 $ million
8,370.0	Nominal loan balance	9,412.7	8,403.8	1,008.9
(2,800.8)	Adjustment due to initial fair value recognition and impairment	(3,401.7)	(2,974.6)	(427.1)
5,569.2	**Total student loans**	**6,011.0**	**5,429.2**	**581.8**
6,464.5	**Student loans opening balance**	**5,569.2**	**4,977.7**	**591.5**
0	Borrowings transferred from Ministry of Social Development to Inland Revenue	0	1,003.5	(1,003.5)
0	Fair value write-down on borrowings transferred	0	(320.4)	320.4
1,045.5	Amount borrowed in current year	1,175.9	0.0	1,175.9
(328.4)	Fair value write-down on new borrowings	(487.5)	0.0	(487.5)
8.0	Administration fees on loans made in current year	8.7	0.0	8.7
(371.1)	Capital repayments made in current year	(517.9)	(448.9)	(69.0)
354		**179.20**	**234.2**	**(55.0)**
0	Accrued interest	91.3	91.3	0
358.1	Interest unwind	359.5	314.2	45.3
(179.9)	Interest repayments	(37.5)	(37.5)	0
0	Small balance write-offs	0.4	0.4	0
178.2	**Net increase in interest receivable**	**413.7**	**368.4**	**45.3**
(1,414.7)	Initial fair value write-down	0	0	0
(12.8)	Impairment	(151.1)	(151.1)	0
(1,427.5)	**Net decrease in other movements**	**(151.1)**	**(151.1)**	**0**
5,569.2	**Student loans closing balance**	**6,011.0**	**5,429.2**	**581.8**

Note 2: Recognition

Student loan book 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.

Fair value on initial recognition of student loans is determined by projecting forward contractually agreed (promised) 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 loans policy. As such, the carrying value is sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macro-economic factors such as inflation and the discount rates used to determine the effective interest rate for new borrowers. The significant assumptions are shown below.

Table 19 Significant assumptions

	30 June 2007	30 June 2006
Effective interest rate for new borrowers	7.12%	6.63%
Interest rate applied to loans for overseas borrowers	6.7% – 7.2%	6.9% (6.7% outyears)
Cost of administration as a percentage of the average outstanding loan balance	0.15%	0.15%
Consumer price index	2.4% – 2.6%	3.2%
Future salary inflation	3.4% – 3.6%	3.6%

Source: Inland Revenue.

The data 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 2006 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.

Given the lead time required between analysing the raw data and its availability for use in the valuation model, it is expected that there will always be a 15-month lag between the available 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 2007. It is determined by discounting the estimated cash flows at an appropriate discount rate. The estimated fair value of student loans at 30 June 2007 has been determined to be $5,443 million ($5,538 million at 30 June 2006).

Fair values will differ from carrying values due to changes in market interest rates, as the carrying value is not adjusted for such changes. They will also differ in the treatment of credit losses, as carrying values adjust for credit losses that have been incurred, while fair values capture adjustments for expected future credit losses. The difference between fair value and carrying value does not represent an impairment of the asset.

The fair value calculated is sensitive to underlying assumptions. For example, a 1 percent increase in the discount rate would decrease fair value by approximately $232 million, whereas a 1 percent decrease in the discount rate would increase fair value by approximately $258 million.

Despite the increase in the nominal value of student loans outstanding, the fair value of the student loan portfolio is lower than that calculated last year (and lower than the carrying value) because of an increase in the risk-free discount rates used in the fair value calculation and an increase in expected future credit losses. The risk-free rates are determined by calculating forward rates from the yields and coupons of New Zealand Government Stock. Forward rate yield projections move from 7.7 percent in 2007 to 6.2 percent in 2016 and thereafter. (Projections at June 2006 were 6.9 percent in 2006 to 5.8 percent in 2016 and thereafter.)

Audit Opinion

To the readers of the Student Loan Scheme's financial statements for the year ended 30 June 2007

The Auditor-General is the auditor of the financial statements of the Student Loan Scheme. The Auditor-General has appointed me, H C Lim, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Student Loan Scheme, on his behalf, for the year ended 30 June 2007.

