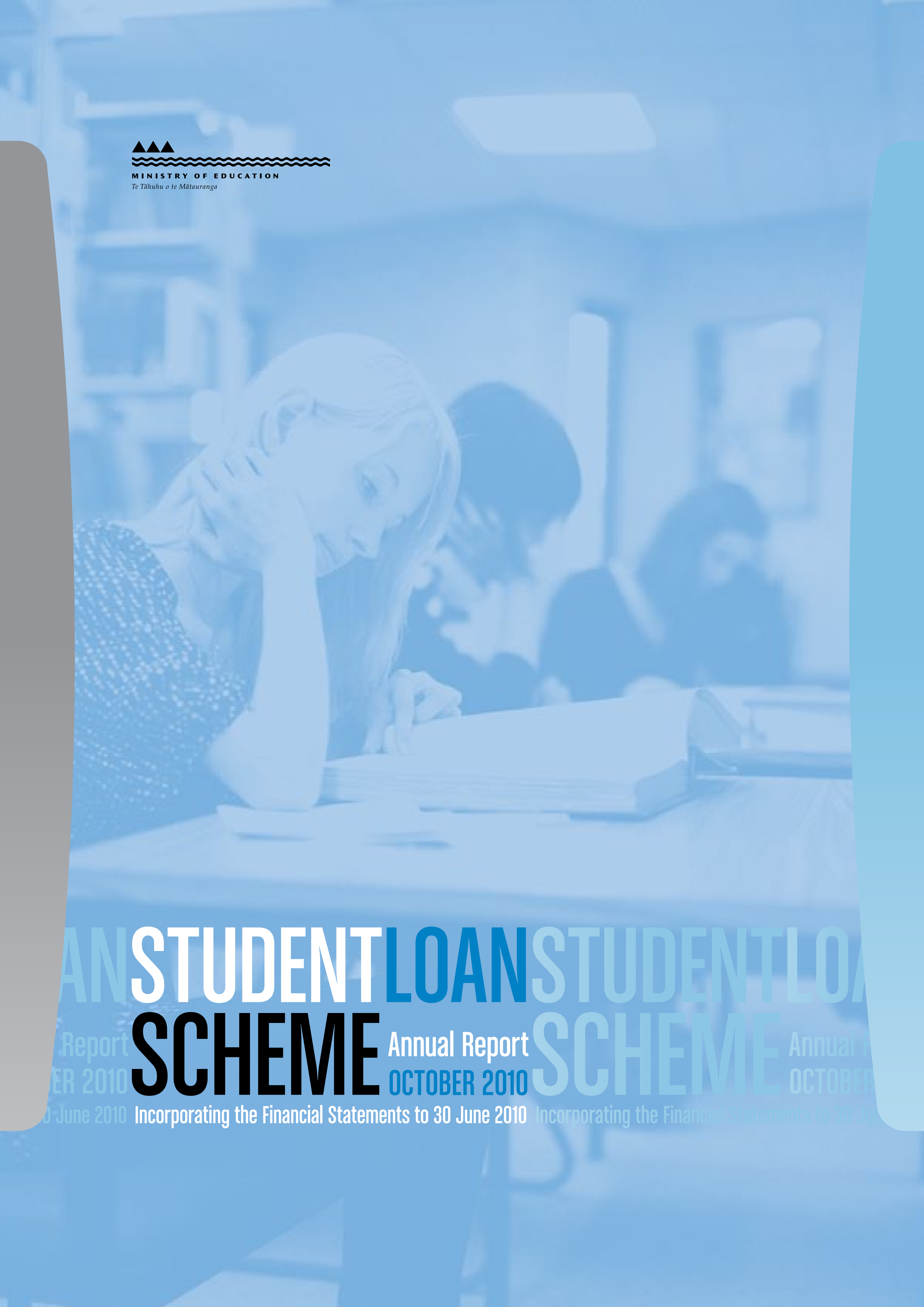


MINISTRY OF EDUCATION
Te Tāhuhu o te Mātauranga

STUDENT LOAN SCHEME

Annual Report OCTOBER 2010

Incorporating the Financial Statements to 30 June 2010

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

October 2010

Foreword

I am pleased to present the 2010 Student Loan Scheme Annual Report and the 2009/10 Financial Statements.

Tertiary education plays a vital role in creating a highly skilled population, and encompasses a wide range of study including adult literacy programmes, industry training and university degrees. Participation in tertiary education provides an important opportunity for individuals to develop skills and knowledge for a better future, enabling New Zealand to advance its economic and social goals at both a national and international level.

Since its introduction in 1992, 894,000 New Zealanders have used the loan scheme. This equates to about 26 percent of the population of New Zealand in 2009 who were aged 15 or over. The number of New Zealanders who have accessed the scheme each year has grown from 44,000 in 1992 to 199,000 in 2009. This increase reflects the fact that more people are studying at tertiary level and are using the loan scheme as an effective means to help fund their tertiary education. In the 2009 academic year, 71 percent of students eligible to borrow from the loan scheme did so, borrowing a total amount of $1,389 million. More than 278,000 people have repaid their student loans in full since the loan scheme began.

The purpose of the Student Loan Scheme Annual Report is to provide public accountability information to government and to New Zealanders to assure them that the scheme is achieving its primary objective – that tertiary education is attainable for all New Zealanders. The report also includes the financial schedules for the fiscal year to 30 June 2010 and an independent audit opinion.

This year, the structure of the report has changed so that the information aligns with the outcomes framework developed by the agencies that manage the scheme. The changes provide better insight into participation in tertiary education and how the loan scheme contributes to this, the scheme's performance, and the outcomes being delivered. This year's report details what happened in 2009, how this compares with earlier years, and outlines future changes.

