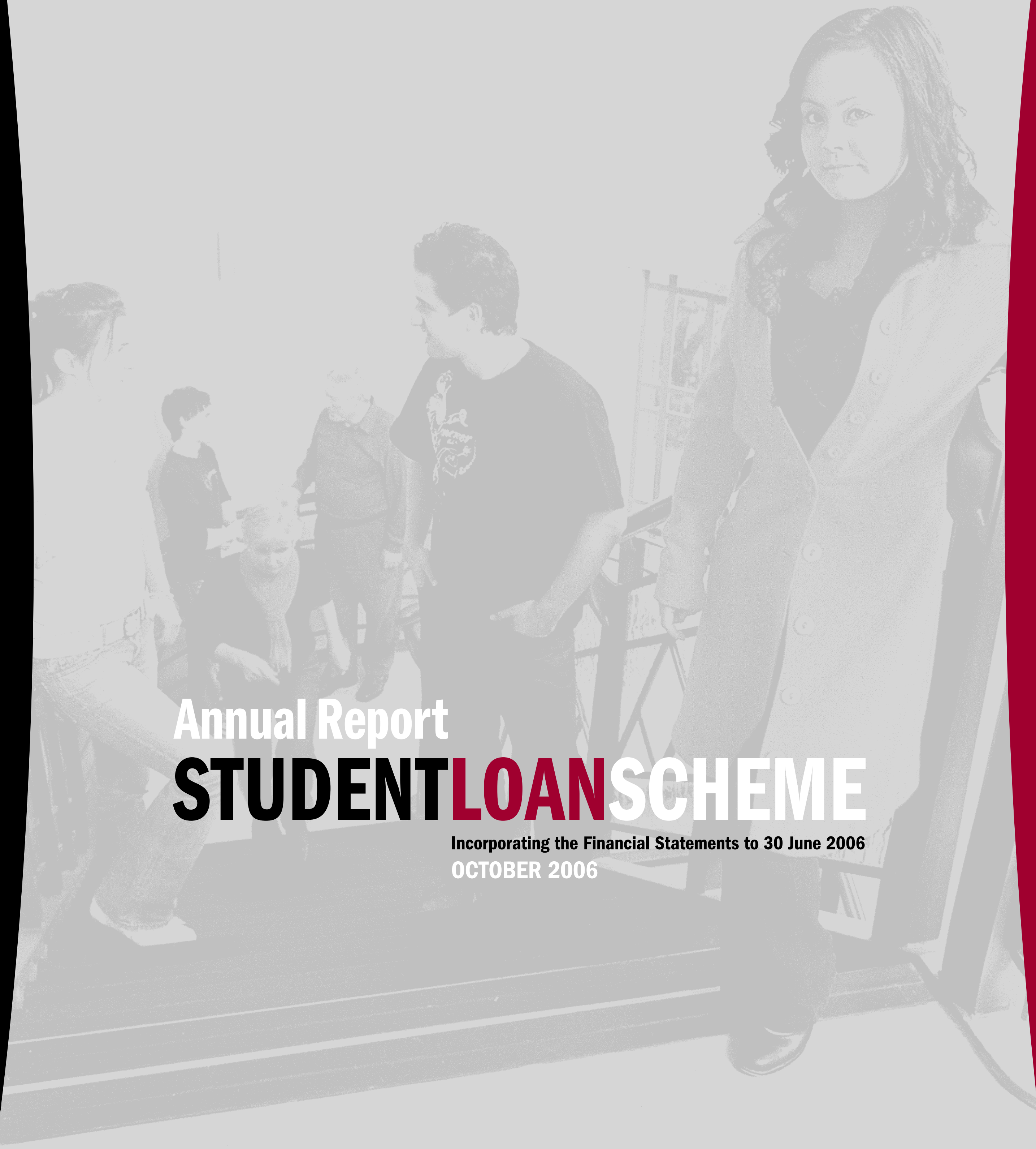


Annual Report
STUDENT LOAN SCHEME

Incorporating the Financial Statements to 30 June 2006

OCTOBER 2006

PREPARED BY:

MINISTRY OF EDUCATION
Te Tāhuhu o te Mātauranga

Inland Revenue
Te Tari Taake

MINISTRY OF SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

This report is also available on the Ministry of Education,
Inland Revenue and StudyLink websites:

www.minedu.govt.nz/goto/tertiaryanalysis
http://www.ird.govt.nz/studentloans/reports/
www.studylink.govt.nz

October 2006

Foreword

Welcome to the 2006 Annual Report on the Student Loan Scheme. As the chief executives of the three agencies responsible for the loan scheme we are pleased to present this report to Parliament.

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 helps to strengthen our sense of national identity; and it contributes to improved social outcomes. In addition, tertiary education leads to greater personal wellbeing, health and economic success.

Government recognises that tertiary education has a positive benefit for the community as well as for graduates. It funds tertiary education in a way that reflects this shared benefit, enabling the costs to be shared between government, students and their families.

The loan scheme provides access to funding for course fees and associated costs – so that individuals only pay for their share of the costs once the benefits of their study are realised in the income they earn. In this way, the loan scheme increases access to tertiary education and this is reflected in the growing number of participants in tertiary education, which almost doubled from 254,100 in 1994 to 504,400 in 2005.

Since its introduction in 1992, 665,900 people have used the loan scheme – representing 20.4 percent of New Zealanders aged 15 and over. Of these, 193,393 loans have been fully repaid. In 2005, 154,411 students (40 percent of all those eligible to borrow) drew down $971 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 2005, legislation introducing interest-free student loans and a one-year amnesty for borrowers living overseas was passed. These policy changes aim to cut the costs of tertiary study for many people, remove one of the barriers for borrowers wanting to return to New Zealand, and help people to meet their loan obligations.

New international accounting standards have been introduced and these change the way in which we view and value the loan scheme. While it will take some time before the real effects of this change are evident, the loan scheme's portfolio is forecast to grow to $12,700 million in value by 2014/15.

This annual report provides an opportunity for our three agencies to provide information about the loan scheme, its performance and its value. It's also an opportunity for us to increase public understanding of the loan scheme and how it works.

HOWARD FANCY
Secretary for Education

DAVID BUTLER
Commissioner of Inland Revenue

PETER HUGHES
Chief Executive
Ministry of Social Development

Contents

Highlights

Student Loan Scheme portfolio

As at 30 June 2006:

- The fair value of the loan scheme was approximately $5,538 million. (Refer to section 5.2.)
- The gross face value of loan balances was $8,370 million. (Refer to section 4.4.)
- 470,507 people had a student loan. (Refer to section 4.3.)

Since the loan scheme began:

- 665,900 people have used the loan scheme – 20.4 percent of the population aged 15 and over. (Refer to section 4.3.)
- 193,393 loans have been fully repaid. (Refer to section 4.4.)
- Inland Revenue has collected $3,313.5 million in loan repayments. (Refer to section 4.4.)
- $1,283.6 million in interest charged has been written off. (Refer to section 4.4.)

During 2005/06:

- Government passed the Student Loan Scheme Amendment Act 2005 on 21 December 2005. This enables Inland Revenue to remove interest on student loans for borrowers and offer an amnesty on student loan penalties for certain borrowers overseas. (Refer to section 3.0.)

Outcomes of the Student Loan Scheme

- Research shows that people with tertiary qualifications have lower unemployment, higher incomes and increased wellbeing. (Refer to section 2.1.)

From 1994 to 2005:

- The number of tertiary students (including domestic and international students) has nearly doubled to 504,400 – up from 254,100. (Refer to section 2.1.)
- The percentage of New Zealanders aged 15 and over who have participated in tertiary education has increased to 14.2 percent – up from 8.9 percent. (Refer to section 2.1.)
- Enrolments by women in public tertiary education providers have increased by 84 percent. (Refer to section 2.1.)
- Enrolments in public providers by Māori and Pasifika peoples have increased by 177 percent. (Refer to section 2.1.)
- The number of people with a bachelors degree or higher qualification has increased by 142 percent – from 195,000 to 471,000. (Refer to section 2.1.)

About students borrowing from the Student Loan Scheme in 2005

- 154,411 students (40 percent of eligible students) took out a loan from the loan scheme. (Refer to section 4.1.)
- There were 51,443 new borrowers. (Refer to section 4.1.)
- The total amount borrowed in the year was $971 million. (Refer to section 4.2.)

- 92 percent of borrowers borrowed to pay course fees; 61 percent borrowed to help meet course-related costs. (Refer to section 4.2.)
- 24 percent of borrowers borrowed to pay for course fees only. (Refer to section 4.2.)
- 12 percent of borrowers borrowed to pay for living costs and received student allowances as well. (Refer to section 4.2.)
- 71 percent of borrowers were under the age of 30 years and 2.6 percent were 55 or over. (Refer to section 4.1.)
- 17.2 percent of borrowers identified themselves as Māori, 12.7 percent as Asian and 7 percent as Pasifika peoples. (Refer to section 4.1.)
- The average amount borrowed was $6,408; the median amount borrowed was $5,485. (Refer to section 4.2.)

About those making repayments in 2005

- 58 percent were under 30 years of age, 90 percent under 45, and 5 percent over 50. (Refer to section 4.3.)
- 55 percent were women. (Refer to section 4.3.)

Of those who used the loan scheme between 1997 and 2004

- 23 percent were Māori, 8 percent were Pasifika peoples, 10 percent were Asian and 55 percent were European. (Refer to section 4.3.)
- 39 percent had studied at universities and 32 percent at polytechnics. (Refer to section 4.3.)
- 52 percent had studied at sub-degree level, 40 percent at bachelors level and 8 percent at postgraduate level. (Refer to section 4.3.)

As at 30 June 2006:

- The average loan was $15,568 and the median loan balance was $10,652. (Refer to section 4.4.)

During 2005/06:

- 16,287 loans were fully repaid. (Refer to section 4.4.)

Valuing and forecasting the Student Loan Scheme

- The forecast average repayment time has reduced to nine years – down from more than 10 years in 2002. (Refer to section 2.2.)
- By 2014/15, the portfolio is forecast to grow to $12,700 million in value. (Refer to section 5.0.)
- By 2034, total repayments are expected to exceed borrowings each year. (Refer to section 4.4.)

Over the next 15 years:

- The total amount to be borrowed is forecast to increase on average by 4.7 percent (or $66 million) each year.
- The total outstanding loan balance is forecast to increase on average by 5 percent (or $526 million) each year.

For more information about these highlights, refer to the appropriate sections of 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 2005 to 30 June 2006.

The report explains the purpose of the loan scheme and its contribution to increasing participation and achievement within the tertiary education sector, as a component of the student support system.

It 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.

Prefatory note

Tables

The data underlying the graphs in this report may be found in tables that 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, while 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 in consultation with the Privacy Commissioner. Care has been taken to ensure that privacy concerns are met and that the integrity and accuracy of data are maintained.

The integrated dataset combines:

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

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.

CHAPTERONE

STUDENT LOANS IN THE TERTIARY EDUCATION SYSTEM

1.0 Tertiary education in a modern economy and society

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 themes.

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 be increasingly 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.

Many New Zealanders learn about and participate in art and culture, sport and other aspects of national life while at 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 through the application of knowledge and understanding they have gained.

The Tertiary Education Strategy

The Tertiary Education Strategy (TES) 2002/07 set the government's goals and priorities for New Zealand's tertiary education system to 2007. It has six strategies:

- Raise foundation skills so all people can participate in our knowledge society.
- Develop the skills New Zealanders need for our knowledge society.
- Strengthen research, knowledge creation and uptake for our knowledge society.
- Te Rautaki Mātauranga Māori – contribute to the achievement of Māori development aspirations.
- Educate for Pasifika peoples' development and success.
- Strengthen system capability and quality.

A new TES for 2007/12 will be published in 2007. As well as the recently announced changes to aspects of tertiary education governance and funding policy, it's intended to continue the broad and inclusive direction of the TES 2002/07, but to provide a sharper focus on the shifts required in tertiary education to achieve greater quality, relevance and value for money.

1.1 Funding tertiary education

Sharing the costs

As tertiary education is one of the keys to development and growth, all countries want to expand their tertiary systems and to use tertiary education to raise the level of skills in their population. However, that 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 on.
- Evidence indicates 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 several years into the future. The loan scheme enables these 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 cost of tertiary education borne by students rose from 27 percent in 1998 to 33 percent in 2000, it fell back to 26 percent by 2005 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 (EFTS) in public tertiary institutions increased by 29 percent during this period.

From 2001, government introduced policies aimed at stabilising fees and the average fee per EFTS fell by 24 percent[1] between 2001 and 2003. It then increased by 6.6 percent between 2004 and 2005. 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 (EFTS) in tertiary education institutions (TEIs) by provider type 1998-2005

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 with Victoria University of Wellington on 1 January 2005.
3. Fees include GST.
4. The trends in fees in the institutes of technology and polytechnics (ITPs) and wānanga in the period 2000-2004 are influenced by the number of courses with zero fees offered in those subsectors.

Source: Ministry of Education

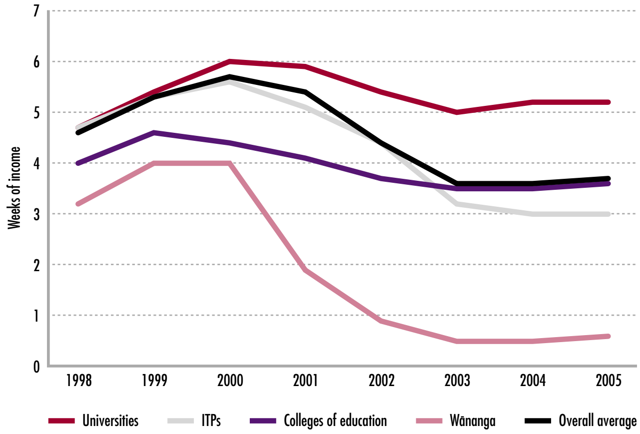
Tertiary education becomes more affordable

Fee stabilisation has meant that tertiary education has become more affordable since 2000:

- In 2000, the average full-year, full-time tuition fee at a tertiary institution was equivalent to nearly six weeks' gross income for a person employed on the average wage. By 2005, it was equivalent to less than four weeks'.
- In 2000, the average full-year, full-time tuition fee at a university was equivalent to six weeks' average weekly income for employed persons; by 2005 this had dropped to five weeks'.

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.

Figure 2 Ratio of average domestic student fees at TEIs to average weekly income for the employed 1998-2005



Source: Ministry of Education and Statistics New Zealand

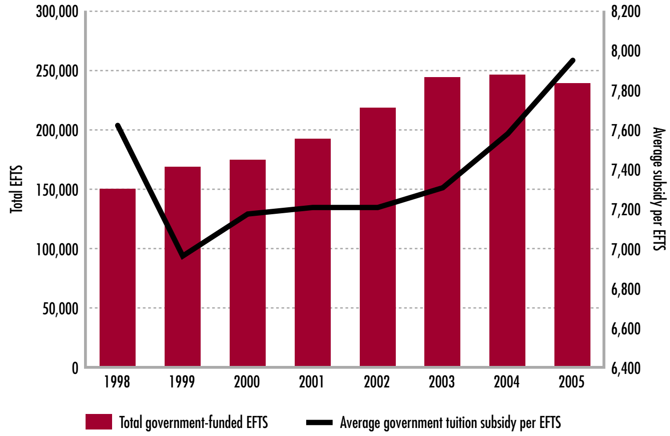
Increased spending on tuition subsidies

Government provides financial assistance to students participating in tertiary education by paying tuition subsidies[2] to tertiary education providers and providing student allowances and student loans[3]. Of this, tuition subsidies are the largest component.

Since 2000, government funding in the form of tuition subsidies has increased to tertiary education providers. In 2005/06, $1,982 million in tuition subsidies was allocated to tertiary education providers, compared with $1,202 million in 1999/2000. The increased funding is due to an increase in tertiary student numbers and in subsidy rates.

Between 2000 and 2005, the number of government-funded EFTS increased by 37 percent from 175,706 to 240,263. From 2000 to 2005, the tuition subsidy rate (the funding per EFTS) increased by 17 percent for public tertiary education institutions.

Figure 3 Total government-funded EFTS places and average funding per EFTS in public tertiary education organisations (TEOs) 1998-2005



Notes:

1. The rapid increase in participation in tertiary education that began in the late 1990s began to flatten in 2004. In 2005, there was a small reduction in total enrolments (on an EFTS basis). This was partly in response to government moves to strengthen the relevance and quality of tertiary provision at certificate and diploma level.
2. Tuition subsidy includes student component funding, base grants, clinical add-ons, fee stabilisation, Special Supplementary Grant, the strategic priorities fund and, in 2004 and 2005, Performance-Based Research Fund allocations.

Source: Ministry of Education and Tertiary Education Commission

Table 1 Government financial support for tertiary study 1997/98-2005/06

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

Notes:

1. The figures for 2005/06 are provisional.
2. Student allowances amounts are before tax or gross amounts.
3. Tuition subsidies include appropriations to the Performance-Based Research Fund.
4. Student loan amounts are capital amounts.

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

2 Funding paid by government to tertiary education providers on the basis of the number of student enrolments is referred to as a 'tuition subsidy'. Funding allocated through the Performance-Based Research Fund is included in this category.

3 There are a number of other government awards or payments to students, which are not within the scope of this report, such as Step Up scholarships, Top Achiever Doctoral scholarships, the Prime Minister's scholarships, and Training Incentive Allowances.