Unqualified opinion

In our opinion the financial statements of the Student Loan Scheme on pages 43 to 48:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  - the assets as at 30 June 2007; and
  - the revenue and expenditure, and cashflows for the year ended on that date.

The audit was completed on 6 November 2007, 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 Chief Executive of the Ministry of 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.

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 Chief Executive in the preparation of the financial statements;
- confirming year-end balances;
- determining whether accounting policies are appropriate to the circumstances of the Student Loan Scheme 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 Chief Executive of the Ministry of Education and the Auditor

The Chief Executive is responsible for preparing 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 2007 and the results of its operations 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.

H C Lim
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 2007 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 6 November 2007 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

Eligibility

As a prerequisite to borrowing under the loan scheme, borrowers must sign a loan contract with the Crown. Students younger than 18 years old need parental consent before they can borrow. Undischarged bankrupts are not eligible to apply for a student loan. A new insolvent debtor status, the 'no asset procedure', was put in place by the Insolvency Act 2006 as an alternative to bankruptcy. 'No asset procedure' debtors will be able to access the loan scheme once the new procedures have been implemented by the Insolvency Service (this is expected to be later this year).[39]

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[40] 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 fee 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 documents justifying 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 expenses 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 of up to $150 per week for each week of the course, less any student allowances.[41] The living costs entitlement is paid in weekly instalments in arrears.

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 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).

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.

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 (called resident borrowers up until 31 March 2006) or overseas-based borrowers (called non-resident borrowers up until 31 March 2006).

New Zealand-based borrowers

New Zealand-based borrowers are all borrowers who qualify for an interest-free loan.

The amount a New Zealand-based borrower is required to repay is based on income. Any borrower earning over the repayment threshold[42] during a tax year is required to make repayments towards the loan. 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 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.

39 'No asset procedure' debtors are unable to have their loan written off.

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

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

42 See the glossary in appendix 4 for details.

Overseas-based borrowers

Borrowers overseas have a different repayment obligation from those based in New Zealand, where repayment obligations are based on income. These obligations have changed with the introduction of a repayment holiday and new obligations that are easier to understand.

From 1 April 2007

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.

Overseas borrowers not eligible for a repayment holiday have a new repayment obligation based on the size of their loan balance, which is easier to understand. These repayment obligations are calculated as follows:

Table 20 Overseas borrowers' repayment obligation from 1 April 2007

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

Source: Inland Revenue.

Up until 31 March 2007

Up until 31 March 2007, borrowers overseas had a repayment obligation similar to mortgage repayments – designed so that the loan balance (plus interest) was repaid within 15 years of their departure from New Zealand. The repayment amount is based on the borrower's loan balance as at 1 April following the date of departure. It is made up of two components:

- principal
- interest estimated on the loan balance for the year (1 April to 31 March).

The principal amount was determined by the loan balance outstanding, with one-fifteenth of the amount payable in the year.

Table 21 Non-resident borrowers' repayment obligation until 31 March 2007

Loan balance	Principal amount	Interest
Under $1,000	The whole loan balance	Plus estimated interest on the loan balance for each year
$1,000 to $15,000	$1,000	
Greater than $15,000	1/15th of the loan balance	

Source: Inland Revenue.

The total repayment obligation was then divided into four instalments due on 30 June, 30 September, 31 December and 31 March.

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 $330 (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. Borrowers living overseas are able to negotiate a lower repayment obligation if repayment would cause serious hardship. In certain circumstances, a borrower may have the overdue amount added back to the loan principal.

Interest

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 dropped by 0.1 percent for the 2007 tax year to 6.9 percent.

Interest-free student loans

Interest-free student loans came into effect on 1 April 2006. To be eligible, student loan borrowers must be living in New Zealand for 183 consecutive days or more, or qualify for an exemption. They have their interest written off automatically after the end of the tax year – the first interest write-off was in April 2007.

Those borrowers who don't qualify for an interest-free student loan will continue to be charged interest at the rate set by Order in Council each year.

Exemptions

Borrowers overseas who were undertaking postgraduate study or voluntary work qualify for an exemption and are therefore eligible for an interest-free student loan. From 1 April 2007, the exemption was extended to include undergraduates studying full-time at bachelors-degree level, with loans they'd taken out before leaving New Zealand.