The report is based on information and data held by the Ministry of Social Development, the Inland Revenue Department, Statistics New Zealand and the Ministry of Education. These four agencies have worked together to provide an accurate and relevant picture of the loan scheme as it operated in 2009 and the financial situation in the 2009/10 fiscal year. The report also provides forecasts of future loan scheme participation and expenditure.

The Student Loan Scheme Annual Report provides insight into participation in tertiary study in New Zealand, and how government investment continues to support those who strive for a better future for themselves and New Zealand by undertaking tertiary education.

Karen Sewell

Secretary for Education

Contents

HIGHLIGHTS

STUDENTLOAN SCHEME PORTFOLIO

As at 30 June 2010:

- The nominal value of loan balances was $11,145 million. (Refer to chapter 4.0.)
- The carrying value of the loan scheme – calculated using International Financial Reporting Standards – was $6,790 million. (Refer to chapter 4.0.)
- The fair value of the loan scheme was approximately $6,366 million. (Refer to chapter 4.0.)
- 587,500 people had a student loan with Inland Revenue for collection. (Refer to chapter 3.2.)

Since the loan scheme began:

- Students have borrowed a total of $13,909 million. (Refer to chapter 3.1.)
- $6,407 million has been collected in loan repayments. (Refer to chapter 3.3.)
- More than 278,000 loans have been fully repaid. (Refer to chapter 3.3.)

During 2009/10:

- $754.2 million in loan repayments was received by Inland Revenue and the Ministry of Social Development, $44.2 million more than last year. (Refer to chapter 5.3.)

OUTCOMES OF THE STUDENTLOAN SCHEME

- Research shows that people with tertiary qualifications have lower unemployment, higher incomes and increased wellbeing. (Refer to chapter 2.2.)
- The proportion of the population aged 15 or over with a tertiary qualification rose from 47 percent in 2003 to 50 percent in 2009. (Refer to chapter 1.1.)

Between 1994 and 2009:

- The number of tertiary students (domestic and international) increased to 469,000, compared with 252,000 domestic and international students. (Refer to chapter 1.1.)
- Enrolments in public providers by Māori and Pasifika peoples have increased by 156 percent and 204 percent respectively. (Refer to chapter 1.1.)

ABOUT STUDENTS BORROWING FROM THE STUDENTLOAN SCHEME IN 2009

- 199,000 students (71 percent of eligible students) borrowed from the loan scheme. (Refer to chapter 3.1.)
- Of these, there were 64,200 new borrowers (based on provisional Ministry of Social Development data), representing 32 percent of all borrowers. (Refer to chapter 3.1.)
- The average amount borrowed was $6,991 and the median amount borrowed was $6,101. (Refer to chapter 3.1.)

OF THOSE WHO ACCESSED THE LOAN SCHEME

Between 1997 and 2009:

- About 57 percent were female. (Refer to chapter 3.2.)
- 50 percent were European, 22 percent were Māori, 12 percent were Asian and 8 percent were Pasifika peoples. (Refer to chapter 3.2.)
- 40 percent had studied at a university or college of education, 31 percent at a polytechnic, 24 percent at a private training establishment and 5 percent at a wānanga. (Refer to chapter 3.2.)
- 49 percent had studied at non-degree level, 35 percent at bachelors level and 8 percent at postgraduate level. (Refer to chapter 3.2.)

As at 30 June 2010:

- The average loan held by Inland Revenue was $16,731 and the median loan balance was $11,399. (Refer to chapter 3.2.)
- 52 percent of borrowers did not have repayment obligations for the 2009 tax year. (Refer to chapter 3.3.)
- 12 percent of repayments made for the 2009 tax year were by borrowers with no repayment obligations. (Refer to chapter 3.3.)

REPAYMENT TIMES FOR BORROWERS

- The median repayment time for those who finished study in 1999 was 7.2 years. (Refer to chapter 3.3.)
- The median repayment time for those who finished study in 2003 is expected to be 6.5 years. (Refer to chapter 3.3.)
- The median repayment time for those who finished study in 2006 is expected to be 6.5 years. (Refer to chapter 3.3.)
- The median repayment time for those who left study in 2006 and have remained in New Zealand is forecast to be 4.6 years. (Refer to chapter 3.3.)

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

Introduction

The purpose of this annual report is to inform Parliament and the New Zealand public about the performance of the Student Loan Scheme and associated trends. It also provides information about the loan scheme's financial performance from 1 July 2009 to 30 June 2010.

The report explains how the loan scheme operates in the context of the New Zealand tertiary education system and the goals of the Tertiary Education Strategy, the contribution the loan scheme makes to enabling greater access to, and participation in, tertiary education, and future developments to the loan scheme and student support policy.

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

Tables behind graphs and historical data

The data underlying the graphs in this report and tables providing more detailed historical data, as well as additional Ministry of Education research cited, will be available on the Education Counts website, www.educationcounts.govt.nz, later this year. Tables will be available for downloading in spreadsheet format.

Sources

The information in this report has been developed from data drawn from four principal sources. Each of the three agencies responsible for the loan scheme has supplied data. The information on new borrowers and borrowers in study is largely drawn from the Ministry of Social Development. Inland Revenue has supplied data on the repayments and loan balances of all borrowers, including those who have left study. Information on borrowing before 2000 is provided by the Ministry of Education. Tertiary education data was also supplied by the Ministry of Education. Other data has come from Statistics New Zealand's integrated dataset on student loans and allowances (see details below). Data from these sources is complemented by information drawn from the Census, the Household Labour Force Survey and other published data sources. Each table and graph states the source of its data.

The data behind the graphs and tables in this report, as well as additional Ministry of Education research cited, will be available on the Education Counts website: www.educationcounts.govt.nz.

Each agency has provided data and relevant information that is current at the time this report is produced. However readers should note that calculation methodologies can change in the course of time and that this may affect historical figures that are presented in future reports. In some cases, such as loan repayment data by tax year, the data is preliminary and is revised as borrowers make final payments in future years. Adjustments and revisions to historical data may be significant in some cases.