Government expenditure on tuition subsidies, student allowances and student loans was 2.2 percent of the country's Gross Domestic Product (GDP) in the 2005/06 fiscal year, up slightly from 2.1 percent in 2004/05[4].

1.2 The student support system

Introduction

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[5], both of which provide direct funding to students. All New Zealand students enrolled in approved qualifications[6] 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 2002/07:

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

How the system compares internationally

New Zealand's student support system is in line with that of similar overseas countries. With the exception of a number of 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.

In addition:

- income-tested allowances ensure that students in greatest need receive support
- the loan scheme offers more protection to lower income earners than many overseas loan schemes because it relates to income
- the new interest-free policy will mean the loans of borrowers living in New Zealand won't increase.

1.3 The Student Loan Scheme

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

- It allows government to share the costs of tertiary education with students and their families, without imposing constraints on participation in tertiary education. Government pays the tuition subsidy and students pay tuition fees.
- It helps to reduce barriers to study by providing money to enable people to pay fees and, for some students, to offset some of their living costs.
- It helps people to reach their potential by studying for qualifications that are of high quality, which improves 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 also ensures that people who benefit from their tertiary education pay for the costs of their studies.

Shared management

The loan scheme is managed jointly by three government agencies – the Ministry of Education, the Ministry of Social Development and Inland Revenue:

- 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.

4 This expenditure excludes operational spending on student loan write-offs and provision for doubtful debts.

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

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

CHAPTERTWO

MEETING THE 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 provides money to enable students to pay their fees and, for some, to offset some of their living costs.
- It allows the government to share the costs of tertiary education with students and their families, without imposing constraints on participation in tertiary education.
- It is based on income. If borrowers do not manage to get a good income as a result of their studies, they 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 by:

- helping people to gain qualifications that are of high quality and that, therefore, improve people's quality of life, their employment opportunities and their income prospects
- providing finance that reduces barriers to study
- achieving an appropriate sharing of the costs of tertiary education between the government and students and their families
- achieving an appropriate targeting of the costs of tertiary education – so that those who do not benefit financially from their tertiary education are protected.

The agencies are working to develop a shared statement of outcomes for the loan scheme.

This chapter looks at the extent to which the loan scheme contributes to enhancing access and reducing barriers to participation in tertiary education. It also explores the loan scheme's unintended outcomes.

2.1 Student Loan Scheme outcomes

Increasing rates of participation in tertiary education

Participation in tertiary education in New Zealand is at its highest rate ever. 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 high levels of participation.

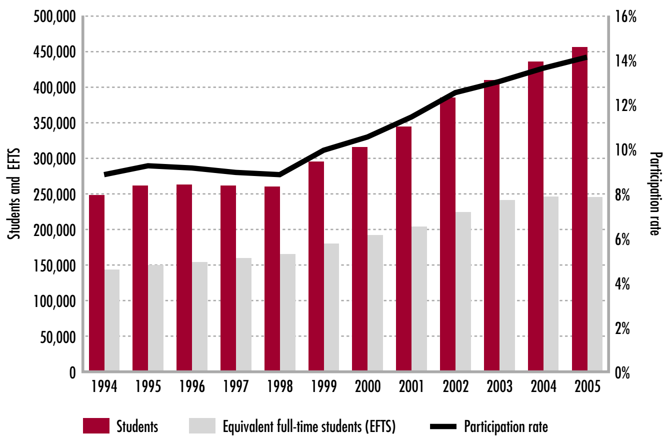
Growth in participation is reflected in the following trends:

- The number of tertiary students (including domestic[7] and international students) has nearly doubled, from 254,100 in 1994 to 504,400 in 2005.
- There were 457,100 domestic students in 2005.

7 Domestic students are New Zealand citizens and New Zealand permanent residents. Australian citizens are treated as New Zealand citizens for the purpose of funding.

- In 2005, 14.2 percent of all New Zealanders aged 15 and over participated in tertiary education, up from 8.9 percent in 1994.

Figure 4 Participation by domestic students in tertiary education 1994-2005



Notes:

1. Data before 1999 excludes private training establishment (PTE) and other tertiary education provider (OTEP) 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 expansion in enrolments has been especially marked among women, Māori and Pasifika. From 1994 to 2005:

- enrolments by women in public tertiary education providers grew by 84 percent
- enrolments in public providers by Māori and Pasifika grew by 177 percent.

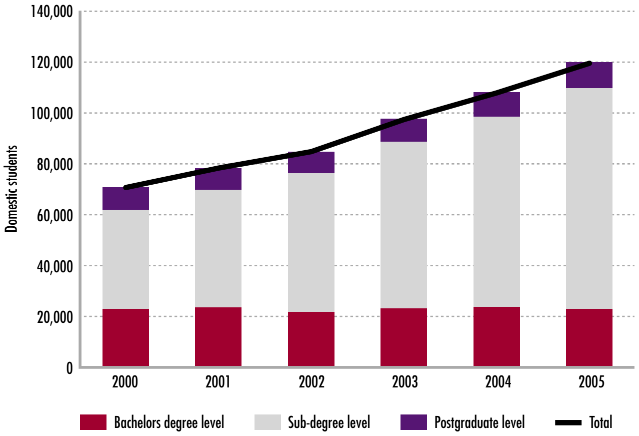
While the loan scheme is not the only factor contributing to increased participation, its introduction has enabled the government to provide funding for more places in tertiary education organisations. Without this funding, many organisations would have limited entry to courses.

More people with tertiary qualifications

As enrolments in tertiary education have risen, so has the number of people completing tertiary qualifications. Statistics New Zealand data shows a steady rise in the number of people holding tertiary qualifications, especially at degree level, between 1994 and 2005:

- The number of people with a bachelors degree or higher qualification increased by 142 percent, from 195,000 to 471,000.
- The proportion of the population aged 25 to 64 with a tertiary qualification rose from 52 percent in 1997 to 58 percent in 2004.

Figure 5 Domestic students completing tertiary qualifications by level 2000–2005



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

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[8] and therefore the extent to which our student support system and the tertiary education sector contribute to our national economic development.

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 31 percent income margin over those who did not[9].

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

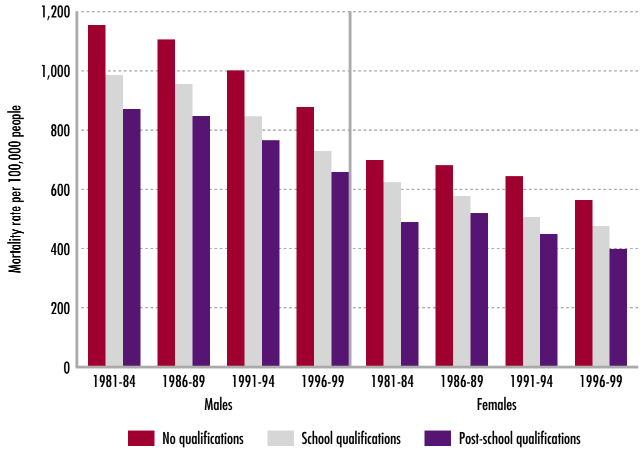
- People with no qualifications had an unemployment rate of 11 percent.
- People with school qualifications had an unemployment rate of 7 percent.
- People with higher degrees had an unemployment rate of 3.6 percent[10].

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[11].

University of Otago researchers have also found that those with tertiary qualifications have improved mortality rates[12], as illustrated in the graph below.

Figure 6 Standardised mortality rates (from all causes) of the New Zealand population aged 25 to 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 New Zealand Census – Mortality Study Web Table, Department of Public Health, Wellington School of Medicine and Health Sciences, University of Otago www.otago.ac.nz/NZCMSWebTable. (June 2006)

2.2 Changes in behaviour

Borrowing behaviour

There was a reduction in the number of people using the loan scheme in 2005. It is difficult to draw inferences about borrowing behaviour from information on uptake rates across the whole loan scheme, because uptake rates are strongly influenced by the balance between full-time and part-time enrolments. Part-timers have a lower incidence of borrowing as the costs they face are lower and many part-time students have other sources of finance. So to consider borrower behaviour, we need to focus on how full-time students use the loan scheme.

The estimated uptake rate among full-time students rose to 81 percent in 2001 but ranged between 72 percent and 76 percent between 2003 and 2005. In 2005 it was 76 percent.

8 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.

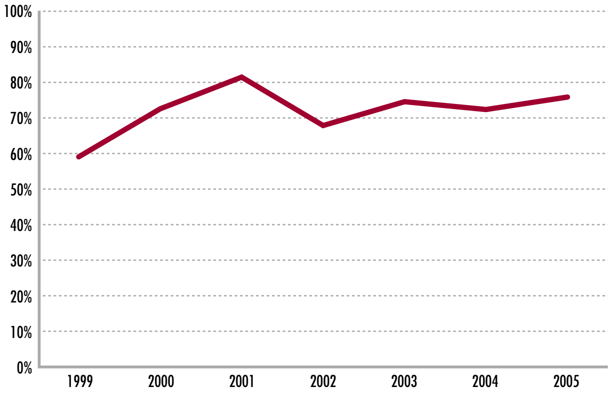
9 Hyatt, J and R Smyth (2006) *How do graduates' incomes change over time?* Ministry of Education, for full details of this finding.

10 Smart, W (2006) *Outcomes of the New Zealand tertiary education system: a synthesis of the evidence*, Ministry of Education. This study also finds that the unemployment rate of those with tertiary qualifications is less susceptible to fluctuations within the economy.

11 Smart (2006) op cit. describes the relevant parts of these studies.

12 Smart (2006) op cit.

Figure 7 Uptake rates of student loans for full-time students 1999-2005



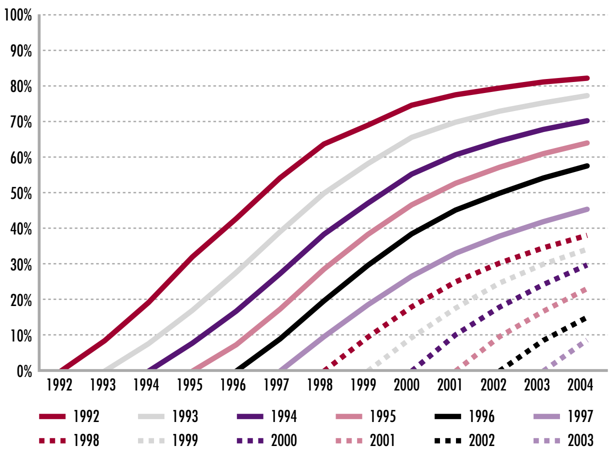
Source: Ministry of Education and Ministry of Social Development

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. Changes in uptake rates also reflect general economic conditions; as jobs have become easier to get, more students have been able to access part-time work and that, too, has influenced the uptake of loans and the amounts borrowed.

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.

Figure 8 Percentage of each leaving cohort who have repaid in full by year 1992-2004



Source: Statistics New Zealand, integrated dataset

By 1996, more than 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 only borrowed for one year.

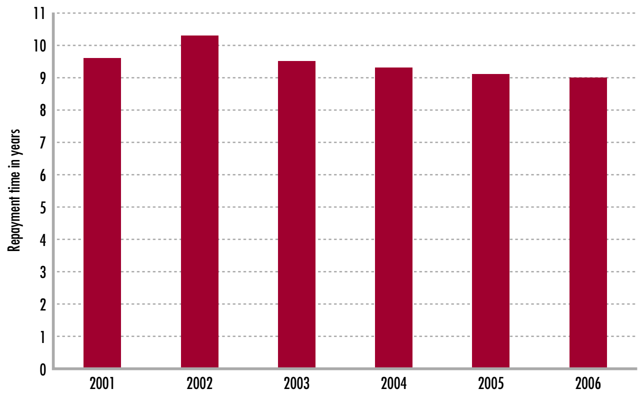
Of those who left study in 1996, half had repaid by the end of 2002 – six years after leaving study. Leavers in 1997 and 1998 repaid their loans more slowly.

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 page 26)
- high employment in the last five or six years.

Looking to the future, the forecast average repayment time is nine years, compared with a forecast of 9.5 years in 2003 and more than 10 years in 2002.

Figure 9 Forecast average repayment times 2001-2006



Source: Ministry of Education

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

2.3 Unintended outcomes

Qualitative research and surveys of borrowers' opinions have suggested that the loan scheme may encourage people to go overseas, 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. However, the evidence suggests otherwise.

Going overseas

There is a long tradition of New Zealanders travelling overseas after completing their tertiary education. It has sometimes been claimed that the loan scheme has increased the numbers going overseas.

The relationship between the size of student loans and the incidence of travel overseas following study was the subject of a statistical study released by the Ministry of Education in 2006[13]. This analysis drew the following conclusions:

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

- The size of a loan was associated with going overseas – but the association was not strong.
- Other factors such as age, ethnicity, type of tertiary education organisation and level of qualification studied were equally associated with travel overseas.
- There are lots of other factors, not captured in administrative data, involved in a decision to go overseas.

So, while the decision to go overseas is associated with the size of a loan, there is no evidence that loans *cause* people to travel overseas or have any major effect in their decisions to travel.

Home ownership and having children

A recent study[14] 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 those without loans.

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:

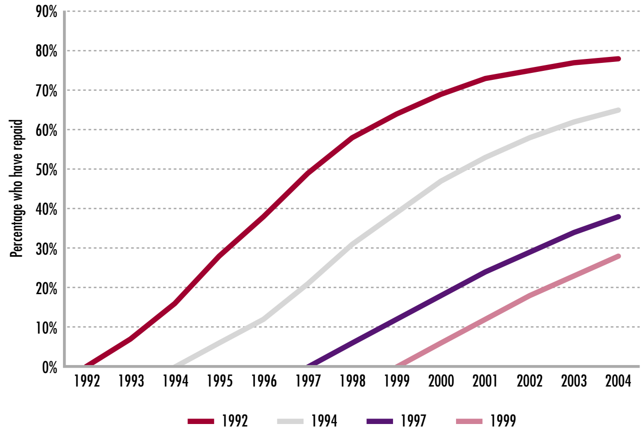
- people who suffer illness or disability that reduces or removes their work opportunities
- people who do not work because they are involved in child-rearing
- people who leave New Zealand and remain overseas for an extended time.

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.

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

The following graph shows the percentage of borrowers who left study in 1992, 1994, 1997 and 1999 and completely repaid their loans by 2004.

Figure 10 Percentage of borrowers fully repaid by 31 March 2005 – those who left study in 1992, 1994, 1997 and 1999

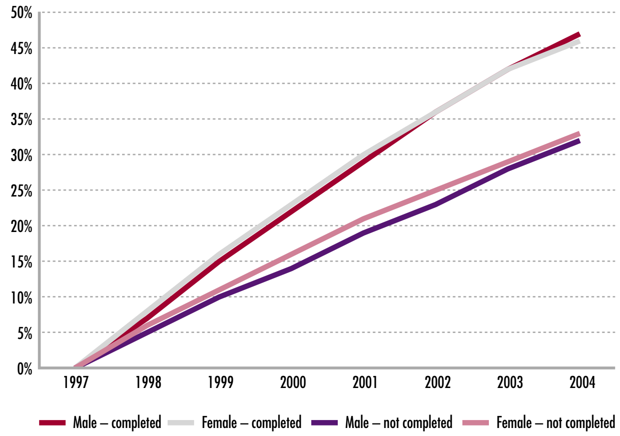


Source: Statistics New Zealand, integrated dataset

It is evident from Figure 10 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 it doesn't depend on their gender.

Figure 11 Percentage of borrowers who left study in 1997 who had completely repaid their student loans by 31 March 2005 – by gender and completion status



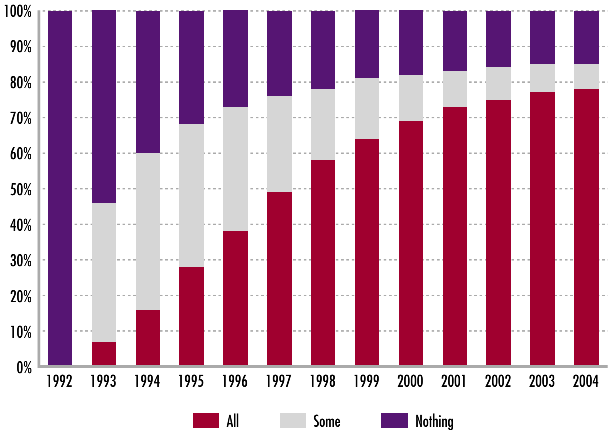
Notes:

1. The leaving cohort is those who last studied in 1997, had borrowed from the 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 1998.
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

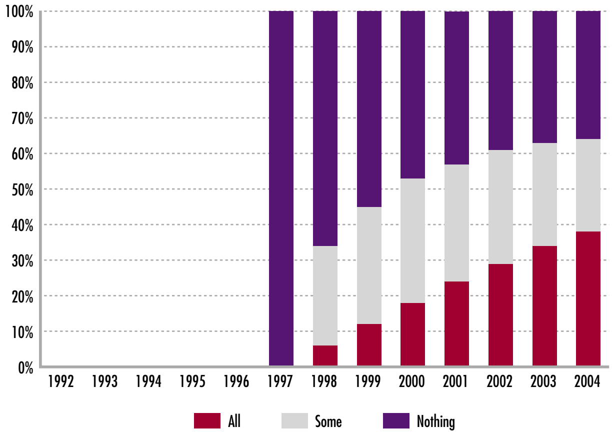
Information from the integrated dataset indicates that a small proportion of borrowers are unlikely to repay their loans in full. Around 15 percent of the 1992 leavers had repaid nothing of their loans 12 years after leaving study.