Other interest write-offs

Before the introduction of interest-free student loans, there were the following interest write-off provisions in the loan scheme. As of 1 April 2006, these provisions are no longer available except to those people who do not meet the criteria for interest-free student loans.

Full interest write-off

Borrowers who studied for at least 32 weeks in any 52-week period that ended during the income year and whose study was at least 80 percent of equivalent full-time study (ie they were enrolled in courses totalling 0.8 equivalent full-time student units) were eligible to have all of the interest charged on their loan for the previous year written off.

Borrowers who undertook approved study during the year, but did not meet the full-time, full-year criteria above, were still eligible to have all interest charged on their loan for the previous year written off as long as their total net income was below the income threshold. For 2006/07 the income threshold was $27,699.

Base interest write-off

Borrowers whose net income was equal to or less than the repayment threshold in any income year qualified for a full base interest write-off. This ensured that the loan balances for borrowers in this situation did not increase by more than the rate of inflation.

Base interest reduction (50/50 rule)

The base interest reduction provision limited the amount of base interest charged on a loan to a maximum of 50 percent of the repayment obligation for that year. Where a borrower's base interest charge in any income year exceeded 50 percent of the repayment obligation, the base interest charge was reduced to that amount. This means that at least 50 percent of all repayments were credited firstly to the interest adjustment rate (the inflation component of the interest rate) and, secondly, to the loan principal.

The amount of any base interest reduction depended on the ratio of the loan balance to income and the level of the base interest rate.

Additional criteria for all interest write-offs

Eligibility for all interest write-offs, except the interest-free student loan interest write-off, was limited to the period for which the borrower was a tax resident.

Before full interest write-offs could be credited, the Ministry of Education was required to confirm borrowers' full-time study status. The interest write-offs were then applied to loan accounts after the end of the income year (31 March) to which the study related.

All income-contingent write-offs (ie full interest write-offs for confirmed part-time students, base interest write-offs and base interest reductions) were subject to borrowers confirming their income with Inland Revenue by filing an individual tax return (IR3) or receiving a personal tax summary from Inland Revenue.

For borrowers required to file an IR3 tax return, interest write-offs were calculated after the return was filed. All other eligible borrowers received their interest write-off entitlement after receiving a personal tax summary in May/June each year.

Non-resident interest write-offs

Non-resident borrowers could qualify for either a base interest write-off or a base interest reduction. Different criteria applied to non-resident interest write-offs.

Non-residents must have:

- renegotiated all or part of their assessed repayment obligation for a year, and
- satisfied the Commissioner of Inland Revenue that:
  - they were engaged in full-time study outside New Zealand, and
  - payment of the base interest charged for the period during the income year in which they were engaged in full-time study outside New Zealand would cause serious hardship.

Non-resident borrowers had to apply in writing to the Commissioner to have their base interest written off after the end of the income year(s) in which they studied outside New Zealand.

Small balance write-offs

Small balance write-offs[43] occur where a borrower has repaid the majority 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. The total value of small balance write-offs since the loan scheme began is $223,600.

43 If a borrower has a loan balance of less than $10 as at the last day of any income year, the loan balance is reduced to zero.

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, so it draws on data about the actual behaviour of individual borrowers (including former loan borrowers). Actuaries engaged by the Ministry of Education rebuild 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; and recent policy changes have led to changes in borrower behaviour particularly with regard to voluntary repayments.

The administrative data upon which SLIM 2007 was built runs from the beginning of the loan scheme in 1992 to just before the introduction of interest-free student loans for New Zealand-based borrowers in April 2006. Between this date and the valuation date there is a 'lag' of 15 months, covering the crucial first year of interest-free student loans and the introduction of new rules for overseas borrowers in April 2007. Therefore, external assumptions about the effect of recent policy changes are imposed over the 'data'-derived models to allow for behavioural changes that have occurred or are expected to occur as a result of these changes.

SLIM's results are more reliable than earlier models. 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 regression tree models developed from the integrated dataset. The 2007 version of SLIM, which is used in this report, has 40 sub-models comprising over 36,000 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, penalties, amount borrowed and so on). SLIM works out the probabilities that an individual is going to be in work, overseas, repaying or some other state.