The integrated dataset

The integrated dataset on student loans and allowances is managed by Statistics New Zealand according to the requirements of the Statistics Act 1975 and follows strict privacy protocols that have been developed with guidance from the Privacy Commissioner. Care has been taken to ensure that privacy concerns are met and that the integrity and accuracy of data are maintained.

The integrated dataset combines:

- information collected by tertiary education providers on students, enrolments and courses
- information collected by the Ministry of Social Development on students' borrowings under the loan scheme and their student allowances payments
- data on student loan balances, repayments, income and tax status from Inland Revenue
- data on student loan borrowing from the now-defunct Student Loan Account Manager provided by Inland Revenue and the Ministry of Education.

The dataset has most recently been updated with records up to 31 March 2009.

Nominal dollars

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

Ethnicity

Statistics on ethnicity and ethnic groups are obtained from student declarations on enrolment and loan application forms. It should be borne in mind when using these statistics that declaration of ethnicity is not mandatory and where information is provided students may choose to select more than one ethnicity. Ethnicity data supplied by Statistics New Zealand on Pacific Peoples is referred to in this report as Pasifika.

Data series

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

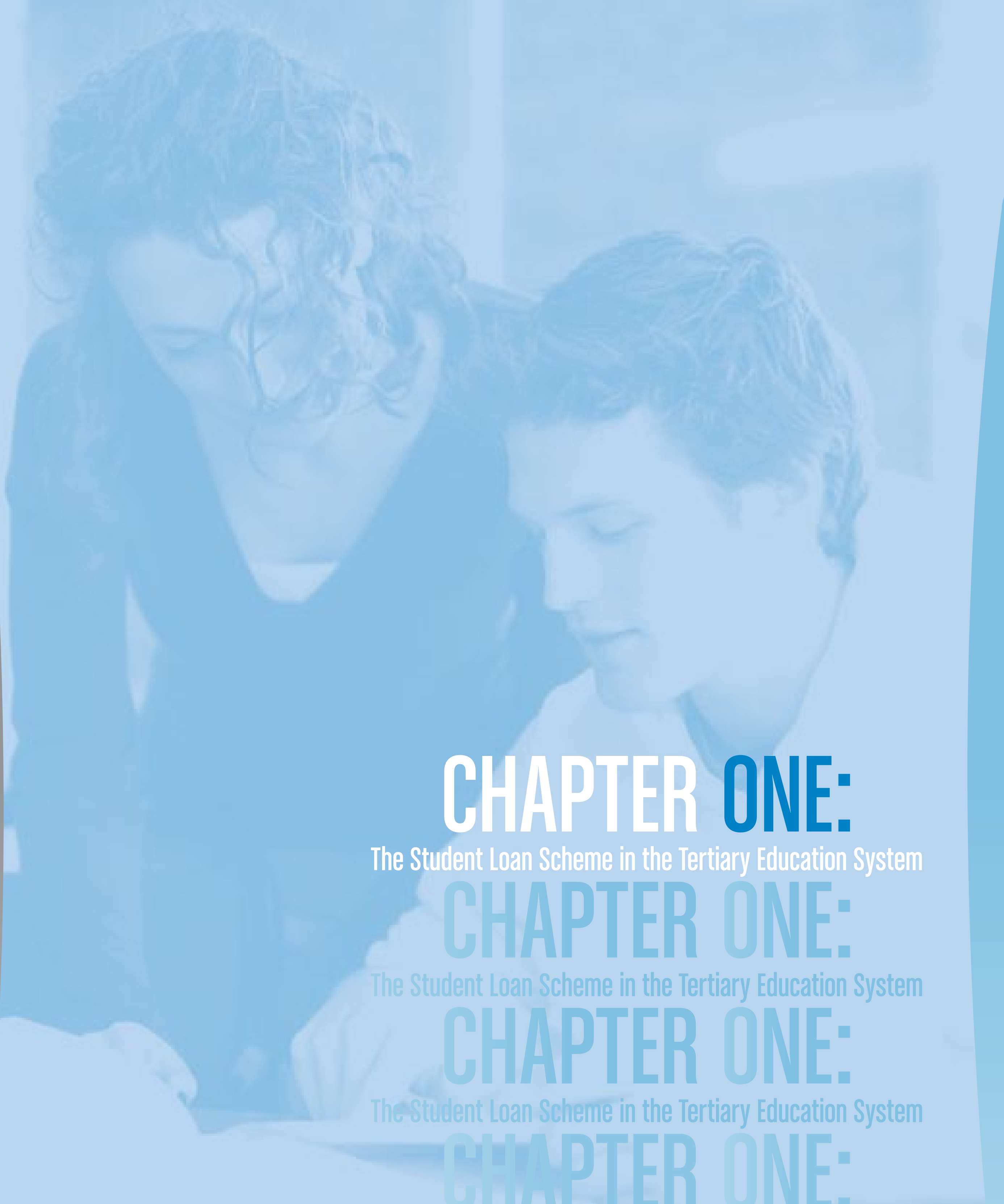
The three stages of the loan process

The term 'borrower' is used in three ways in this report. Each corresponds to one of the three stages that a typical borrower goes through in the Student Loan Scheme.

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

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

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



CHAPTER ONE:

The Student Loan Scheme in the Tertiary Education System

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1.0 Tertiary education in a modern economy and society

High-quality tertiary education plays an important role in helping New Zealand achieve its economic, social, cultural and environmental goals. Tertiary education offers a chance to develop expertise required for a skilled and capable workforce, and is often the first step in building a successful career.

Tertiary education refers to all post-school education. Our tertiary education system is designed to cater not only for New Zealand students, but also for the considerable number of international students who choose to study here.