Figure 12a Proportions of borrowers who left study in 1992, who have repaid all, some or none of their student loans by 31 March 2005



Source: Statistics New Zealand, integrated dataset

Figure 12b Proportions of borrowers who left study in 1997, who have 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.

The analysis of the longer-term outcomes of a policy such as the loan scheme is complex. 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.

CHAPTERTHREE

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 section 1.2).

To achieve this, government has made some changes to the student support system:

- On 21 December 2005, government passed the Student Loan Scheme Amendment Act 2005, enabling Inland Revenue to:
  - remove interest on student loans for most borrowers
  - offer an amnesty on student loan penalties for certain borrowers who live overseas[15].
- During Budget 2006, government announced a number of student support initiatives.

These changes are intended to cut the costs of tertiary study for many people, and to provide incentives for graduates to remain in or return more quickly to New Zealand and so contribute their skills and talents to the future growth of the economy.

3.1 Interest-free 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 or more consecutive days) will have their interest written off automatically after the end of the tax year. They do not have to register for interest-free student loans. The first interest write-off will be in April 2007.

Borrowers who do not satisfy the 'living in New Zealand' criterion may qualify for an exemption to make their loan interest free. Exemptions apply to circumstances such as overseas postgraduate study and volunteer work.

As part of the interest-free initiative, Inland Revenue is also working on matching data with the New Zealand Customs Service to identify borrowers who don't qualify for interest write-offs. This work will involve historical, transitional and ongoing data matches between the two agencies.

3.2 Student loan amnesty

An amnesty for borrowers living overseas came into effect on 1 April 2006 and will finish on 31 March 2007. It aims to:

- remove one of the barriers to borrowers wanting to return to New Zealand
- encourage borrowers into making regular student loan repayments
- help borrowers with overdue repayments to manage their student loans better.

Borrowers who qualify for the amnesty can apply to have their student loan 'late payment penalties' written off up to the date of their application. The amnesty applies to borrowers living overseas who:

- had arrears and/or penalties at the start of the amnesty period, or
- have not previously advised Inland Revenue of their absence but will be subject to arrears and penalties once they do so.

Borrowers must apply within the amnesty period to get the benefits of the amnesty. The amnesty is conditional on the borrower meeting their repayment obligations for two years from the date their application is received. Statistics on the uptake of the amnesty will be available after 1 April 2007.

Administrative implications

Implementing the interest-free student loans policy and the amnesty requires significant changes to Inland Revenue's information technology systems.

As the current system is based on interest being applied to all loans and then credited under certain circumstances, this restricts the direct application of the interest-free policies.

Work is underway to scope the changes so that the system can administer the changes to the loan scheme. In the meantime, Inland Revenue has an interim solution in place, which writes off all interest at the end of the tax year for most borrowers.

3.3 Student support initiatives

The following initiatives, announced in Budget 2006, increase access to the Student Allowances Scheme and increase the availability of government fee scholarships. More than 10,000 students will benefit from the changes – they will receive extra financial assistance and are expected to borrow less under the loan scheme.

Increasing the number of Bonded Merit Scholarships

The Bonded Merit Scholarships introduced this year will increase from 500 to 1,000 from 1 January 2007. These scholarships, for New Zealand's most academically capable students, will help reduce borrowing while providing recipients with an additional incentive to remain in New Zealand after study.

15 More information about these policies is available on the Inland Revenue website at www.ird.govt.nz/studentloans (August 2006).

Giving doctorate students access to additional student allowances

Doctor of Philosophy degrees (PhDs) and professional doctorates will be recognised as Long Programmes under Regulation 21 of the Student Allowances Regulations 1998. This policy change will provide eligible students with student allowances for an additional 156 weeks (three years) above the standard 200-week entitlement.

This initiative aims to encourage more people, particularly those from lower socioeconomic backgrounds to complete higher qualifications in New Zealand.

Increasing the student allowances parental income threshold by 10 percent

From 1 January 2007, eligible students whose parents earn $39,270 or less will be entitled to a full student allowance. If the parents' income is between $39,270 and approximately $69,413 (for those living away from home) or approximately $63,383 (for those living at home) the student is entitled to an abated or partial allowance.

This policy change means more students from low to middle income families will be eligible for full or partial allowances, and some students will be entitled to higher allowances.

Removing eligibility for qualifications without student component funding

Students who undertake qualifications that do not receive student component funding will no longer be able to get student loans and allowances. This policy ensures the qualifications that government funds are relevant to the job market and are of good quality. It reinforces the government's commitment towards establishing a tertiary education system that is better focused on producing the graduates our economy needs.

Courses funded through other government streams such as Ministry of Health medical training are not affected by this policy change.

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 2005 and the amounts they borrowed
- the people who left study by 30 June 2006 and their loan balances.

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

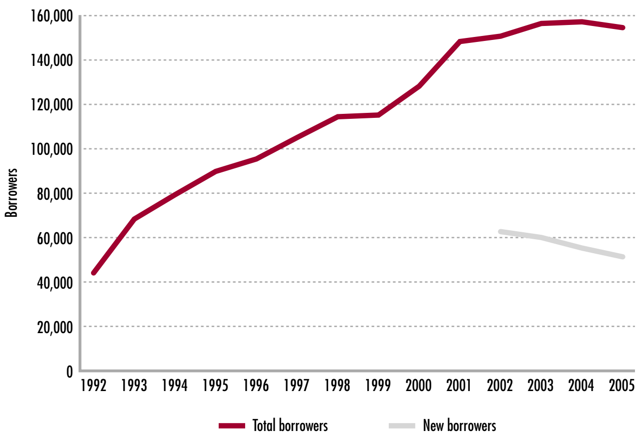
The information on borrowing is largely drawn from the Ministry of Social Development, while Inland Revenue has supplied data on the repayments and loan balances of all borrowers, including those who have left study.

4.1 Students borrowing

Uptake of student loans in 2005

In 2005, 154,411 students borrowed under the loan scheme, a reduction of 1.7 percent on the 157,032 borrowers in 2004. This is the first year in which there has been a decrease from the previous year in the number of borrowers. This means that 4.8 percent of the New Zealand population aged 15 and over borrowed from the loan scheme in 2005.

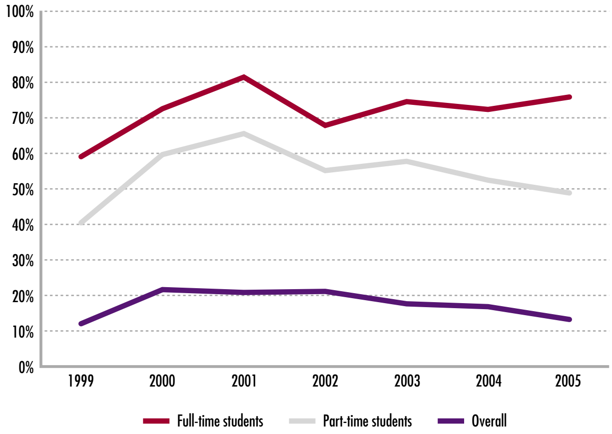
Figure 13 Student loan borrowers in each academic year 1992-2005



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 2005, the uptake rate was 49 percent. This compares with 53 percent in 2004, 60 percent in 2003 and 50 percent in 1999. The fall in uptake since 2003 is a consequence of changes to loan eligibility in 2004, when many part-year, part-time students became entitled to borrow. Yet, relatively few part-time students use the loan scheme – so the proportion of eligible students borrowing fell.

Figure 14 Uptake rates of student loans 1999-2005



Note: Overall uptake rates depend on the full-time/part-time mix of borrowers.
Source: Ministry of Education and Ministry of Social Development

Between 2000 and 2005, the number of students eligible for a loan increased by 47 percent overall. However, the number of loan borrowers increased by only 20.5 percent over the same period. It is this that has led to the decrease in loan uptake, from the estimated 60 percent in 2000, to 49 percent in 2005.

The decrease in the overall rate of loan uptake reflects the combined effect of changes in loan eligibility rules and the number of students borrowing.

- The number of full-time students eligible for loans increased by 12 percent between 2000 and 2005. Over the same period, the number of full-time students borrowing increased by 17.1 percent. This resulted in an increase in the loan uptake rate for full-time students, from an estimated 72.6 percent in 2000, to 75.9 percent in 2005.
- The number of part-time students eligible for loans increased by 151.4 percent between 2000 and 2005, while the number of part-time borrowers rose by 54.4 percent. As a result, there was a decrease in the loan uptake rate from an estimated 21.7 percent of eligible part-time students in 2000 to 13.3 percent in 2005.

New borrowers

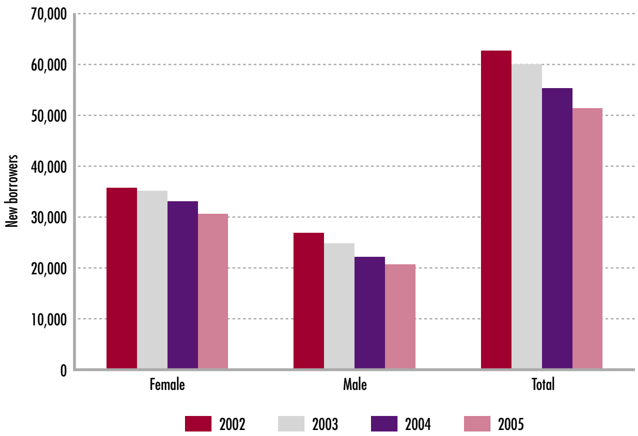
By looking at 'new borrowers' it is possible to learn more about how the characteristics of those entering the loan scheme are changing over time. In this report, we use the term 'new borrowers in 2005' for borrowers who entered the loan scheme in 2005, not having borrowed in any other year since 2000. There will be a small number of people, described as new borrowers in 2002, 2003, 2004 or 2005 under this definition, who borrowed during the 1990s but had not used the loan scheme again until after 2000[16]. As a result, a degree of caution is needed in drawing conclusions from the following comments on new borrowers.

16 Due to data structure changes and the separation of source data in 2000 when the loan accounts administration was transferred to the Department of Work and Income (now part of the Ministry of Social Development), it is not possible to match borrowing records of those who used the scheme in the 1990s to those in 2000 and subsequent years.

The number of new borrowers fell, a trend which has continued since 2002. This fall, from 76,182 in 2000 to 51,443 in 2005, occurred despite a rise in the numbers undertaking tertiary education for the first time, and the continued rise in overall student numbers.

One reason for the fall could be that an increasing proportion of those contributing to the rise in first-time enrolments have been in the workforce the year before entering study (rather than moving to tertiary study from school), and may be less likely to need to borrow. Another reason could be the increase in part-time students over the same period, given the fact that part-time students are much less likely to borrow.

Figure 15 New borrowers by gender 2002-2005



Note: This data is provisional.

Source: Ministry of Social Development

Table 2 Average age of new borrowers who had not borrowed from StudyLink 2002-2005

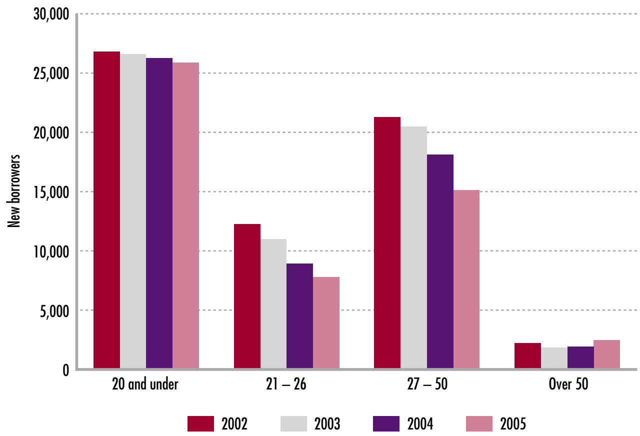
Age	2002	2003	2004	2005
Average	27	26	26	26
Median	22	22	21	20
Total number of new borrowers	62,763	60,131	55,379	51,443

Notes:

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

Source: Ministry of Social Development

Figure 16 Age distribution of new borrowers 2002-2005



Source: Ministry of Social Development

Borrower characteristics

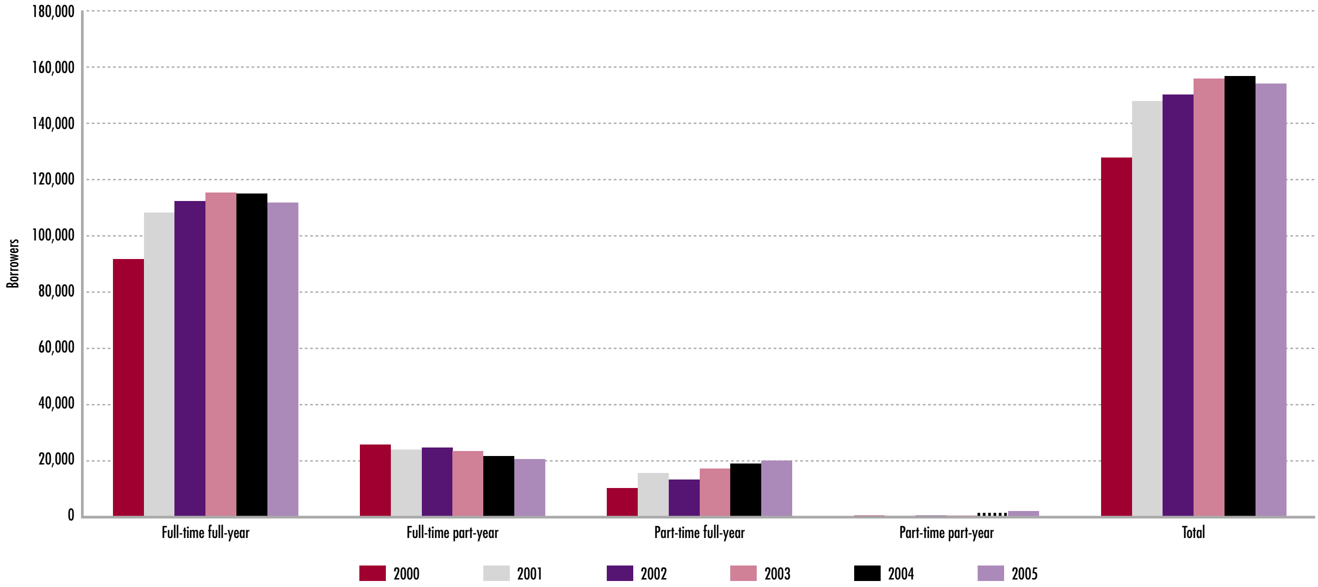
Study status

Before 2004, loan eligibility was restricted to those who were studying on a full-time basis and to those part-time students who were 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 EFTS units or more. Access to student loans was further extended in 2005. Those students whose study load was at least 0.25 EFTS units, but less than 0.3 EFTS units, were entitled to borrow if their course would be likely to lead to employment or contribute to the borrower's work[17].

The increase in part-time study continued in 2005. Approximately 43 percent of all domestic students in 2005 were studying on a part-time basis, compared with slightly more than 25 percent in 2000. Approximately 18,100 eligible part-time students (or 13 percent of those eligible) borrowed from the loan scheme in 2005. The proportion of full-time students borrowing in 2005 was 76 percent.

17 These vocational restrictions will be removed from 1 January 2007.

Figure 17 Borrowers by study status 2000-2005

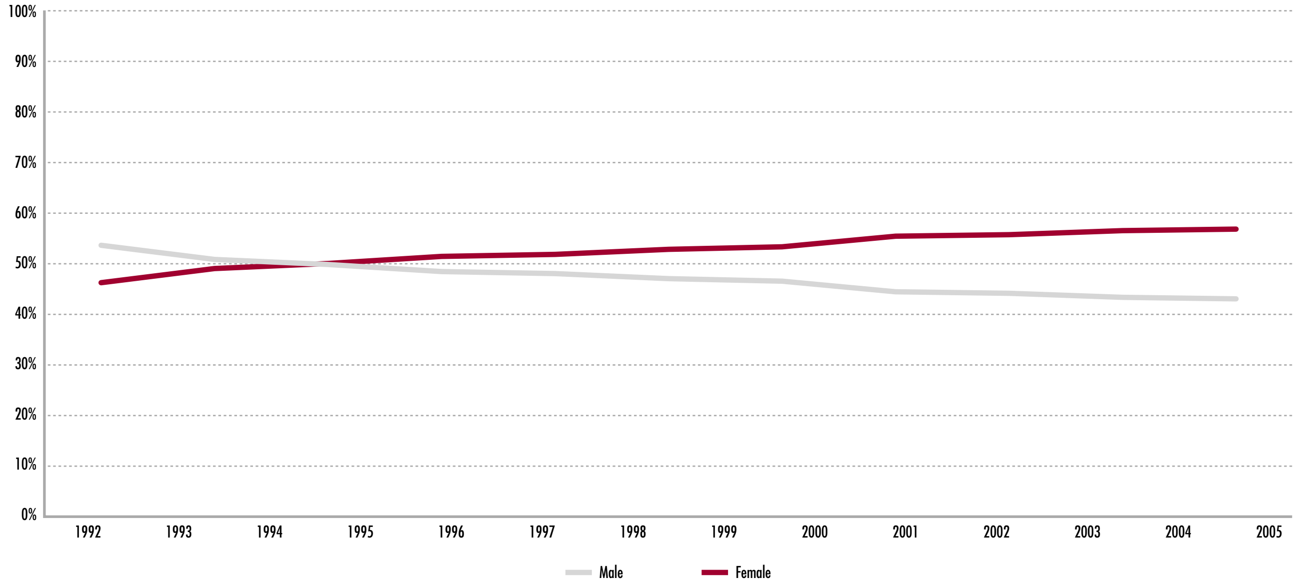


Source: Ministry of Social Development

Gender

There are significantly more women than men enrolled in tertiary education. In 2005, almost 60 percent of tertiary students were female, compared with 52 percent in 1994. The increase in the proportion of female students has been matched by an increase in the proportion of female borrowers.