Table 22 Summary of SLIM model assumptions

Area	Assumption
Enrolment and student loan uptake assumptions	As forecast for the *Budget Economic and Fiscal Update 2007*, 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 Treasury, Inland Revenue, the Ministry of Social Development and the Ministry of Education. For example, the long-term CPI growth is 2.4 percent, and the long-term Average Weekly Earnings growth is 3.4 percent. The long-term risk-free discount rate used was 6.19 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 experience of the loan scheme and then adjusted to allow for the introduction of interest-free student loans.
Threshold increases	Assumed to follow CPI growth.
Resident under-payments	Modelled from the experience of the loan scheme's participants.
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 to implement 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 23 Estimated administration cost 2002/03-2006/07

	2002/03 $ million	2003/04 $ million	2004/05 $ million	2005/06 $ million	2006/07 $ million
Ministry of Social Development	12.5	11.4	11.8	13.3	17.5
Inland Revenue	8.9	9.2	9.6	18.3	22.7
Gross administration cost	**21.4**	**20.6**	**21.4**	**31.6**	**40.2**
Less loan administration fees	7.6	7.8	7.5	8.0	8.7
Net administration cost	**13.8**	**12.8**	**13.9**	**23.6**	**31.5**

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.

Source: Inland Revenue, Ministry of Social Development.

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.

Average net interest rate

This represents the average interest rate charged. It is calculated as the total net interest incurred as a percentage of the total loan balance outstanding. The average net interest takes into account that around 75 percent of interest accrued during 2006 is expected to be written off.

Base interest rate

This is the difference between the interest adjustment rate and the total interest rate. The base interest rate was 4.1 percent from 1 April 2007, and 3.8 percent from 1 April 2006.

Base interest reduction

The amount by which a borrower's base interest is reduced and capped at 50 percent of their annual minimum repayment obligation. This means that at least 50 percent of any payments are credited against the interest adjustment (inflation) component of the loan and the loan principal.

Base interest write-off

This refers to the base interest charged being written off due to earnings not exceeding the repayment threshold in an income year. The repayment threshold for 2006/07 was $17,160 and is $17,784 from 1 April 2007.

Borrower

Any person who has received a student loan and has an outstanding loan balance.

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 2007 is their first year of tertiary education.

Compulsory fees or tuition fees

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 (also called a paper, module or unit standard)

A component of education. 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 agreeing to increase tuition fee subsidies.

Fiscal year

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

Full interest write-off

In 2000, full interest write-offs were introduced for all full-time students and for part-time students on low incomes. This means they have the interest on their loan written off automatically after the end of the tax year. Low-income people have had some interest-write offs since the loan scheme began. From 1 April 2007, full interest write-offs ceased to exist due to the introduction of interest-free student loans.

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-resident 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 adjustment rate

The interest adjustment rate and the base interest rate make up the total interest rate. The interest adjustment rate is based on the movement of the CPI, or the cost of living. It can move up or down depending on inflation. The interest adjustment rate was 3.1 percent for 2006/07 and is 2.7 percent for 2007/08.

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 write-offs

The loan scheme has had a number of provisions under which interest that has been accrued is written off or cancelled. From 1 April 2007, interest write-offs ceased to exist due to the introduction of interest-free student loans. Refer also to: base interest reduction, base interest write-off, full interest write-off, and interest-free student loans.

New borrowers

Borrowers who entered the loan scheme for the first time in 2006. A small number of new borrowers may have 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 of 32 weeks that is less than 0.8 equivalent full-time student units (or the equivalent on a pro rata basis).

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 which 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 ($17,160 before tax from 1 April 2006 to 31 March 2007). 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.

SLIM

Student Loans Integrated Model. See chapter 5 and appendix 2 for more information.

Student allowances

Income-tested grants that provide assistance to students who are unable to support themselves or do not have access to alternative sources of support while undertaking full-time study.

Student loan borrower

Any person who has received a student loan that they have not fully repaid.

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.

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, wānanga, and colleges of education. 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. It is made up of the base interest rate and the interest adjustment rate. The total interest rate was 6.9 percent for 2006/07 and is 6.8 percent for 2007/08. From 1 April 2007, only overseas-based borrowers are liable for interest.

Tuition fees or compulsory fees

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