Providers offer a wide range of courses and educational paths for students with varied academic backgrounds and with different educational goals and include:

- foundation education, such as adult literacy and education for those with low-level qualifications who are looking for employment
- certificates and diplomas
- bachelors degrees
- industry training, including Modern Apprenticeships
- adult and community education and other non-formal adult education
- postgraduate qualifications, many of them requiring students to conduct substantial original research.

Programmes such as Gateway and the Secondary-Tertiary Alignment Resource (STAR) also provide secondary school students with opportunities to participate in tertiary education.

In addition to helping to produce an educated and skilled workforce, the tertiary education sector also contributes to economic growth in New Zealand by providing a platform for growth in knowledge and innovation through academic research. More than 60 percent of New Zealand's research papers come from the tertiary education sector.

Through the Tertiary Education Strategy[1] the Government provides guidance to the sector on what goals and priorities it should be working towards, and sets out a number of specific expectations for each type of organisation. The strategy reflects the need for tertiary education to evolve with, and respond to, changes in the New Zealand economy and society.

There are many factors that affect a student's decision to undertake tertiary education. This chapter discusses:

- factors that impact on access to tertiary education
- participation trends in tertiary education
- funding of tertiary education and the sharing of costs between government, students and their families
- background on the student support system and recent changes to the loan scheme and student support.

1.1 The tertiary education context

The Tertiary Education Strategy (TES) describes the strategic direction for tertiary education in the next five to ten years, and the Government's more immediate priorities for the next three to five years.

The latest TES was published in December 2009[2] and provides priorities for the sector from 2010 to 2015. The strategy describes the current context for tertiary education. Rising demand for tertiary education has coincided with a period of significant fiscal constraint. The strategy therefore emphasises that tertiary education organisations and students need to use the Government's investment in tertiary education efficiently and effectively. This means that funding is likely to move away from qualifications with low completion rates and little relevance to the labour market, in favour of high-quality qualifications that benefit students and contribute to economic growth.

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

Information in this chapter sets out how the tertiary funding and student support systems contribute to tertiary education goals through:

- supporting affordable, equitable access to tertiary education through tuition subsidies and a range of student support, including student allowances and student loans
- ensuring that students' own financial contributions through fees are affordable, predictable and fair.

Access to and participation in tertiary education

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

Growth in participation is reflected in the following trends:

- The number of tertiary students (including domestic[3] and international students) has nearly doubled, from 252,000 in 1994 to 469,000 in 2009.
- There were 426,000 domestic students in 2009, compared with 245,000 in 1994 and 315,000 in 2000.
- The proportion of people living in New Zealand aged 15 and over[4] who participated in tertiary education in 2009 was 12.4 percent, up from 8.9 percent in 1994.

Figure 1 shows student numbers and equivalent full-time student numbers, and the participation rate in tertiary education from 1994 to 2009. The differences between student numbers and equivalent full-time student numbers relate to the proportion of part-time students enrolled and the study load they enrol for.

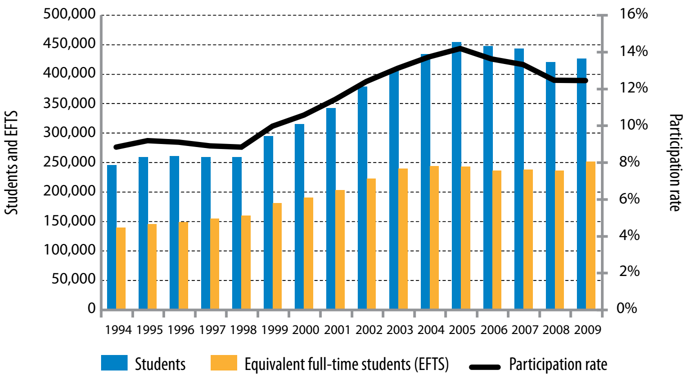
1 Refer to chapter 1.1 - The tertiary education context, for more detailed information on the Tertiary Education Strategy.

2 The TES can be found at www.minedu.govt.nz/theMinistry/PolicyAndStrategy/TertiaryEducationStrategy.aspx.

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

4 The population aged 15 or over was the Statistics New Zealand estimate as at 31 December 2009.

Figure 1 Participation by domestic students in tertiary education



Source: Ministry of Education.

Notes:

1. Data before 1999 excludes private training establishment and 'other tertiary education provider' students.
2. Data relates to domestic students enrolled at any time during the year.
3. The participation rate is the number of enrolments as a percentage of Statistics New Zealand's estimate of the population aged 15 and over at 31 December each year.
4. Participation excludes industry training, non-government-funded private training establishments, formal courses of a week or less, and all non-formal learning.

The number of domestic students enrolled in tertiary education has increased by 73 percent since 1994 (from 245,000 to 426,000). A major factor contributing to this growth is enrolments in private training establishments since 1999. The expansion in enrolments between 1994 and 2009 has been especially marked among women, Māori and Pasifika. Over this period:

- of all enrolments by domestic students in 2009, more than 55 percent – 238,000 – were by women
- enrolments in public providers by Māori students grew by 156 percent. In 2009, 84,000 Māori (19 percent of the Māori population living in New Zealand[5]) were formally enrolled in tertiary education providers, making up 20 percent of total enrolments
- enrolments in public providers by Pasifika students grew by 204 percent with 32,000 formal enrolments by Pasifika in 2009. Pasifika students represented 7.5 percent of enrolments.

The significant increase in the level of participation from 1998 to 2005 has abated since 2006. The reduction is mainly due to a decline in enrolments in certificate-level qualifications, largely in response to moves to strengthen the quality and relevance of lower-level qualifications. In 2009, the growth in enrolments and stabilisation of the participation rate reflect the greater demand for tertiary education places that has resulted from the recession.