Figure 18 Percentage of borrowers by gender 1992–2005



Source: Ministry of Education and Ministry of Social Development

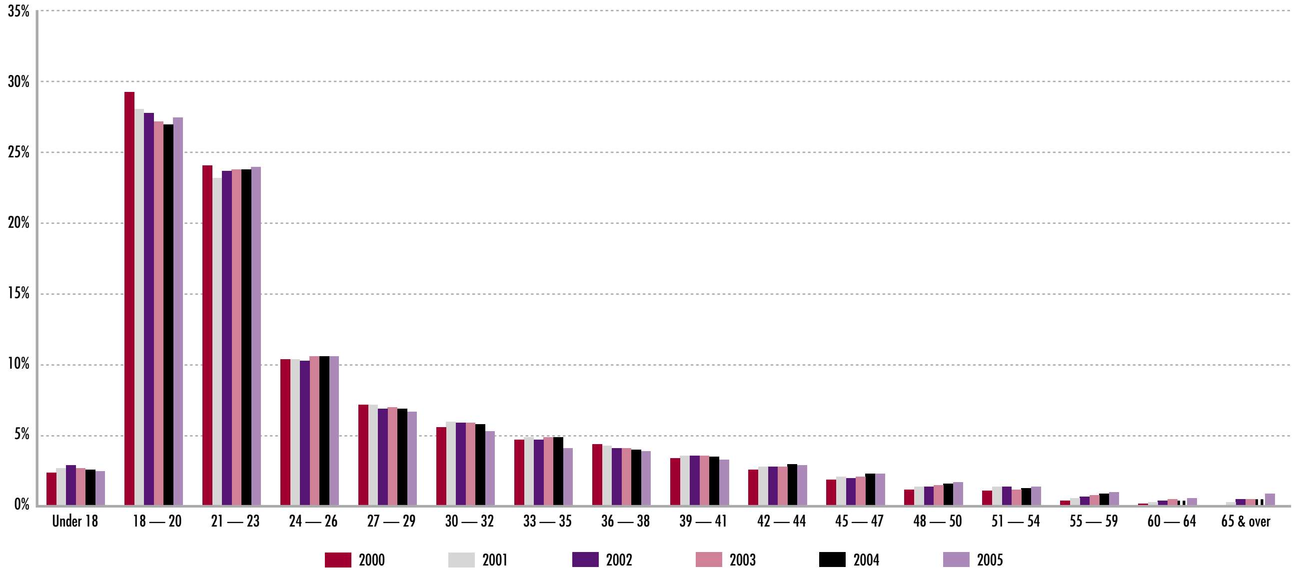
Age

The following graphs show the age profile of all student loan borrowers for each year of borrowing, since 2000. The proportion of borrowers under 20 has continued to decline, while there have been small increases in most other age groups above 24. The increased age of borrowers follows trends in tertiary enrolments; since 1994, 45.5 percent of all enrolment growth has been among those aged 40 or over.

As in 2004, 71 percent of all student loan borrowers were under 30. Those borrowers aged 55 or over represented 2.6 percent of all borrowers, up from 2 percent in 2004. The number of borrowers aged 65 or over has risen from 223 in 2000 to 1,405 in 2005. Of these, 587 were borrowing for the first time in 2005, since 2000.

Given the small number of students involved, compared with the total number of borrowers, the higher age of the overall student population and growing recognition of the social value of lifelong learning, it is not surprising that there has been an increase in recent years in the number of older people borrowing.

Figure 19 Percentage of borrowers by age: people actively borrowing 2000-2005

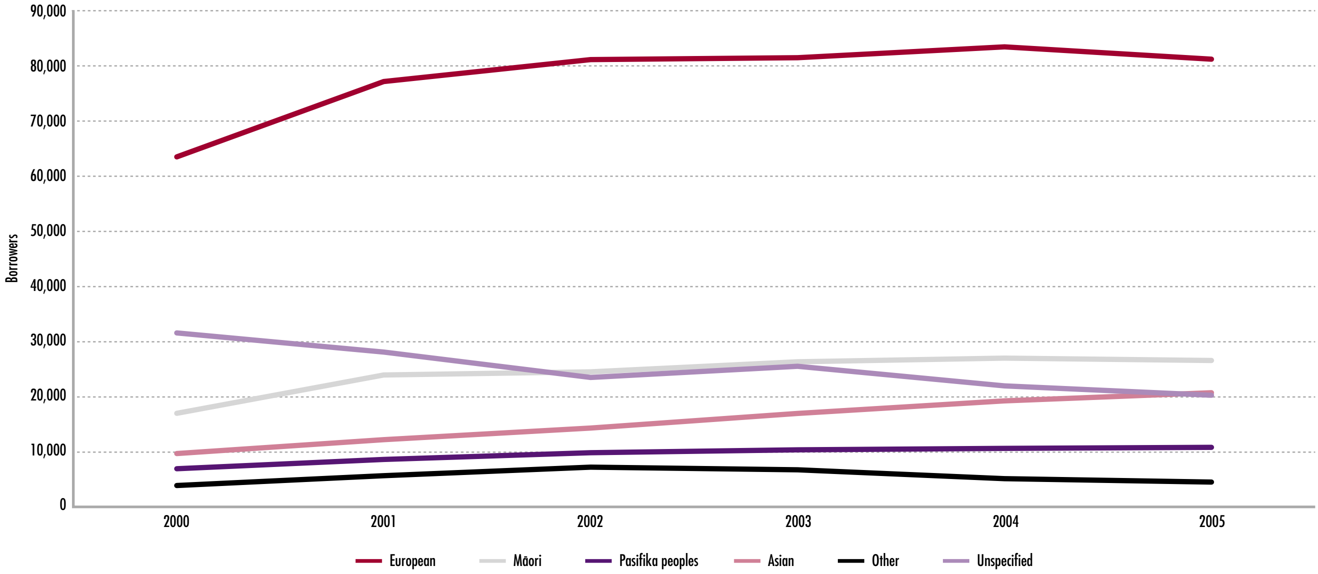


Source: Ministry of Social Development

Ethnicity

In 2005, 17.2 percent of borrowers and 19.9 percent of students identified themselves as Māori, 12.7 percent of borrowers and 12.2 percent of students identified themselves as Asian, and 7 percent of borrowers and 6.2 percent of students identified themselves as Pasifika[18].

Figure 20 Borrowers by ethnic group 2000-2005



Note: The graph is from the total response version of the StudyLink ethnic data. This means that 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

18 The actual ethnic split of borrowers may differ from the figures above as 12.4 percent of people applying for loans chose not to respond to questions defining their ethnic group.

4.2 Amounts borrowed

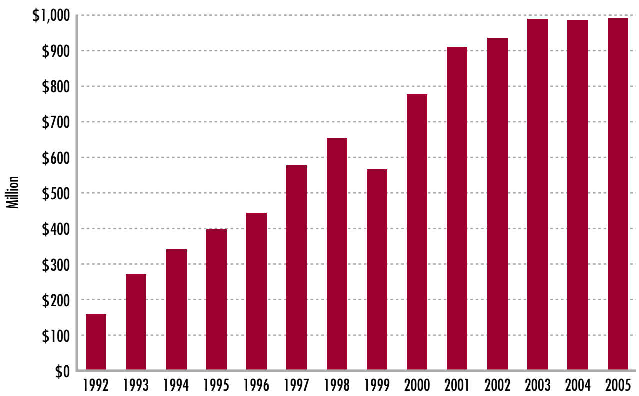
Total borrowings

In 2005, students borrowed $971 million from the Student Loan Scheme. The total amount borrowed each year grew significantly during the 1990s as the loan scheme developed and enrolments expanded. 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).

Since 2001, the aggregate amount borrowed has been relatively stable. There are three main reasons for the reduction in the growth in borrowing:

- The government controls on fees since 2001 mean that fees – the largest component of borrowing – have been relatively stable.
- Enrolment growth has begun to taper off, reducing the increase in the numbers enrolled in loan-eligible qualifications.
- There has been a trend towards enrolment by part-time students who have smaller entitlements and are more likely to finance their studies privately.

Figure 21 Total annual loan borrowings 1992-2005



Source: Ministry of Social Development and Ministry of Education

Average and median borrowings

The average amount borrowed increased by 2.4 percent ($150) to reach $6,408 in 2005, having fallen by $58 in 2004. The median amount borrowed in 2005 was $5,485, an increase of 1.1 percent ($61) from 2004.

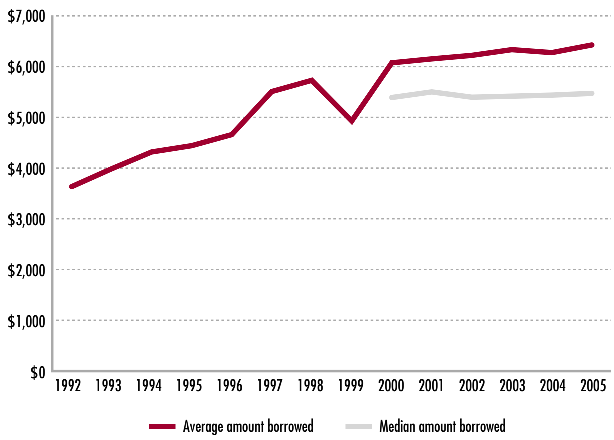
The average amount borrowed[19] showed a steady increase between 1992 and 1998, in part reflecting increases in student fees.

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[20] and to other changes that restricted the purposes for which finance from the loan scheme could be used[21].

Average borrowing increased again in 2000 when some of the changes made in 1999 were rescinded (notably the reduction in course-related costs entitlement and the removal of the right to borrow compulsory student services levies and students' association fees). The fee stabilisation policy 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 Fee and Course Cost Maxima policy. Under this policy, providers are permitted to increase fees, but only within strict limits.

Figure 22 Average and median amount borrowed 1992-2005



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

19 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.

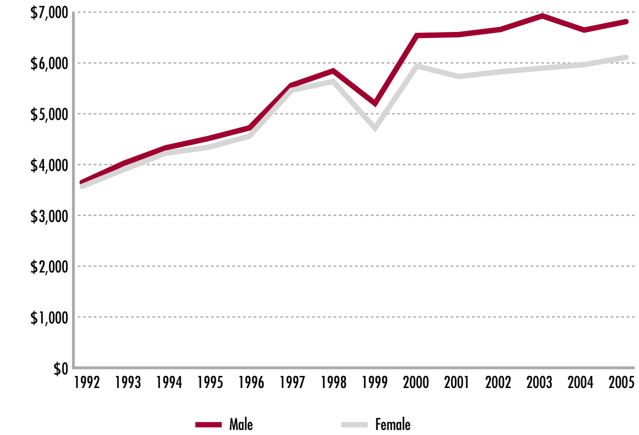
20 The entitlement was changed back to $1,000 in 2000.

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

Gender differences

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

Figure 23 Average annual amounts borrowed by gender 1992-2005

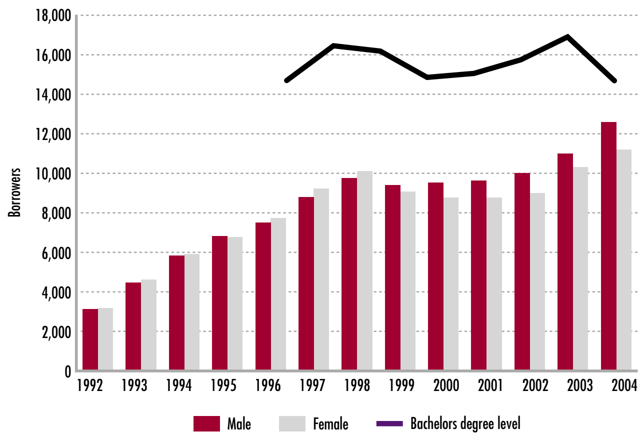


Source: Ministry of Social Development and Ministry of Education

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 tertiary education qualifications and are more likely to be enrolled at degree level, and are therefore more likely to remain in study for longer.

Figure 24, drawn from the integrated dataset, gives the median leaving balances of men and women from 1992 to 2004.

Figure 24 Median leaving loan balance 1992-2004



Source: Statistics New Zealand, integrated dataset

The greatest volume of borrowing has tended to be by students at bachelors degree level[22]. Figure 24 also tracks the leaving loan balances of those who studied at the bachelors level and who had left study between 1997 and 2003.

22 This includes certificates and diplomas at level seven 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 2005:

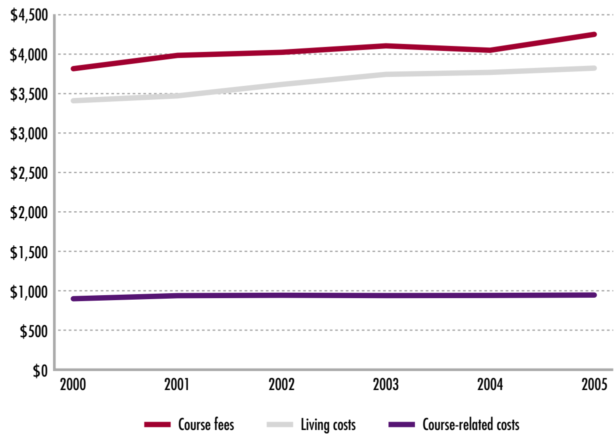
- 92 percent borrowed to pay fees
- 61 percent borrowed to help meet course-related costs
- 24 percent borrowed for fees only
- those who borrowed fees represented 45.5 percent of those eligible to do so.

From 2000 to 2005:

- 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 9 and 10 percent
- the amount drawn for living costs varied between 29 and 30 percent.

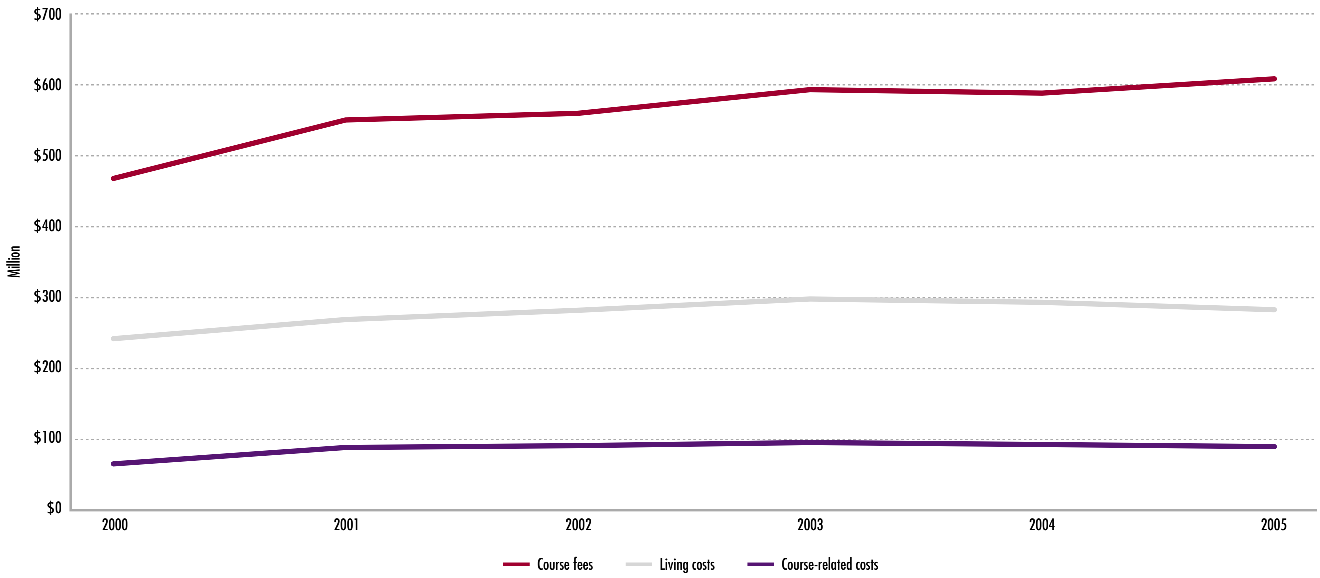
The average amount borrowed to pay fees has not changed much from 2000 to 2004. In part, this reflects the government's fee stabilisation policy introduced in 2001 (see page 26), and the higher incidence of part-time enrolments in tertiary education. These trends are represented in Figures 25 and 26.

Figure 25 Average amount drawn by loan component 2000-2005



Source: Ministry of Social Development

Figure 26 Total amount drawn by loan component 2000-2005



Source: Ministry of Social Development

Table 3 Borrowing by component and gender 2000-2005

Year	Gender	Number of borrowers who borrowed fees	Average fees borrowed	Number of borrowers who borrowed living costs	Average living costs borrowed	Number of borrowers who borrowed course-related costs	Average course-related costs borrowed
2000	Female	68,449	$3,653	36,961	$3,477	41,370	$888
	Male	54,384	$4,024	34,021	$3,328	31,221	$906
	All	122,833	$3,817	70,982	$3,406	72,591	$896
2001	Female	78,173	$3,778	40,274	$3,546	54,240	$927
	Male	60,161	$4,254	37,131	$3,388	40,079	$946
	All	138,334	$3,985	77,405	$3,470	94,319	$935
2002	Female	79,435	$3,735	41,304	$3,681	55,771	$933
	Male	59,888	$4,406	36,395	$3,561	40,792	$951
	All	139,323	$4,023	77,699	$3,625	96,563	$940
2003	Female	84,373	$3,767	42,969	$3,813	60,491	$930
	Male	60,305	$4,578	36,404	$3,678	41,173	$945
	All	144,678	$4,105	79,373	$3,751	101,664	$936
2004	Female	87,010	$3,875	42,959	$3,823	60,271	$933
	Male	58,539	$4,312	34,548	$3,726	38,235	$945
	All	145,549	$4,051	77,507	$3,780	98,506	$938
2005	Female	86,297	$4,050	41,522	$3,885	58,558	$940
	Male	57,109	$4,559	32,146	$3,770	36,224	$949
	All	143,406	$4,253	73,668	$3,835	94,782	$943

Note: Data in this table is provisional.

Source: Ministry of Social Development

Changes in the level of average borrowing for living costs reflect the reductions in the uptake of student allowances – obliging more full-time students to use the loan scheme. It may also reflect increases in the cost of living, especially as rents have risen.

Provider type

Just over half of all those who borrowed fees, under the compulsory fees component of the loan scheme in 2005, 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 has reduced for the first time since 2000. This is largely due to funding changes and a consequent reduction in enrolments at wānanga.

Table 4 Numbers of students who borrowed fees by provider type 2000-2005

	2000	2001	2002	2003	2004	2005
Universities	62,273	66,635	69,653	71,982	73,183	73,624
ITPs	37,768	39,720	40,452	40,767	39,196	35,424
Colleges of education	5,189	5,307	5,445	5,556	5,434	2,349
PTEs	17,754	27,007	23,537	25,924	26,973	28,707
Wānanga	2,100	2,895	3,118	3,564	3,783	3,302
Total	**125,084**	**141,564**	**142,205**	**147,793**	**148,569**	**143,406**

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.
3. The figures in this table are different from earlier Student Loan Scheme Annual Reports, due to an error in figures shown in earlier reports.

Source: Ministry of Social Development

The reduction in the number of borrowers enrolled at colleges of education follows the amalgamation of the Auckland College of Education with the University of Auckland in 2004 and the merger of the Wellington College of Education with Victoria University of Wellington in 2005.

Qualification level

In 2005, there was a marked difference between the borrowing levels of men and women in the case of diplomas and certificates. The following table shows the differences in borrowing of students at different qualification levels.

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

Qualification level	Gender	Number of borrowers	Average amount borrowed
Doctorate	Female	461	$5,294
	Male	512	$5,341
	Total	973	$5,319
Masters, honours, postgraduate certificates and postgraduate diplomas	Female	5,490	$5,541
	Male	4,063	$6,116
	Total	9,553	$5,786
Bachelors degrees, graduate certificates and diplomas	Female	46,397	$6,562
	Male	31,951	$6,999
	Total	78,349	$6,740
Diplomas	Female	12,987	$5,362
	Male	7,879	$7,727
	Total	20,866	$6,255
Certificates	Female	30,047	$5,289
	Male	18,214	$5,655
	Total	48,261	$5,427
Other	Female	774	$5,923
	Male	532	$7,243
	Total	1,306	$6,461
		154,417	**$6,408**

Notes:

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

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

The reason for the high levels of borrowing among men enrolled in diplomas is that there are some vocational qualifications at the diploma level that have high fees and course costs and that have traditionally attracted enrolments from men.

The other group with relatively high borrowing are those undertaking bachelors degrees. These qualifications are multi-year, have higher fees and are more likely to be taken by full-time students – all factors associated with higher levels of borrowing.

Loans and student allowances

The government helps students meet their living costs by providing the Student Loan Scheme and the Student Allowances Scheme. The two schemes are interconnected. Full-time students can borrow up to $150 a week from the loan scheme, less any student allowances, to meet living costs.

In 2005:

- 12 percent of all 2005 borrowers (18,456 students) borrowed living costs under the loan scheme and also received student allowances. This compares with 17 percent (20,555 students) in 2004. The decline reflects the reduction in the uptake of allowances in 2005 and the trend towards part-time enrolments
- 32.5 percent of people receiving student allowances used the loan scheme to supplement their living costs in 2005, compared with 34 percent in 2004.

Table 6 Student allowances compared with student loan living costs borrowings in 2005

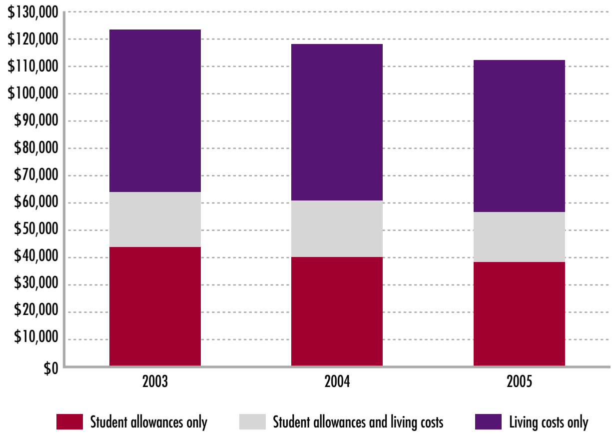
	Number of students	Average allowance	Average living costs	Average allowance and living costs
Student allowances only	38,350	$6,405	N/A	$6,405
Student allowances and living costs	18,456	$5,470	$1,814	$7,284
Living costs only	55,580	N/A	$4,492	$4,492
Total (living costs and/or allowances)	112,386	$3,084	$2,519	$5,603

Source: Ministry of Social Development

On average, in 2005:

- those who received student allowances received $6,805
- those who received student allowances *and* used the living costs entitlement under the loan scheme borrowed $1,765 from the loan scheme and received $5,460 in student allowances – meaning they got a total of $7,225 from both schemes
- those who relied solely on the living costs entitlement under the loan scheme received $4,489.

Figure 27 Proportion of students borrowing living costs and receiving student allowances 2003-2005



Source: Ministry of Education

4.3 People repaying loans

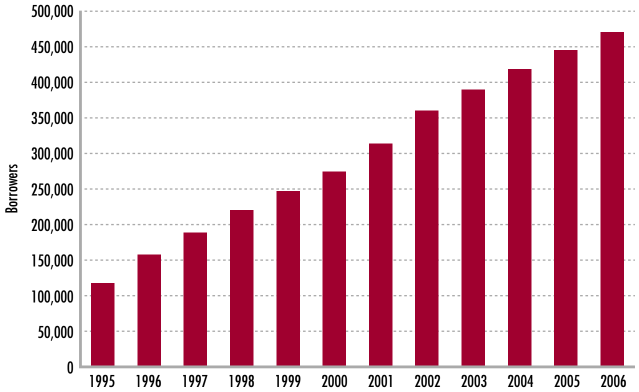
Loans with Inland Revenue

A total of 665,900 people have used the loan scheme since it began. This represents 20.4 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 2006, 470,507 people had a student loan. This is a 5.7 percent increase from 2005 and a 71.2 percent increase from 30 June 2000[23].

Those with loans at 30 June 2006 represented 14.4 percent of the population aged 15 and over, compared with 13.6 percent the previous year and 12.8 percent at 30 June 2004.

Figure 28 Borrowers with Inland Revenue at 30 June 1995-2006

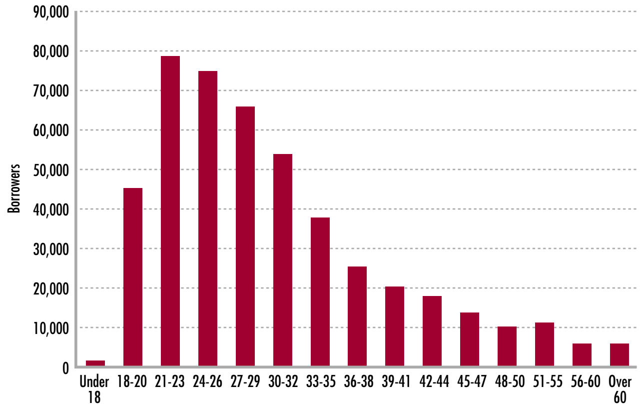


Source: Inland Revenue

Characteristics of people with loans

Of those who had loan balances, 58 percent were aged under 30 years, 90 percent were under 45 and only 5 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 under 30 years with student loans represented 31 percent of the population between 15 and 30 years while borrowers over 50 years were less than 2 percent of the whole population in that age range.

Figure 29 Borrowers with Inland Revenue at 30 June 2006 – by age



Source: Inland Revenue

The number of people over the age of 60 with loan balances rose by 148 percent from 2002 to 2006[24]. 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 increasing age of the population of those with loans. However, at 1.3 percent, those aged 60 years or over are still a very small proportion of all borrowers.

Information from the integrated dataset indicates that of those who had used the loan scheme between 1997 and 2004:

Ethnic group

- 23 percent were Māori
- 7.8 percent were Pasifika peoples
- 9.8 percent were Asian
- 55 percent were European.

Gender

- 55 percent were women.

Provider/sub-sector type

- 39 percent had studied at universities
- 32 percent had studied at polytechnics.

23 Last year's report incorrectly reported the percentage increase in loans between 2000 and 2005 as 38 percent. This figure should have been 61.9 percent.

24 Over the same period, the total number of borrowers rose by 30 percent.

Qualification level

- 52 percent had studied at sub-degree[25] level only
- 40 percent had studied at bachelors level
- 8 percent had studied at postgraduate level.

Borrowers overseas

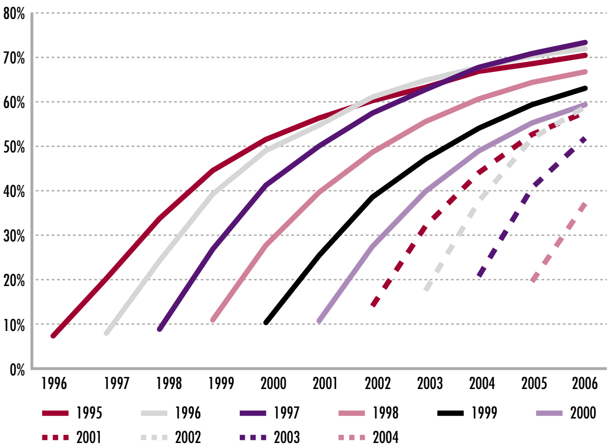
Of the 470,507 New Zealanders to have student loans as at 30 June 2006, 27,620 were known to reside overseas and had non-resident tax status, compared with 25,091 at 30 June 2005 and 25,379 a year earlier. At 30 June 2006, those with non-resident status represented 5.9 percent of all those with student loans, compared with 6 percent in 2005 and 2004. In 1999, the figure was 3.1 percent.

Data on the time spent away from New Zealand by those with student loan balances confirms that the majority of borrowers do eventually return to New Zealand.

By 30 June 2006:

- more than 70 percent of borrowers who left New Zealand between 1996 and 1998 had returned
- more than 60 percent of those who left in 1999 and 2000 had returned
- more than 50 percent of those who left in 2001, 2002 and 2003 had returned.

Figure 30 Percentage of borrowers who left New Zealand in the years 1 July 1995-2003 to 30 June 1996-2005 and who have returned to New Zealand



Note: Each line represents borrowers who left New Zealand and became tax non-resident in a given June year. Percentages represent the proportion who have returned by 30 June of the year shown on the x-axis.

Source: Inland Revenue

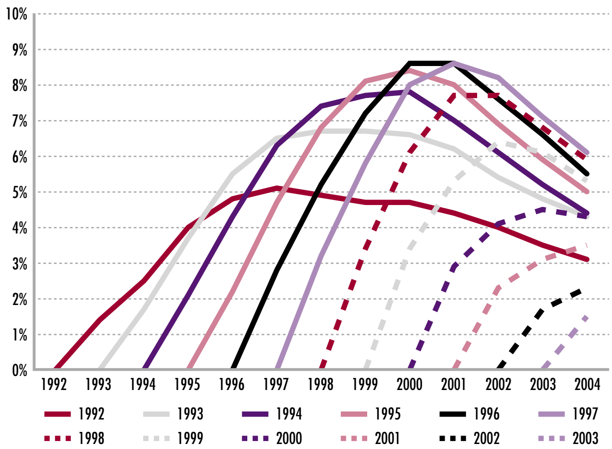
Figure 30 shows that the rate of return is increasing over time. Of those who left in 1998, 10 percent had returned by the end of June 1999 and 30 percent within two years. Of those who left in 2002, nearly 20 percent returned by June 2003 and just under 40 percent the following year.

Analysis of the integrated dataset has produced the following findings:

- The proportion of borrowers leaving New Zealand is at its highest in the first year following study.
- The proportion of borrowers leaving New Zealand each year is much higher among those who complete a qualification than those who leave study without successful completion.
- Those who study at a university are more likely to leave than those who study at an institute of technology or polytechnic.
- The pattern of departure for women and men is similar. However, women who complete a qualification have a higher probability of leaving New Zealand than men who complete.

This data is summarised in the following graph.

Figure 31 Proportion of each cohort that is non-resident



Source: Statistics New Zealand, integrated dataset

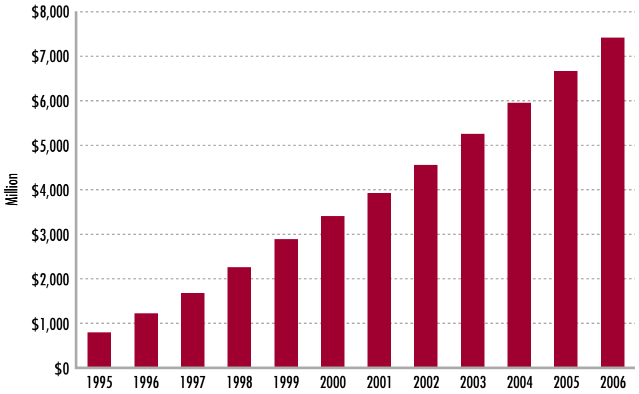
4.4 Loan balances

Total balances

At 30 June 2006, the net student loan balance was $5,569 million, compared with $6,465 million the previous year. The fall of 13.9 percent over that year reflects the shift in accounting standards that accompanied the introduction of interest-free student loans. Loans are now valued according to new International Financial Reporting Standards (IFRS), the details of which are explained in chapter 6. The gross face value of loan balances was $8,370 million, compared with $7,499 million on 30 June 2005. This means that the face value rose by 11.6 percent over the year. Of the current total face value, $7,473 million was held by Inland Revenue and $897 million by the Ministry of Social Development.

25 A qualification below bachelors-degree level.

Figure 32 Nominal value of student loans held by Inland Revenue at 30 June 1995–2006



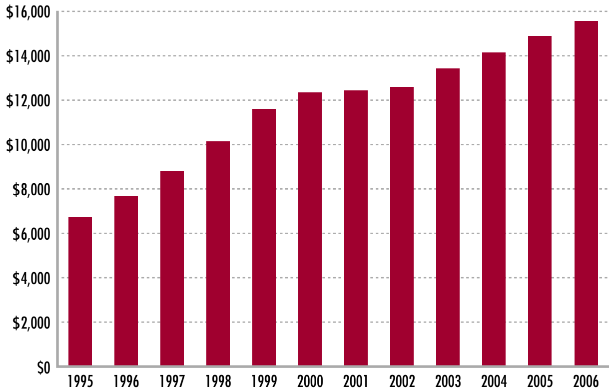
Source: Inland Revenue

Average and median balances

The average loan was $15,883, an increase of 5.9 percent from $14,997 on 30 June 2005. The average loan has risen by 27.9 percent since 2000.

The median loan balance on 30 June 2006 was $10,652, compared with $10,404 on the same date in 2005 – a rise of 2.3 percent. A quarter of all loans were $5,999 or under, while only 3.9 percent were above $50,000 (compared with 3.2 percent in 2005).

Figure 33 Average student loan balance with Inland Revenue at 30 June 1995–2006



Source: Inland Revenue

The average loan balance is much 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 2006

Range of loan balances	Borrowers	Percentage	Cumulative percentage
$1 – $1,999	46,299	9.8%	9.8%
$2,000 – $3,999	43,106	9.2%	19.0%
$4,000 – $5,999	49,754	10.6%	29.6%
$6,000 – $7,999	44,666	9.5%	39.1%
$8,000 – $9,999	38,390	8.2%	47.2%
$10,000 – $14,999	73,428	15.6%	62.8%
$15,000 – $19,999	46,580	9.9%	72.7%
$20,000 – $24,999	35,520	7.5%	80.3%
$25,000 – $29,999	24,430	5.2%	85.5%
$30,000 – $34,999	19,413	4.1%	89.6%
$35,000 – $39,999	13,675	2.9%	92.5%
$40,000 – $44,999	9,949	2.1%	94.6%
$45,000 – $49,999	7,125	1.5%	96.1%
$50,000 – $54,999	5,040	1.1%	97.2%
$55,000 – $59,999	3,595	0.8%	98.0%
$60,000 – $79,999	6,734	1.4%	99.4%
$80,000 – $99,999	1,908	0.4%	99.8%
over $99,999	895	0.2%	100.0%
Total	**470,507**	**100.0%**	

Source: Inland Revenue

Information from the integrated dataset shows that on 31 March 2005:

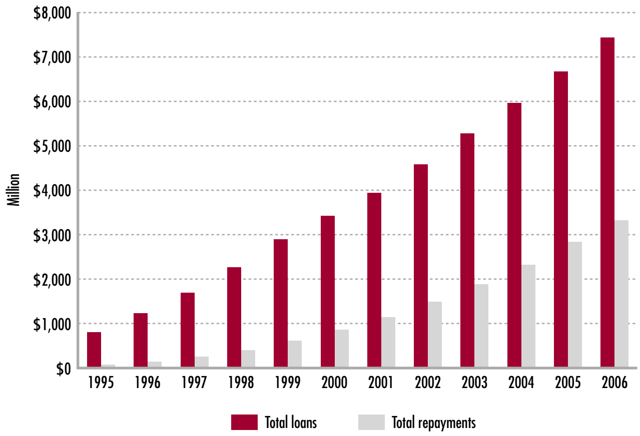
- Māori students had the lowest median loan balance
- Pasifika students had the highest median loan balance
- the median loan balances for those who had last studied at bachelors degree level or higher were much higher than the overall median loan balance. This reflects the higher fees and longer periods 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 median loan balance was higher for men than for women.