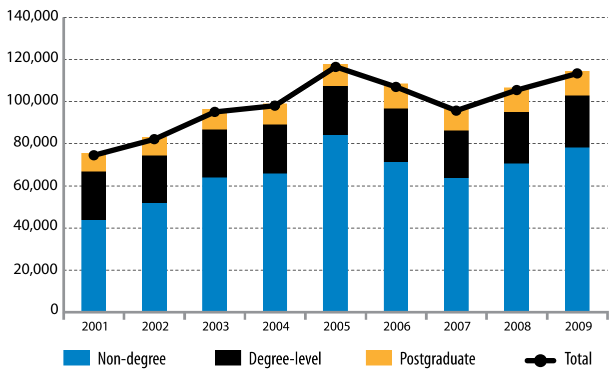
The Student Loan Scheme is part of the Government's broader programme of student support that also includes targeted student allowances. The combination of loans and targeted allowances has been reported in North American research[6] as a good way of improving participation in tertiary education. The research shows that people from lower-income backgrounds have shorter decision-making horizons, leading them to discount the potential returns from tertiary education. This suggests that those from lower-income families may be more averse to borrowing large sums to fund their studies.

There have been no studies on whether the presence of the loan scheme has led to a change in the socio-economic mix among students in formal education in New Zealand. However, research[7] on the Australian Higher Education Contribution Scheme – which has many similarities to the New Zealand loan scheme – concluded that the scheme had no adverse effects on the socio-economic mix of the Australian student population.

As enrolments in tertiary education have risen, so has the number of people completing tertiary qualifications. Household Labour Force Survey data (managed by Statistics New Zealand) shows a steady rise in the number of people holding tertiary qualifications, especially at degree level, between 2003 and 2009:

- The proportion of the population aged 15 or over with a tertiary qualification rose from 47 percent in 2003 to 50 percent in 2009.
- The proportion with a bachelors degree or higher rose from 12 percent to 17 percent over the same period.

Figure 2 Domestic students completing tertiary qualifications by level



Source: Ministry of Education.

Notes:

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

While Figure 2 shows that the number of completions in 2009 is still slightly below the peak in 2005, the decline experienced in 2006 and 2007 has reversed. The number of domestic students completing degree-level and postgraduate qualifications has remained relatively consistent over 2008 and 2009, while the number completing a non-degree qualification has grown significantly. The number completing a non-degree qualification in 2009 is up 11 percent on the number in 2008 and up 23 percent on the number in 2007.

School achievement and its impact on tertiary education access

There are a number of factors contributing to the progression from secondary school to tertiary education. The Student Loan Scheme and the Student Allowances Scheme exist to remove financial barriers to tertiary education and provide financial support for living costs while students are in study. The financial costs however are just one element to accessing tertiary education, with school achievement being another major determinant.[8]

With the introduction of the National Certificate of Educational Achievement (NCEA) between 2002 and 2004, school achievement has risen. Figure 3 shows the growth in the number of students leaving school with university entrance (UE) since the system was introduced. Between 2002 and 2008 there has been

5 Statistics New Zealand estimates that the population of Māori living in New Zealand at 31 December 2009 aged 15 and over was 429,000.

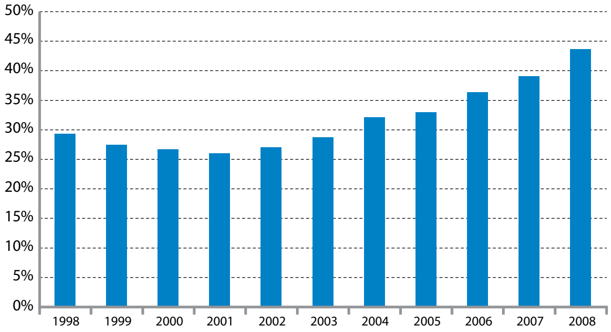
6 Usher, A. (2006) *Grants for students – what they do, why they work*, Educational Policy Institute, www.educationalpolicy.org.

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

8 Engler, R. (2010) *School leavers' progression to bachelors-level study*, Ministry of Education, www.educationcounts.govt.nz/publications/tertiary_education/72404/1.

a 62 percent increase in the proportion of students leaving school with the qualification (rising from 27 percent in 2002 to 44 percent in 2008). Rising school achievement leads to higher tertiary participation and so increases the numbers seeking student loans.

Figure 3 Percentage of school students gaining university entrance

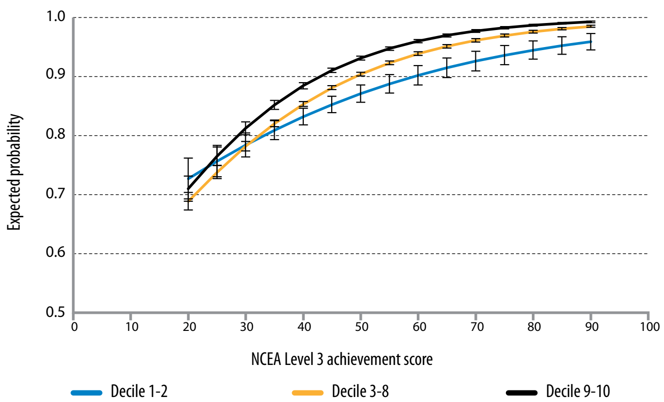


Source: Ministry of Education.

Note: From 2002, the school leaver data collection was changed as a result of the introduction of NCEA in 2002. These changes have led to discontinuities with the previous time-series.

Figure 4 shows that for students who met the UE requirement, the likelihood of progressing to bachelors-level study is most strongly predicted by how well they achieved at school. However, the decile of the last school a student attended also matters. School decile makes little difference in the likelihood of progressing to bachelors-level study among students with low levels of achievement. But for students with average, or above average school achievement, those from schools with lower-decile ratings have significantly lower likelihoods of progressing to bachelors-level study.

Figure 4 Expected probability of studying at bachelors level by school decile and school achievement



Source: Ministry of Education.

Notes:

1. Figures are based on students who met the university entrance requirement and progressed directly to tertiary study after leaving school.
2. Where confidence limits do not overlap, there is at least a 95 percent certainty that the means in question are statistically different.
3. The vertical axis starts at 0.5.
4. Vertical bars display the 90 percent confidence limits for each expected probability.