Repayments

Repayments collected

Inland Revenue has collected $3,313 million in loan repayments since the loan scheme began. Of this, $1,817 million has been collected by employers through the pay as you earn (PAYE) system. The balance ($1,496 million) has been paid directly by self-employed borrowers, overseas borrowers, and borrowers who have made additional repayments.

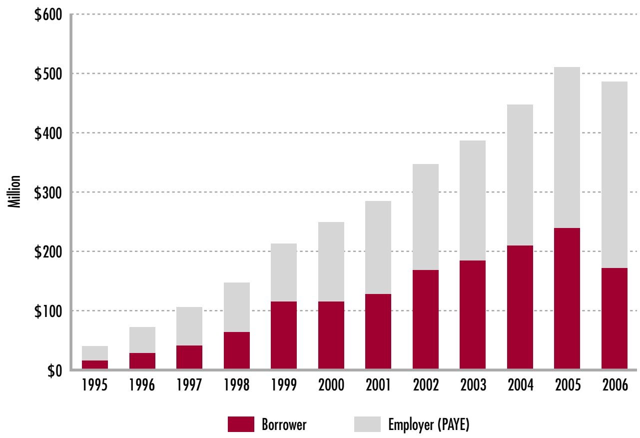
Figure 34 Cumulative student loan repayments received by Inland Revenue compared with aggregate loan balances 1995–2006



Source: Inland Revenue

Figure 35 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 35 Value of gross student loan repayments received by Inland Revenue 1995-2006 – borrower/employer split



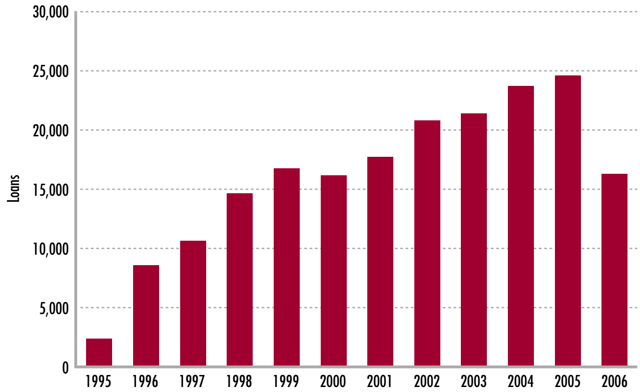
Source: Inland Revenue

While the decline in payments outside the PAYE system in the period to June 2006 occurred in the same period in which the interest-free and amnesty policies were announced, the degree to which this decline is directly related to these policy changes is unclear. If there is a relationship between the two, this is expected to become evident after 1 April 2007.

Loans fully repaid

The number of loans fully repaid in 2005/06 was 16,287. Since the loan scheme began, 195,393 loans have been repaid in full. This represents more than 29 percent of all loans drawn down.

Figure 36 Loans repaid to Inland Revenue at 30 June 1995-2006



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

Future repayments

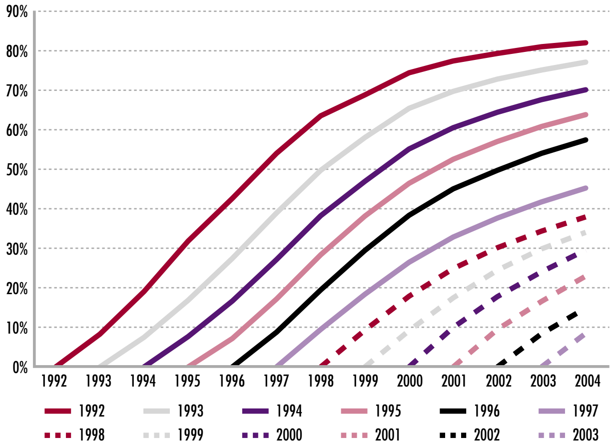
It is expected that there will be significant growth in loan repayments in future years. In 2006/07, the total value of repayments is expected to be slightly higher than estimated for 2005/06 despite the fall in the interest component of loans. This is due to the increase in the amount of principal being repaid on the underlying volume of loans. See section 5.6 for more information on the expected trends in future repayments.

Repayment rates

The main determinant of repayment rates is 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 37 overleaf.

Figure 37 Proportion of borrowers who have fully repaid each year for each cohort of leaving borrowers



Source: Statistics New Zealand, integrated dataset

Studies of repayment rates show that:

- women repay more quickly than men in the early years post-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 write-offs

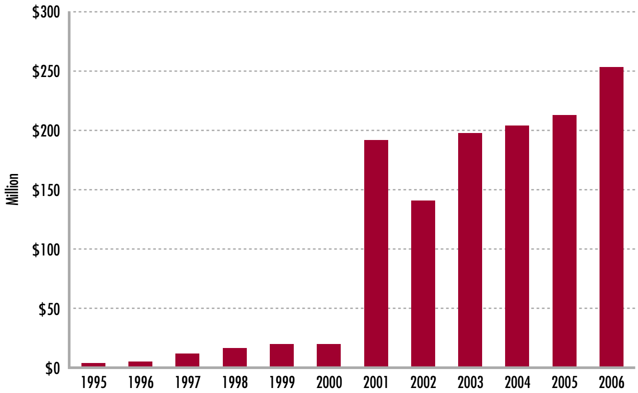
With the introduction of interest-free student loans on 1 April 2006, all interest will be written off for borrowers who are resident in New Zealand. That write-off will occur from the end of the tax year on 31 March 2007.

However, many borrowers have already been 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.

A total of $1,283.6 million in interest has been written off since the loan scheme began.

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

Figure 38 Value of interest write-offs at 30 June 1995-2006



Notes:

1. Data in this graph relates to fiscal years (ie ending 30 June). The data in Figures 39 and 40 relates to tax years (ie years ending 31 March). Therefore there is an overlap between the fiscal year 2006 and the tax year 2007. Caution needs to be exercised in comparing the data in this graph with that in Figures 39 and 40.
2. 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.
3. 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 1999/2000 and overstated for 2000/01.

Source: Inland Revenue

Interest write-offs are calculated on a tax year basis (to 31 March of each year). Therefore, the majority of interest write-offs in each tax year relate to the borrower's situation in the previous calendar year.

Except for the interest write-off given to full-time students, the write-offs depend on the borrower's income. The timing of when an interest write-off is applied to a borrower's loan account depends on when the borrower supplies their income details to Inland Revenue. As a consequence, the amount of interest written off for a particular year changes over the following few years, as late returns are processed. This means that the amount shown as written off in the most recent year is likely to understate the final total amount written off.

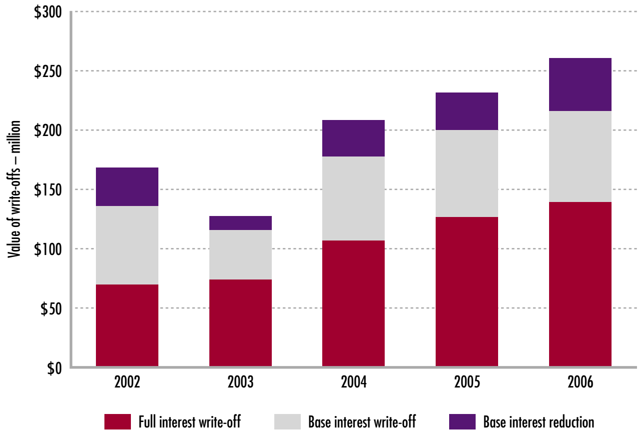
In the year to 30 June 2006:

- borrowers whose income was less than the repayment threshold were credited with $77.1 million in base interest write-offs[26]
- borrowers earning over the repayment threshold were credited with $44.4 million in base interest reductions[27].

26 See Glossary for definition.

27 See Glossary for definition.

Figure 39 Student loan interest write-offs by type and value at 31 March 2002-2006

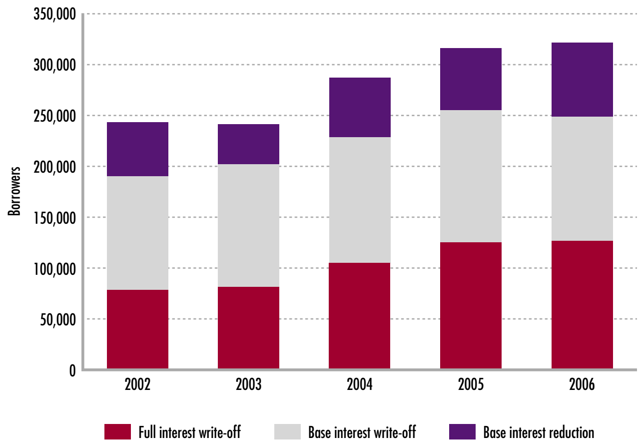


Notes:

1. This graph differs from Figure 38, which shows total write-offs by fiscal year, ie by year to 30 June.
2. The write-offs for the year ending 31 March 2001 (which relate to the 2000 academic year) are included in the figures for the year ending 31 March 2002. This is the reason for the difference between the 2002 and 2003 figures.

Source: Inland Revenue

Figure 40 Student loan interest write-offs by type and number of recipients at 31 March 2002-2006



Notes:

1. This graph differs from Figure 38, which shows total write-offs by fiscal year, ie by year to 30 June.
2. The write-offs for the year ending 31 March 2001 (which relate to the 2000 academic year) are included in the figures for the year ending 31 March 2002. This is the reason for the difference between the 2002 and 2003 figures.

Source: Inland Revenue

Interest write-offs by death or bankruptcy

The loan balances of deceased borrowers are written off under section 60 of the Student Loan Scheme Act 1992. There were 237 borrowers who died during 2005/06 – resulting in $4.2 million being written off.

The student loans of borrowers adjudicated bankrupt are written off under the Insolvency Act 1967. There were 785 borrowers registered as bankrupt during 2005/06 – resulting in $10.5 million being written off.

Since the loan scheme was introduced:

- 4,109 borrowers have had a loan balance written off due to bankruptcy[28]
- $69.2 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.

Table 8 Value of deceased and bankruptcy write-offs at 30 June 1998-2006

Year	Deceased Million	Bankrupt Million
1998	$1.2	$1.1
1999	$2.3	$2.3
2000	$1.6	$2.8
2001	$2.3	$2.8
2002	$2.6	$3.5
2003	$2.3	$3.5
2004	$4.5	$8.5
2005	$3.6	$9.5
2006	$4.2	$10.5

Source: Inland Revenue

Table 9 Number of deceased and bankruptcy write-offs at 30 June 1998-2006

Year	Deceased	Bankruptcy
1998	180	210
1999	212	299
2000	239	265
2001	263	331
2002	303	411
2003	340	479
2004	274	597
2005	343	732
2006	237	785

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, because the years relate to the date of death or bankruptcy, not the date of write-off.

Source: Inland Revenue

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

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 they died or were 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

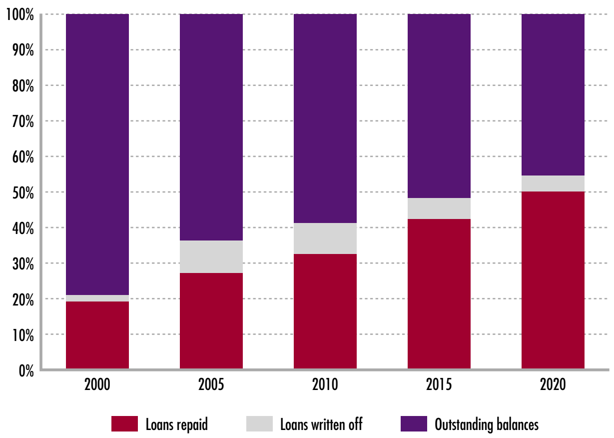
At the end of 2005, around 27 percent of all loan balances accumulated under the loan scheme since it began (through interest, penalties and drawings) had been repaid and about 9 percent written off.

This means that 64 percent of the aggregate accumulated loan balance remains outstanding. As the loan scheme is maturing, 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 will be written off and around 57 percent will remain outstanding.
- By 2015, it is forecast that 42 percent will be repaid, 5.97 percent will be written off, and 52 percent will remain outstanding.
- By 2020, more than half is expected to have been repaid.

Figure 41 shows the actual and forecast trends in the value of the aggregate accumulated loan balances against the trend in repayment.

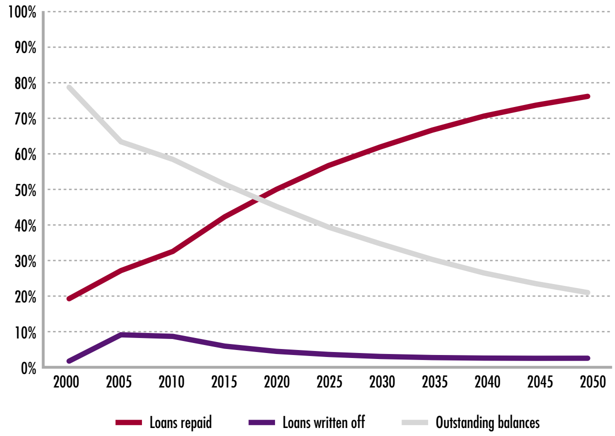
Figure 41 Actual and forecast proportions of loan repayments made, loans written off and outstanding loan balances 2000-2020



Source: Ministry of Education and Inland Revenue

Long-term projections suggest that by 2050 around 76 percent of the aggregate accumulated loan balance (including interest, penalties and drawings) will have been repaid, with less than 3 percent written off, and around 21 percent outstanding.

Figure 42 Actual and forecast proportions of loan repayments made, loans written off and outstanding loan balances 2000-2050



Source: Ministry of Education and Inland Revenue

By 2034, it is expected that total repayments of student loans each year will exceed borrowings. However, interest charged to borrowers living overseas means that the aggregate student loan balance will still be rising, if at a much reduced rate.

Before the introduction of the interest-free policy, it was projected that repayments would exceed drawings in the year 2016.

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 models that produce cost and valuation estimates, it describes the fair valuation of the scheme, and it gives forecasts of loan balances and repayment times.

The loan scheme is a significant government asset[29]. The portfolio is forecast to grow to $12,700 million by the year 2014/15. This forecast is higher than 2005's estimate[30], reflecting changes in government policy on student loans.

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.
- 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 writes off the following sums, which represent a cost to the Crown:

- from 1 April 2006, all interest for borrowers living in New Zealand
- before 1 April 2006, all or part of the interest accrued by borrowers who meet certain criteria[31]
- student loan balances of deceased or bankrupt borrowers
- small balances.

The loan scheme is now valued under a New Zealand equivalent of the International Financial Reporting Standards (IFRS). The change in the accounting approach is described in chapter 6.

5.1 Forecasting and costing models

This report uses forecasting and costing data from two models of the loan scheme: the Tertiary Education Student Loan Analysis (TESLA) model and the new Student Loans Integrated Model (SLIM). Once it is fully implemented, SLIM will replace TESLA. As this report has been prepared during the transition from TESLA to SLIM, it draws forecast information from both models.

TESLA forecasts student loan balances and repayment periods, and helps to evaluate policy options. Its results have been published in earlier annual reports on the scheme. TESLA results are presented here to provide continuity in projections.

SLIM is built on data from the integrated dataset. It models borrowing, repayments and other aspects of the loan scheme. SLIM was developed as a means of calculating the fair value model for the loan scheme. The fair value calculated using SLIM has been included as a note to the accounts in the last three annual reports on the scheme. SLIM has informed the costings of recent policy changes. It is used in the calculations needed for compliance with the IFRS accounting framework.

Appendix 2 has more information about TESLA and SLIM, including the assumptions on which they are built and some comparisons between the models' predictions and actual experience.

Student 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 hence is subject to greater uncertainty.

5.2 Valuation and accounting

Under the new standards[32], all financial assets – including student loans – have to be recognised initially at their 'fair value'. Student loans are classified in the standard as 'loans and receivables'. They are subsequently valued at their amortised cost. The loan balance may also be subject to 'impairment' – a reduction of their value. The closing loan balance recorded in the accounts at 30 June 2006 has been prepared according to these new standards.

Although the fair value concept is used in the valuation – at the time loans are initially established – the value in the accounts is not intended to be a 'fair valuation'. Nevertheless, a fair value is disclosed in the notes to the accounts. This standard requires pre-tax cash flows and discount rates, and therefore differs from previously reported fair valuations.

The fair value of the loan scheme is the amount for which the loans could be exchanged between knowledgeable, willing parties in an arm's length transaction. In the calculation of 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 valuation is subject to market fluctuations outside of the loan scheme's control.

Reporting the fair value in the notes to the accounts has been a requirement of the generally accepted accounting practices (GAAP) standards in recent years.

29 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.

30 In 2005, the estimate of the value of the scheme in 2014/15 was $12,000 million. Refer to table 12.

31 The interest write-off criteria are described in Appendix 1 and the amounts written off are given in section 4.4 under 'Interest write-offs'.

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

Table 10 Fair value in the note to the accounts

	30 June 2004 Million	30 June 2005 Million	30 June 2006 Million
Face value	$6,821	$7,499	$8,370
Fair value	$5,734	$5,994	$5,538
Ratio	84.1%	79.9%	66.2%

Source: Ministry of Education

The fair valuation of the loan scheme at 30 June 2006 was approximately $5,538 million. This is 66.2 percent of the face value of the loan scheme's closing balance ($8,370 million) on the same date. Last year, the fair value calculated as at 30 June 2005 was $5,994 million (79.9 percent), while in 2004 the fair value was $5,734 million or 84.1 percent of the face value.

The fall in fair value between 2005 and 2006 was $456 million or 7.6 percent. As a percentage of the face value of the aggregate outstanding loan balance, the fair value dropped by 13.7 percentage points. The principal reasons for this decrease were the implementation of the interest-free student loans policy from 1 April 2006, which increased the amounts of interest written off and therefore reduced future net cash flows and adoption of the NZ IFRS framework. Additional changes in the model and economic assumptions also had an effect. In particular, the gross long-term discount rate decreased from 7.5 to 6.4 percent between these valuations.

NZ IFRS Valuation

The value of the loans as reported in the Financial statements of the Government has been measured in accordance with the NZ IFRS accounting standards. Under NZ IFRS, once the discount rate is struck it remains fixed for subsequent valuations[33]. Thus, market changes in the value of money will no longer affect the accounts. Future revaluations will only show changes that have been measured in the loan scheme.

SLIM will be used for annual NZ IFRS-compliant valuations for the Financial statements of the Government. It will also be used to help prepare bi-annual fiscal and economic updates.

33 This is known as the effective interest rate.

5.3 Average net interest rate

The full interest rate for 2006/07 is 6.9 percent. Only borrowers living overseas incur interest. All student loan borrowers living in New Zealand are eligible for a full write-off of all interest incurred after 1 April 2006.

Before implementation of the interest-free student loans policy, all borrowers were charged interest on their loans. However, many borrowers had all or part of their interest written off under provisions intended to ensure that those in financial need had a lower loan burden. The average net interest rate is the total amount of interest charged – net of those write-offs – as a percentage of the face value of all student loan balances. In 2005, the average net interest rate was 3.2 percent, compared with 2.8 percent in both 2004 and 2002[34].

Had the interest-free student loans policy not been implemented, the average net interest rate for the period 2006-2050 was forecast to be around 3.4 percent – representing only around 52 percent of the gross interest incurred. Because interest is now accrued only by loan borrowers residing overseas, the average net interest rate under the new policy for the same period is estimated to be around 1.7 percent.

5.4 Fiscal forecasting

Before the implementation of the interest-free student loans policy in 2005, there was a decline in rates of loan uptake, and in the actual number of loan borrowers. There were 2,624 fewer loan borrowers in 2005 than in 2004, representing a drop of 1.7 percent.

Before the implementation of the interest-free student loans policy, it was expected that the total annual repayments of loans would exceed the total annual drawings by 2016. With the policy's implementation in April 2006, the annual loan repayments are now estimated to exceed the annual borrowings from 2034 onwards. However, the interest that will be charged to borrowers living overseas will exceed the difference between repayments and borrowings. As a result, the aggregate student loan balance is expected to continue to rise, if at a reducing rate, until 2050.

The following table compares the most recent long-term forecast results with those from the same date in 2005. As a consequence of introducing the interest-free policy, the total amount to be borrowed is forecast to increase by 16 percent or $3.2 billion over the next 15 years. However, net interest is projected to decrease. The total outstanding loan balance in 2020 is now forecast to increase by only 8 percent, or $1.1 billion, compared with the previous forecast, made in 2005 before the introduction of interest-free student loans.

34 These percentages are for the calendar years.

Table 11 Comparison of the 2005 and 2006 Budget Economic and Fiscal Update (BEFU) forecasts for 2006-2020

	Total outstanding balance 2005 Million	Borrowings 2006-2020 Million	Net interest 2006-2020 Million	Repayments 2006-2020 Million	Death/bankruptcy write-off 2006-2020 Million	Total outstanding balance 2020 Million
BEFU 2006	$7,238	$23,323	$2,069	$17,263	$236	$15,131
BEFU 2005	$7,204	$20,090	$5,474	$18,507	$257	$14,003
Increase BEFU 2005 – BEFU 2006	$34	$3,233	($3,405)	($1,245)	($21)	$1,128
Percentage increase	0.5%	16.1%	-62.2%	-6.7%	-8.2%	8.1%

Source: Ministry of Education

In the most recent forecast, the average annual increase in the number of loan borrowers from 2005 to 2010 is estimated to be 3.9 percent per annum. The June 2005 estimate of the rate of growth in the number of borrowers was 1.2 percent a year. The increase in the forecast rate of growth in borrowers reflects the impact of the interest-free policy, changes in the size and structure of the New Zealand population, participation rate forecasts and forecasts relating to economic conditions. The full set of assumptions is set out in Appendix 2.

The average annual increase in total borrowing is expected to be 7 percent per annum from 2005 to 2010. The June 2005 estimate was a 3.8 percent average annual increase in the total borrowings. Again, this projected increase is attributed to the introduction of the interest-free policy. From 2005 to 2010, the average increase in the average amount borrowed per borrower is expected to be around 3 percent per annum, compared with a forecast of 2.5 percent last year.

One consequence of the increasing number of part-time students and the greater access of part-time students to student loans is to lower the overall loan uptake rate[35] and gross borrowing. Because part-timers have a much lower loan entitlement, the move to more part-time borrowers will moderate the increase in the average amount borrowed each year[36].

35 More information about this can be found in section 4.1.

36 The latest forecasts are on the Ministry of Education website at www.minedu.govt.nz/goto/studentloans (August 2006).

5.5 Aggregate loan balance projection

The following long-term projection of loan balances, developed using TESLA, shows the estimated aggregate student loan balance at the end of each fiscal year.

Table 12 Forecast aggregate projected loan balances (gross) 2001-2006

Aggregate balance projections	Projected loan balances - million					
	2009/10		2014/15		2019/20	
	Balance	Change	Balance	Change	Balance	Change
June 2006	$9,900	$100	$12,700	$700	$15,300	$1,200
June 2005	$9,800	($700)	$12,000	($1,000)	$14,100	($1,000)
June 2004	$10,500	$300	$13,000	$500	$15,100	$700
June 2003	$10,200	($1,000)	$12,500	($1,900)	$14,400	($2,600)
June 2002	$11,200	$1,000	$14,400	$1,000	$17,000	$900
June 2001	$10,200	N/A	$13,400	N/A	$16,100	N/A

Source: Ministry of Education – TESLA model

The latest projections of the aggregate student loan balance show an increase compared with projections in June 2005. The main factor contributing to that increase was the interest-free policy introduced on 1 April 2006.

The forecast in June 2006 for 2014/15 is 5.2 percent lower than the forecast in June 2001. Likewise, the latest forecast for 2019/20 is 5 percent lower than the June 2001 forecast. The volatility of these forecasts derives from three main sources:

- changes in tertiary education policy – such as the latest interest-free policy and the Fee and Course Cost Maxima policy
- changes in projected participation rates in the tertiary sector
- changes in the economy, such as expected employment and wage rates.

The estimates of overall outstanding student loan balances are very sensitive to assumptions about participation in tertiary education. Reasonable variations in participation projections lead to estimates of total outstanding loan balances by 2019/20 ranging from $14,600 million to $15,600 million. Projections of total outstanding loan balances are less sensitive to variations in income assumptions. If the real income growth of borrowers is adjusted by 0.2 percent per annum, the change in projected level of loan balances for 2019/20 is around $400 million.

5.6 Predicted repayment periods

TESLA is used to forecast median and average loan repayment times.

Table 13 Estimated average and median repayment times

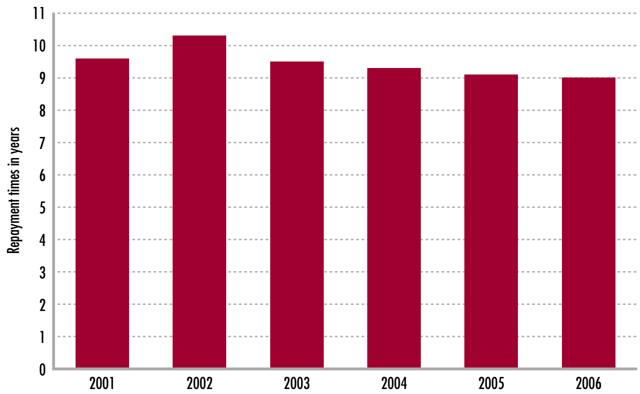
Projected repayment times	Average	Median	25th percentile	75th percentile
June 2006 projections	9.0 years	6.9 years	3.7 years	10.5 years
June 2005 projections	9.1 years	6.7 years	3.5 years	10.6 years
Projection change	- 0.1 years	0.2 years	0.2 years	- 0.1 years

Source: Ministry of Education – TESLA model

The average repayment period has fallen to nine years, down from 9.1 in 2005 and 9.3 in 2004. The median loan repayment time is around 6.9 years. A quarter of borrowers repay their loans within three years and eight months while three-quarters of all borrowers take less than 10.5 years to repay. The 75th percentile has reduced since 2005, while the median and 25th percentile groups have gone up slightly. The main factors contributing to the changes were the forecast changes regarding future loan borrowings and changes in Treasury's long-term interest rate projections.

Figure 43 shows the forecast average repayment times between 2001 and 2006.

Figure 43 Forecast average repayment times 2001-2006.



Source: Ministry of Education – TESLA model

Repayment times are sensitive to changes in the income assumptions used in TESLA. An annual increase in borrowers' real income growth of 0.2 percent results in repayment times being shortened by up to half a year.

CHAPTERSIX

STUDENT LOAN SCHEME FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

6.0 Financial statements for the year ended 30 June 2006

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

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

The schedule of assets shows a total asset value as at 30 June 2006 of $5,569.2 million ($6,464.5 million at June 2005). The reduction of $895.3 million is a result of a change in the accounting policy for student loans, reflecting the interest-free policy. The adoption of fair value accounting on initial recognition of loans and subsequent impairment (net release of opening bad debt provision) resulted in a one-off write-down of $1,414.7 million. This is in line with New Zealand International Financial Reporting Standards (NZ IFRS).

6.1 Schedule of revenue and expenditure for the year ended 30 June 2006

Table 14 Schedule of revenue and expenditure for the year ended 30 June 2006

Actual 2005 $million		Notes	Actual 2006 $million	Main estimates 2006 $million	Supp. estimates 2006 $million
	Revenue				
498.4	Interest and penalty income – IRD/MSD		0.0	547.1	294.1
0.0	Interest unwind – MSD		43.3	0.0	0.0
0.0	Interest unwind – IRD		314.8	0.0	0.0
7.5	Administration fees – MSD		8.0	7.9	7.9
505.9	**Total revenue**		**366.1**	**555.0**	**302.0**
	Expenditure				
213.3	Interest write-offs – IRD/MSD		0.0	0.0	0.0
13.2	Deceased and bankruptcy write-offs – IRD		0.0	0.0	0.0
0.0	Initial fair value write-down and subsequent impairment	1	1,414.7	0.0	1,479.4
0.0	Fair value write-down on new borrowings		328.4	0.0	299.0
0.0	Other impairment		12.8	0.0	18.1
19.5	Increase/(decrease) in provision for doubtful debt – MSD		0.0	0.0	0.0
189.4	Interest, small balance, deceased write-offs and bankruptcy		0.0	260.0	0.0
0.0	Change in provision for doubtful debt		0.0	79.2	0.0
435.4	**Total expenditure**		**1,755.9**	**339.2**	**1,796.5**
70.5	**Net surplus**		**(1,389.8)**	**215.8**	**(1,494.5)**

Notes:

1. The accompanying accounting policies and notes on pages 48-51 form part of these financial statements.
2. Budget figures represent the combined total for the applicable agencies.
3. 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 2006.
4. Details of the Consolidated Movements Schedule for the year ended June 2006 are shown in Note 1.
5. Initial fair value write-down and subsequent impairment is disclosed net of release of opening bad debt provision.

Source: Inland Revenue

6.2 Schedule of assets as at 30 June 2006

Table 15 Schedule of assets as at June 2006

Actual 2005 $million		Notes	Actual 2006 $million	Main estimates 2006 $million	Supp. estimates 2006 $million
	Current assets				
1,412.4	Student loan advances		960.5	1,519.4	889.0
(206.4)	Doubtful debt provision (short term)		0.0	(186.0)	0.0
1,206.0	**Total current assets**		**960.5**	**1,333.4**	**889.0**
	Non-current assets				
6,086.7	Student loan advances		4,608.7	6,668.1	4,467.6
(828.2)	Doubtful debt provision (long term)		0.0	(797.1)	0.0
5,258.5	**Total non-current assets**		**4,608.7**	**5,871.0**	**4,467.6**
6,464.5	**Total assets**		**5,569.2**	**7,204.4**	**5,356.6**

Notes:

1. The accompanying accounting policies and notes on pages 48-51 form part of these financial statements.
2. Budget figures represent the combined total for the applicable agencies.
3. 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 2006.
4. Details of the Consolidated Movements Schedule for the year ended June 2006 are shown in Note 1.

Source: Inland Revenue

6.3 Schedule of cash flows for the year ended 30 June 2006

Table 16 Schedule of cash flows for the year ended 30 June 2006

Actual 2005 $million		Notes	Actual 2006 $million	Main estimates 2006 $million	Supp. estimates 2006 $million
	Cash flows – operating activities				
	Cash was provided from:				
258.8	Interest repayments received	1	179.9	252.8	260.2
258.8	**Net cash inflow (outflow) from operating activities**		**179.9**	**252.8**	**260.2**
	Cash flows – investing activities				
	Cash was provided from:				
313.1	Capital repayments received	1	371.1	396.9	314.4
	Cash was disbursed for:				
(969.2)	Amount borrowed in current year	1	(1,045.5)	(1,192.1)	(1,213.0)
(656.1)	**Net cash inflow (outflow) from investing activities**		**(674.4)**	**(795.2)**	**(898.6)**
(397.3)	**Net student loan cash inflow (outflow)**		**(494.5)**	**(542.4)**	**(638.4)**

Notes:

1 The accompanying accounting policies and notes on pages 48-51 form part of these financial statements.

2. Budget figures represent the combined total for the applicable agencies.

3. 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 2006.

4. Details of the Consolidated Movements Schedule for the year ended June 2006 are shown in Note 1.

Source: Inland Revenue

6.4 Statement of accounting policies

For the year ended 30 June 2006

Reporting entity

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

Statutory authority

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

Budget figures

The budget figures are those presented in the Budget Night Estimates (Main Estimates) and those amended by the Supplementary Estimates (Supp. Estimates) and any transfer made by Order in Council under section 26A of the Public Finance Amendment Act 2004. 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.

Advances

Advances are financial instruments. The accounting policy for advances has changed during the year. These are now initially recognised at fair value and subsequently reported at amortised cost. Forecast repayments for the following year are used to calculate the current portion of advances.

The 2005 figures are recorded at the amounts expected to be ultimately collected in cash.

Interest

Interest is calculated on the student loan account balances as at 1 April each year on a daily basis at a rate determined by the government (currently 6.9 percent per annum). Interest is written off where qualifying criteria are met.

Impairment

An amount is recognised at reporting date if there is objective evidence of impairment as a result of:

· one or more loss events that occurred after the initial recognition of the loan, and

· the loss event (or events) has had a reliably measurable impact on the estimated future cash flows of the collective book of student loans.

For the student loan scheme, this involves a comparison between the amortised cost of the loans to the present value of the estimated future cash flows of the loans discounted at original effective interest rate. The present value of estimated future cash flows excludes future credit losses that have not been incurred.

Amortised cost

This is the amount at which the financial asset is measured at initial fair value, less repayments plus the cumulative interest unwound using the effective interest rate, less any reductions for impairments or non-collectibles.

Changes in accounting policies

In November 2005, the government agreed that interest will not be charged on student loans where certain criteria, largely related to being domiciled in New Zealand, are met.

To reflect the value of student loans under this interest-free policy, the accounting policy for reporting loans has also been updated. The accounting policy is to initially recognise student loans at their fair value and to subsequently report them at amortised cost. This accounting policy is to apply from 2005/06 and is consistent with the 'loans and receivables' designation under International Accounting Standard 39 (IAS 39) for financial instruments. The Crown will be adopting the New Zealand equivalent to IAS 39 for all financial instruments from 1 July 2007.

The key changes resulting from the interest-free student loan policy and adopting a new accounting policy are:

- There is a one-off write-down of $1,414.7 million in 2005/06 of the existing loan book to fair value. See note 1.
- The difference between the fair value of new loans and the amount lent is recognised as an expense in the year the loan is provided.
- The initial fair value write-down will be unwound (ie recognised as income) over the maturity of the loans. The value will be adjusted for any impairment (eg non-repayments caused by death or bankruptcy of the borrowers).