The Ministry of Education's analysis of access to tertiary education suggests that, when we control for the level of school achievement, those from low decile schools are less likely to undertake higher-level study. This implies that socio-economic factors contribute not only to the decision to undertake study, but also to the level of tertiary study undertaken. These findings suggest that, while the student support system may have reduced barriers to tertiary education, there are non-financial reasons that reduce the likelihood of students from low socio-economic backgrounds undertaking tertiary study.

Funding tertiary education

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

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

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

Table 1 Government financial support for tertiary study 1997/98-2009/10

Fiscal year	Student allowances $ million	Tuition subsidies $ million	Student loans $ million	Total $ million	Total as a % of Gross Domestic Product
1997/98	344	1,052	652	2,047	2.0
1998/99	378	1,098	618	2,095	2.0
1999/2000	375	1,084	702	2,161	1.9
2000/01	391	1,210	867	2,469	2.1
2001/02	401	1,382	935	2,717	2.1
2002/03	387	1,574	952	2,913	2.2
2003/04	380	1,714	997	3,091	2.1
2004/05	359	1,690	969	3,018	2.0
2005/06	354	1,794	1,046	3,194	2.0
2006/07	382	1,907	1,176	3,465	2.0
2007/08	386	2,111	1,201	3,697	2.0
2008/09	444	2,223	1,350	4,017	2.2
2009/10	570	2,364	1,525	4,459	2.4

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

Notes:

1. The tuition subsidy amount for 2009/10 is provisional.
2. Student allowances are before tax or gross amounts.
3. Tuition subsidies include appropriations to the Performance-Based Research Fund, for provider capability and Adult and Community Education.
4. Student loan amounts are capital amounts.
5. Funding is GST exclusive.

As Table 1 shows, expenditure on tuition subsidies, student allowances and student loans was 2.4 percent of the country's gross domestic product in the 2009/10 fiscal year. The increase in this figure in 2009/10 is more a result of a contraction in gross domestic product due to the recession, than a result of increased spending by government.

Tuition subsidies ensure the cost of tertiary education is shared between government and students. Because they are *partial* subsidies, tuition subsidies enable government to provide funding for more students than would otherwise be possible, and therefore expand participation. The investment in tertiary education by way of subsidies is an acknowledgement by government that tertiary education has public benefits and also confers benefits on individuals. This is because:

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

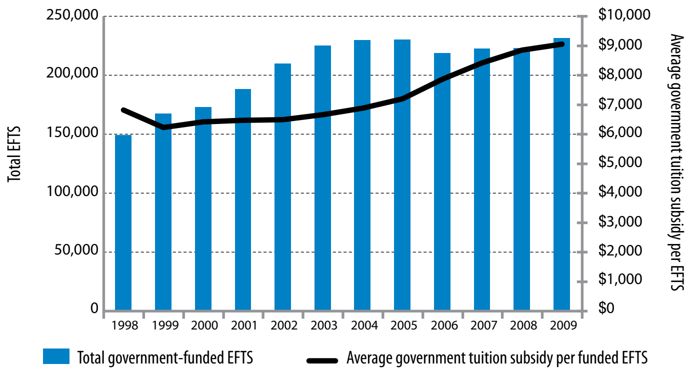
Many individuals, however, do not have the financial resources to meet their share of the costs of tertiary education at the time of study. The loan scheme enables those students to meet these costs by allowing them to pay their share over time.

The share of the total costs of tertiary education borne by students rose from 26 percent in 1998 to 32 percent in 2000, but fell back to 26 percent by 2009. In the 2009/10 fiscal year, $2,364 million in tuition subsidies[9] was allocated to tertiary education providers, compared with $1,084 million in 1999/2000.[10] The decrease in the share of the total cost borne by students is a result of the introduction of government policies to restrict the rate of growth in tuition fees, and higher subsidy rates.

Starting in the late 1990s, there were significant increases in the participation rates in tertiary education. This began to flatten in 2004. In 2006 there was a reduction in the number of government funded enrolments (on an equivalent full-time student basis). This was partly in response to government moves to strengthen the relevance and quality of tertiary provision at certificate and diploma level, which led to a reduction in numbers in some qualifications. As can be seen in Figure 5 though, over the period from 1999 to 2009 the number of government-funded student places (measured in equivalent full-time student units) in formal education increased by 33 percent, from 167,000 to 231,000.

Over the same period, the average tuition subsidy rate (the funding per equivalent full-time student) increased by 46 percent for tertiary education organisations. However, tertiary education organisations enrolled a significant number of unfunded students in 2009 as a result of increased demand caused by the recession. In 2009, there were 251,000 equivalent full-time students enrolled in tertiary education organisations, 20,000 equivalent full-time students more than the 231,000 government-funded student places. As a consequence, the average tuition subsidy per actual equivalent full-time student fell by 1.2 percent in 2009.

Figure 5 Total government-funded equivalent full-time student (EFTS) places and average funding per equivalent full-time student in public tertiary education organisations



Source: Ministry of Education and Tertiary Education Commission.

Notes:

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

The Organisation for Economic Co-operation and Development (OECD) compares the expenditure on tertiary education across most developed countries.[11] The tertiary education sector as reported in OECD comparisons excludes enrolments in level 1 to 4 certificates and hence represents only about 50 percent of the students measured in New Zealand education statistics. For this reason, the international comparisons that follow reflect New Zealand's investment in the higher tertiary education sector only.

The New Zealand Government spends above the OECD average on higher tertiary education, expressed as a percentage of gross domestic product. In 2007, New Zealand ranked sixth among OECD countries, with spending at 1.7 percent of gross domestic product. This compared with the OECD country average of 1.2 percent.

Table 2 shows the distribution of government expenditure on tertiary education. In 2007, financial support for students accounted for 39.6 percent of government spending on tertiary education in New Zealand, the third highest of all OECD countries. OECD countries spend, on average, 19.5 percent of their public budgets for tertiary education on financial aid to students. This high proportion in New Zealand is intended to maintain the diversity and open access of the New Zealand tertiary education system by providing students with access to tertiary education, regardless of their financial situation.

It should be noted that a proportion of the financial aid to students goes directly to institutions. For example, around 62 percent of student loan borrowing by students is for the purpose of paying tuition fees. If this is taken into account, then around 22.2 percent of government expenditure goes directly to students in the form of financial aid and around 77.8 percent goes directly to institutions, including fees paid from student loan accounts.

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

10 Tuition subsidies are exclusive of GST.

11 In all OECD international comparisons, tertiary education is defined according to the International Standard Classification of Education level. The levels of tertiary education include levels 5A (bachelors, honours, masters, postgraduate certificates and diplomas), 5B (diplomas, national diplomas) and 6 (doctorates). The classification level 5A is called tertiary-type A education by the OECD. Classification level 5B is called tertiary-type B. In New Zealand, tertiary education has traditionally been measured as formal study, regardless of classification level.

Table 2 Distribution of government spending on tertiary education in 2007

	Institutions	Financial aid to students	
		Student loans	Scholarships/ Other grants
New Zealand	60.4%	28.0%	11.6%
OECD average	79.0%	8.8%	11.4%

Source: OECD, *Education at a Glance 2010: OECD indicators*, Table B5.3.

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

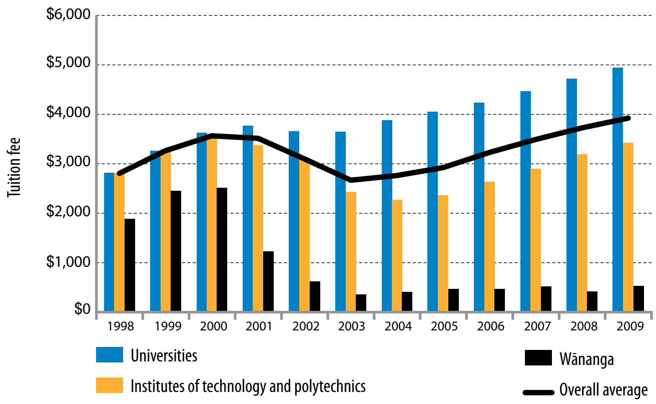
Costs and cost sharing in tertiary education

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

From 2001, government introduced policies aimed at stabilising fees, and between 2001 and 2003 the average fee per equivalent full-time student fell by 24 percent (from $3,513 to $2,664). The extent of the fall in average fees from 2001 to 2003 was magnified by several polytechnics and wānanga reducing their fees for some qualifications to zero during this time. The average fee per equivalent full-time student then increased by 42 percent (from $2,759 to $3,723) between 2004 and 2009. Some of this increase was caused by a fall in the proportion of students in low-cost courses, especially in wānanga and institutes of technology.

Figure 6 shows the trends in average tuition fees per equivalent full-time student in universities, institutes of technology and wānanga and the overall average fee, for the years 1998 to 2009.

Figure 6 Average domestic tuition fee per equivalent full-time student in tertiary education institutions by provider type



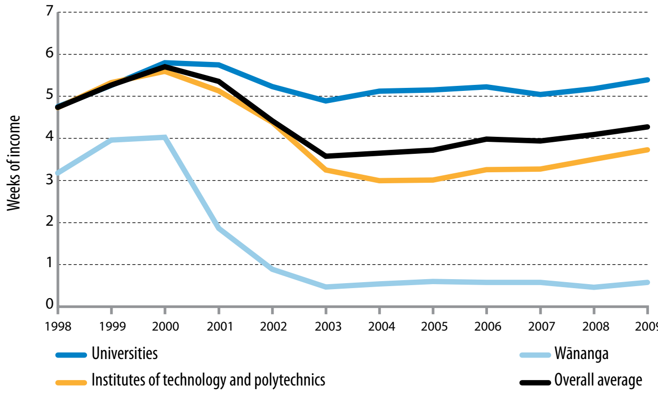
Source: Ministry of Education and Tertiary Education Commission.

Notes:

1. Auckland University of Technology and Wellington Polytechnic are treated as universities for the entire period.
2. Data for the colleges of education is included in the university sub-sector as all colleges of education are now merged with universities.
3. Fees include GST.
4. The trends in the institutes of technology and polytechnics and wānanga during the period 2000 to 2004 are influenced by the number of courses with zero fees offered in those sub-sectors.

Although average tuition fees have risen, tertiary education has become more affordable since 2000 as a result of the introduction of fee stabilisation in 2001 and the fee and course costs maxima which replaced this in 2004. For example, in 2000 the average full-year, full-time tuition fee at a university was equivalent to 5.8 weeks' average weekly income for the employed.[12] By 2009, this was equivalent to 5.4 weeks' average weekly income. This is demonstrated in Figure 7 below. The reduction in affordability in 2008 and 2009 is partly a result of slower growth in average weekly incomes due to the impact of the recession.

Figure 7 Ratio of the average domestic student tuition fee at tertiary education institutions to the average weekly income of the employed



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

Notes:

1. Auckland University of Technology and Wellington Polytechnic are treated as universities for the entire period.
2. Data for the colleges of education is included in the university sub-sector as all colleges of education are now merged with universities.
3. Fees include GST.
4. The trends in the institutes of technology and polytechnics and wānanga during the period 2000 to 2004 are influenced by the number of courses with zero fees offered in those sub-sectors.

1.2 The student support system

The student support system has two main components, the Student Loan Scheme and the Student Allowances Scheme,[13] both of which provide direct funding to students. Currently, all New Zealand students enrolled in approved qualifications[14] can access the loan scheme,[15] whereas student allowances are only available to students who meet income-based and age-related eligibility criteria.