For an analysis of the annual movement in student loans refer to 'Note 1: Consolidated Movements Schedule' on page 49.

Fair value write-down and subsequent impairment

The following fair value write-downs are a result of the change in accounting policies and subsequent impairment:

Inland Revenue Department	$1,249.6 million
Ministry of Social Development	$165.1 million

See note 1 on page 49.

All other 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 2006

Note 1:

Table 17 Consolidated movements schedule for the year ended 30 June 2006

Consolidated Actual 2005 $million		Consolidated Actual 2006 $million	Inland Revenue 2006 $million	Ministry of Social Development 2006 $million
7,499.1	Nominal loan balance	8,370.0	7,473.0	897.0
(1,034.6)	Adjustment due to initial fair value recognition and impairment	(2,800.8)	(2,495.0)	(305.8)
6,464.5	**Total student loans**	**5,569.2**	**4,978.0**	**591.2**
5,994.9	**Student loans opening balance**	**6,464.5**	**5,766.4**	**698.1**
0.0	Loans transferred from MSD to IRD	0.0	966.5	(966.5)
0.0	Fair value write-down on new borrowings transferred	0.0	(320.9)	320.9
969.2	Amount of new borrowings	1,045.5	0.0	1,045.5
7.5	Administration fees on loans	8.0	0.0	8.0
(313.1)	Less capital repayments	(371.1)	(306.5)	(64.6)
663.6		**682.4**	**339.1**	**343.3**
498.4	Interest charged	0.0	0.0	0.0
0.0	Interest unwind	358.1	314.8	43.3
(258.8)	Interest repayments	(179.9)	(179.9)	0.0
(226.5)	Interest, small balance, deceased write-offs and bankruptcy	0.0	0.0	0.0
13.1	**Net increase (decrease) in interest receivable**	**178.2**	**134.9**	**43.3**
(208.9)	Change in provision for doubtful debt	0.0	0.0	0.0
0.0	Initial fair value write-down and subsequent impairment	(1,414.7)	(1,249.6)	(165.1)
0.0	Fair value write-down on new borrowings	(328.4)	0.0	(328.4)
0.0	Other impairment	(12.8)	(12.8)	0.0
1.8	Other movements	0.0	0.0	0.0
(207.1)	**Net increase (decrease) in other movements**	**(1,755.9)**	**(1,262.4)**	**(493.5)**
6,464.5	**Student loans closing balance**	**5,569.2**	**4,978.0**	**591.2**

Source: Inland Revenue

Note 2: Changes in accounting policies

Student loans

Student loans are recognised initially at fair value[37] 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 estimated irrecoverable amounts 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 that a 'loss' event (or events) has an impact on the estimated future cash flows of the student loan book that can be reliably measured.

The data for student loans has been integrated from files provided by Inland Revenue, the Ministry of Social Development and the Ministry of Education. It consists of records of all borrowers from the start of student loans in 1992. The data from before 1997 is limited with mainly Inland Revenue information available. The current data is up to 31 March 2003, and contains information on borrowings, repayments, income, educational factors, socioeconomic factors amongst others and has been analysed and incorporated into the valuation model. Data to 31 March 2005 is now in the process of being analysed and will be available to be incorporated in the valuation model in 2006/07. Any revised future cash flows arising from incorporating the updated data that impact the valuation will be recognised as they occur in 2006/07.

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 data set and the valuation reported in the annual accounts.

Student loans book value

Student loans fair value is the amount for which the loans could be exchanged between knowledgeable, willing parties in an arm's length transaction. On initial recognition of student loans, fair value is determined by projecting forward the repayments required under the scheme, to a willing buyer, and discounting them back at an appropriate discount rate.

Inland Revenue and the Ministry of Social Development have adapted the Ministry of Education's valuation model to be International Accounting Standards compliant and to reflect the recently introduced student loans interest-free, amnesty and voluntary repayments legislation.

As student loans are subsequently measured at amortised cost, the model projects all future cash flows to the Crown associated with the loan and the effective interest rate is calculated at initial recognition. This rate is used to spread the Crown's interest income across the life of the loan and determines the loan's book value at each reporting date. If the timing of future receipts is revised, the book amount at reporting date is adjusted to reflect the revised estimated cash flows at the loan's original effective interest rate. The adjustment is recognised as income or expense in the statement of financial performance.

The model's substantive information has remained consistent with previous years, incorporating educational, demographic, income and loan data. As such, the fair value is sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macroeconomic factors such as inflation and the discount rate.

The following table illustrates the recent changes to key assumptions:

Table 18 Recent changes to key assumptions

Assumptions	30 June 2006	30 June 2005
Weighted average effective interest rate	6.63%	N/A
Interest rate applied to loans for overseas borrowers	6.90% (6.70% outyears)	7.00% (6.80% outyears)
Cost of administration as a percentage of the average outstanding loan balance	0.15%	0.20%
Consumer Price Index	3.20%	2.80%
Future salary inflation	3.60%	3.40%

Source: Inland Revenue

37 Fair value is the amount for which the loans could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Student loans 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 2006. The estimated fair value of the student loan debt at 30 June 2006 has been determined to be approximately $5,538 million ($5,994 million at 30 June 2005).

The fair value calculation is sensitive to the underlying assumptions chosen. For example, a 1 percent increase in the discount rate would decrease fair value by approximately $339 million, whereas a 1 percent decrease in the discount rate would increase fair value by approximately $391 million.

Through the everyday operations of the Student Loan Scheme the Crown is exposed to the risk that borrowers will default on their obligation to repay their loans or die before their loan is repaid, causing the scheme to incur a loss.

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

Loan repayments

For the year ended 30 June 2006, there was a total decline of 3.7 percent, the equivalent of $20.9 million, in loan repayments. In 2006/07, repayments are expected to be slightly higher than 2005/06 repayments, regardless of the decrease in the interest component of loans.

Note 3: Financial instruments

Such arrangements occur as part of the everyday operations of the scheme through the provision of loan advances.

Credit risk

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

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

The credit risk is reduced by collection of compulsory repayments through the tax system.

Interest rate risk

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

Audit New Zealand
Mana Arotake Aotearoa

Audit Opinion

To the readers of the Student Loan Scheme's financial statements for the year ended 30 June 2006

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 2006.

Unqualified opinion

In our opinion the financial statements of the Student Loan Scheme on pages 44 to 51:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  - the assets as at 30 June 2006; and
  - the revenue and expenditure, and cashflows for the year ended on that date.

The audit was completed on 3 October 2006, 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 Executives of the Ministry of Education, Inland Revenue Department and Ministry of Social Development, 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 Executives 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 Executives of the Ministry of Education, Inland Revenue Department and Ministry of Social Development and the Auditor

The Chief Executives are 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 2006 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 2006 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 3 October 2006 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 under 18 years old need parental consent before they can borrow. Undischarged bankrupts are not eligible to apply for a student loan[38].

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 offered by a recognised tertiary education provider[39], 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 but not less than 12 weeks) with a course load of 0.3 EFTS 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 $150 per week for each week of the course, less any net entitlement to student allowances[40]. 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. The amount a resident borrower is required to repay is based on his or her income. Any borrower earning over the repayment threshold 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 borrowers earn more than the repayment threshold (through salary, wages, a student allowance, or income support) they are required to advise their employers 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, which 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.

Borrowers overseas

Borrowers overseas have a different repayment obligation from borrowers in New Zealand (where repayment obligations are based on income earned). Their repayment obligation is similar to mortgage repayments – it's designed so that the loan balance (plus interest) is repaid within 15 years of their departure from New Zealand. The repayment amount is

38 The government is developing a new insolvent debtor status, the 'no asset procedure', as an alternative to bankruptcy. This will be introduced by the Insolvency Law Reform Bill, which is expected to be enacted in 2006/07. Once the legislation is passed, 'no asset procedure' debtors will be able to access the loan scheme but unable to have their loan written off.

39 From 1 January 2007, students starting qualifications that are not student component funded will not be able to access the loan scheme. Students who are part way through a qualification that is not student component funded will continue to have access to the loan scheme until they have completed their qualification.

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

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

Table 19 Non-resident borrowers' repayment obligation

Loan balance	Principal amount	Interest
Under $1,000	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 is then divided into four instalments due 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 through their bank's website.

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 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, borrowers are charged a penalty of 2 percent per month on outstanding amounts greater than $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

From 1 April 2006, borrowers living in New Zealand for 183 or more consecutive days (about six months) will be entitled to an interest-free student loan.

All borrowers will continue to be charged interest, with those eligible for an interest-free student loan receiving an interest write-off in April of each year. 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.

Interest is made up of the base interest rate and an interest adjustment rate, which is sometimes called the inflation component. The total interest rate for the 2007 tax year dropped by 0.1 percent to 6.9 percent.

Interest write-offs

Interest write-offs

Before the introduction of interest-free student loans on 1 April 2006, there were a number of other interest write-off provisions in the loan scheme.

Depending on their circumstances, borrowers may be eligible to have all or some of their interest written off after the end of the income year. A borrower may be entitled to a full interest write-off, a base interest write-off or a base interest reduction. Most borrowers who would normally have been entitled to one of these interest write-offs will, from 1 April 2006, instead receive an interest-free student loan. This will also be administered as a full interest write-off after the end of the tax year.

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 EFTS) are 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, are still eligible to have all interest charged on their loan for the previous year written off as long as their total net income is below the income threshold. For 2005/06 the income threshold was $26,799. This has been increased to $27,699 for 2006/07.

Base interest write-off

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

Base interest reduction (50/50 rule)

The base interest reduction provision limits 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 exceeds 50 percent of the repayment obligation, the base interest charge is reduced to that amount. This means that at least 50 percent of all repayments are 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 depends 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, is limited to the period for which the borrower is or was a tax resident.

Before full interest write-offs can be credited, the Ministry of Education must confirm borrowers' full-time study status. The interest write-offs are 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-off for confirmed part-time students, base interest write-offs and base interest reductions) are 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 are calculated after the return is filed. All other eligible borrowers receive their interest write-off entitlement after receiving a personal tax summary in May/June each year.

Non-resident interest write-offs

Non-resident borrowers can qualify for either a base interest write-off or a base interest reduction. Different criteria apply 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 have been 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 must 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[41] 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 $194,767.

Appendix 2: Forecasting and costing models in this report

This report includes results from two models of the loan scheme. These models attempt to simulate future trends in the loan scheme by examining its past behaviour and projecting this into the future while taking expected changes in the economy into account.

Tertiary Education Student Loan Analysis model (TESLA)

TESLA was developed in 1994 for the Ministry of Education to forecast student loan balances and repayment periods and to help evaluate policy options. TESLA is a simulation model; it generates a representative synthetic student population from a profile of borrower characteristics based on demographic statistics and historic aggregate data on the loan scheme. The model creates a set of individual profiles that represent the estimated four million people who have used or will use the loan scheme between 1992 and 2050. Each individual in this model has student loan characteristics, which give an overall annual estimate of student loan balances, repayments, interest and write-offs.

41 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.

TESLA works on an annual cycle. Each year is modelled for each individual in the model, using the current rules on interest, write-offs and repayments. The person's closing student loan balance is calculated by adding the gross interest at current interest rates to the opening student loan balance and subtracting expected repayments, interest write-offs and other write-offs. The future interest rates are modelled using the statutory formula for setting the interest rate, and the repayment and interest write-off thresholds are calculated by the current threshold, increased each year by the Consumer Price Index (CPI).

The gender, age, ethnicity, amount borrowed and future borrowing characteristics of each profile are determined by an analysis of historical data. The initial income of each profile is determined by Census data and modified by income transitions information from Inland Revenue. The subsequent income is determined by years of study, current study status and growth in GDP per capita.

Repayments, interest and interest write-offs are calculated using the loan scheme's operating rules. Voluntary repayments are based on analysis of aggregate repayment data against incomes and the resulting repayment obligations. Death and death write-offs are determined by the latest mortality rates taken from the Census and applied to the student loan balance held in the model.

The model uses historical and forecast CPI and Gross Domestic Product (GDP) data and other assumptions as follows:

Table 20 Assumptions used in the TESLA model to forecast student loan balances and repayments

Factor	Assumption
Enrolment growth projections	Participation in tertiary education is modelled using the age-specific population projections from Statistics New Zealand. A loan uptake model is applied to this, out to 2009, beyond which the change in the number of loan borrowers is assumed to be commensurate with the change in enrolments projected
Wage inflation	Individuals are modelled to receive income growth through career progression as seen historically. For new people entering the labour market, the initial salary is modelled on the historical data, which is scaled for changes in the average weekly earnings
Student loan uptake rate	Projected using historic trends out to 2009
CPI changes	Forecasts from Treasury
GDP changes	Forecasts from Treasury
Mortality rate	Statistics New Zealand Life Tables

Source: Ministry of Education

Student Loan 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.

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 such as 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 2005 version of SLIM, which is used in this report, has 79 sub-models comprising over 70,000 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 in some other situation.

Table 21 Summary of assumptions used in the SLIM model to forecast student loan balances

Factors	Assumption
Enrolment and student loan uptake assumptions	Same as in the TESLA model
Economic assumptions	For valuation purposes economic assumptions are set by consulting actuaries
Income growth	Modelled from recent experience in the integrated dataset for the first 11 years following study, then using Census data
Transitions out of study and the number of years borrowing	Modelled from recent experience in the integrated dataset
Transitions to and from overseas	Modelled from recent experience in the integrated dataset
Default	Modelled from recent experience in the integrated dataset
Mortality	60 percent of the New Zealand Life Tables 1995-1997 (set after analysis of the integrated data)

Source: Ministry of Education

Appendix 3: Glossary

Academic year

The academic year is from 1 January to 31 December.

Amortised cost

This is the amount at which the financial asset is measured at initial fair value, less repayments plus the cumulative interest unwound using the effective interest rate, less any reductions for impairments or non-collectibles.

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 50 percent of interest accrued during 2005 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 3.8 percent from 1 April 2006, and 4.2 percent from 1 April 2005.

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 2005/06 was $16,588.

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

Borrowers overseas or non-resident borrower
A borrower who is not living in New Zealand in terms of section OE 1 of the Income Tax Act 1994.

Carrying amount
This is also known as the book value. It is the cost of an asset less the accumulated depreciation from the asset acquisition date. This net amount does not reflect the asset's fair market value nor its face value.

Cohort
A group of people with a common statistical factor. For example, a cohort could be a group of students for whom 2006 was 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 exceeded 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.

EFTS (equivalent full-time student)
EFTS is a measure used to count tertiary student numbers. A student taking a normal year's full-time study generates one EFTS unit. Part-time or part-year students are fractions of one EFTS 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 Cost Maxima policy
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 is 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 Fee and Course Cost Maxima policy was developed. The policy involved institutions agreeing not to increase their fees and the government increasing tuition fee subsidies.

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

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 their interest written off automatically after the end of the tax year. Low income people have had some interest write-offs since the loan scheme began.

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

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

This definition is used to determine eligibility for the living costs component of the loan scheme and for student allowances. It is used in applying the student loan full interest write-off.

Impairment
A decrease in the value of the asset. See section 6.5 for more information.

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 description of polytechnics, which 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
- 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 2.8 percent for 2005/06, and is 3.1 percent for 2006/07.

Interest-free student loans

From 1 April 2006, student loans for borrowers living in New Zealand for 183 consecutive days (about six months) 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 a number of provisions under which interest that has been accrued is written off or cancelled. Refer also to: interest-free student loans, interest write-off threshold, full interest write-off, base interest write-off, and base interest reduction.

Interest write-off threshold

Part-time or part-year borrowers had to earn less than the interest write-off threshold, before tax, to qualify for a full interest write-off. The interest write-off threshold for 2005/06 was $26,799.

New borrowers

Borrowers who entered the loan scheme in 2005, not having borrowed in any other year since 2000. There will be a small number of people, described as new borrowers in 2002, 2003, 2004 or 2005 under this definition, who borrowed during the 1990s but have not used the loan scheme again until after 2000.

Non-resident borrower or borrowers overseas

A borrower who is not living in New Zealand in terms of section OE 1 of the Income Tax Act 1994.

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.

Part-time

A programme of study of 32 weeks that is less than 0.8 EFTS units (or the equivalent on a pro rata basis).

Pasifika

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)

Private providers of tertiary education registered with the New Zealand Qualifications Authority.

Programme of study

A collection of courses, classes or work in which a student enrols and which contributes to meeting the requirements for the award of 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.

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

A person who is resident in New Zealand in terms of section OE 1 of the Income Tax Act 1994.

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/borrower

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

Study status

Whether a person is studying full-time or part-time and whether full-year or part-year.

StudyLink

Responsible for the delivery and administration of student loan payments, student allowances and the unemployment benefit (student hardship). StudyLink is part of the Ministry of Social Development.

Tertiary education

All involvement in post-school learning activities, including industry training and community education.

Tertiary education institutions (TEIs)

Public providers of tertiary education. TEIs are universities, institutes of technology, polytechnics, colleges of education and wānanga.

Tertiary education organisations (TEOs)

All institutions and organisations that provide or facilitate tertiary education. They include TEIs, PTEs, ITOs, OTEPs and government training establishments.

Tertiary Education Strategy (TES)

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.

TESLA

Tertiary Education Student Loan Analysis model. See chapter 5 and appendix 2 for more information.

Total interest rate

The interest charged on loans. It is made up of the base interest rate and the interest adjustment rate. The total interest rate was 7 percent for 2005/06 and is 6.9 percent for 2006/07. From 1 April 2006, only overseas 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, that has not been refunded as 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).

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