Principles of the student support system

A number of principles underpin student support policies. These are:

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

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

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

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

15 As part of Budget 2010, student loan eligibility was tightened. For details see chapter 1.4 Student support changes in Budget 2010.

How the student support system compares internationally

New Zealand's student support system is in line with that of comparable overseas countries. In countries that belong to the OECD, apart from some European countries that charge no fees or very low fees, tuition fees charged for tertiary education are comparable with those charged in New Zealand. New Zealand tuition fees for bachelors-level and above courses are lower, on average, than those charged by most OECD countries including Australia and the United Kingdom.[16]

In addition:

- income-tested allowances are available for students from low- to middle-income backgrounds
- the loan scheme offers more protection to lower-income earners than some other international schemes (e.g. those with fixed repayment plans such as in Canada or the USA) as repayments are based on income for those who remain in New Zealand
- the typical student loan repayment time, compared with those of other income contingent loan schemes, is relatively low[17]
- the interest-free student loan policy means the loans of borrowers living in New Zealand will not increase.

1.3 The Student Loan Scheme

How the Student Loan Scheme fits into the wider tertiary system

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

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

The introduction of a performance element to the Student Loan Scheme from 1 January 2011 will also support the Government's broader focus on improving academic performance standards across the tertiary sector.

Shared responsibility

Six government agencies have an interest in the Student Loan Scheme – the three agencies that manage the scheme (the Ministry of Education, the Ministry of Social Development and Inland Revenue) plus the Tertiary Education Commission, the New Zealand Qualifications Authority and Statistics New Zealand.

- The Ministry of Education provides advice to government on tertiary education strategy and policy, funding for tertiary education and quality assurance and monitoring.
- The Ministry of Social Development, through its StudyLink service, provides information on student support entitlements, assesses applications for student support, and makes student support payments.
- Inland Revenue manages the collection of loan repayments through the tax system, applies interest write-off policies, provides information on loan repayments, and provides customer service through contact centres and online portals.
- The Tertiary Education Commission approves courses and qualifications for eligibility for funding and for access to student loans and allowances.
- The New Zealand Qualifications Authority provides quality assurance of qualifications and tertiary providers – a prerequisite for access to loans and allowances.
- Statistics New Zealand manages the integrated dataset on student loans and allowances.

1.4 Student support changes in Budget 2010

Some major changes to student support policy were announced in 2010, covering both the Student Loan Scheme and the Student Allowances Scheme. This section provides an overview of the announced policy changes and information on when they take effect.

Assessment of academic performance

From 1 January 2011, students who borrow under the Student Loan Scheme and have completed 1.6 equivalent full-time student (EFTS) units will have their academic performance assessed to determine their continued eligibility for loans. To remain eligible to borrow under the scheme, students must have passed at least 50 percent of their course load (measured in EFTS). Performance will be assessed for all future applications; however assessment will be based on a rolling five-year period so poor performance during earlier study will not affect eligibility later on. Assessment of academic performance will begin with courses ending in 2009 and later.

Life-time limit on access

The Government introduced a life-time limit on access to the loan scheme of 7 EFTS units, the count of which will begin with study that commenced on or after 1 January 2010. A year of full-time study normally equates to between 0.8 and 1.2 EFTS units, so the 7 EFTS life-time limit will allow students to access the loan scheme to complete study over a period of approximately seven years. To ensure that students are able to complete their study, provision of additional EFTS entitlements will be available in certain circumstances.

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

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

Students approaching the 7 EFTS limit who are close to completing a qualification will be able to enrol and complete a further course that will take them over the limit. There will also be a further additional entitlement of up to 3 EFTS to undertake doctoral study and 1 EFTS to complete other postgraduate courses. A borrower may receive an extra entitlement under each of these exceptions only once, and with a maximum possible life-time entitlement of 10 EFTS in total.

Stand-down period

From 1 January 2011, permanent residents of New Zealand and Australian citizens will be subject to a two-year stand-down period before becoming eligible to access the loan scheme. People who are granted residence under refugee policy will be exempted from the two-year stand-down. This exemption will also extend to people who are sponsored into New Zealand by a family member who was granted residence on the basis of their refugee status.

Administration fees

Changes to the student loan fee structure will be introduced. The StudyLink student loan establishment fee (formerly known as the administration fee) will increase from $50 to $60. This policy will be implemented for every new loan account that is established from 1 January 2011. An annual Inland Revenue administration fee of $40 will be introduced. The Inland Revenue fee will not be charged if a StudyLink loan establishment fee has been charged in the same tax year. Inland Revenue will charge the administration fee at the end of the tax year, with the first fee being charged on 31 March 2012 for the 2011/12 tax year.

Student allowances regulations

A number of changes to the Student Allowances regulations were announced, effective 1 January 2011:

- Student allowance eligibility for study at secondary school will be limited to a total of 92 weeks (or two school years). Students will continue to be eligible for a Student Allowance with a life-time limit of 200 weeks while undertaking tertiary study.
- The exemption to the general student allowances life-time limit for tertiary transition courses will be removed.
- A provision (Regulation 20(5)) that allows the Chief Executive of the Ministry of Social Development to grant an exemption to the 200 week life-time limit for student allowances for a particular course will be repealed.
- Students who receive either New Zealand Superannuation or a Veteran's Pension will no longer be eligible to benefit from a student allowance.

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

CHAPTER TWO:

Student Loan Scheme Outcomes

2.0 Introduction

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

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

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

The loan scheme contributes to tertiary education outcomes by:

- providing finance that puts tertiary education within the reach of all New Zealanders
- helping people to gain qualifications that are of high quality and therefore improve their quality of life, employment opportunities and income prospects
- sharing the costs of tertiary education appropriately between government, students and their families
- targeting the costs of tertiary education appropriately – so that the level of loan repayment is dependent on financial ability.

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

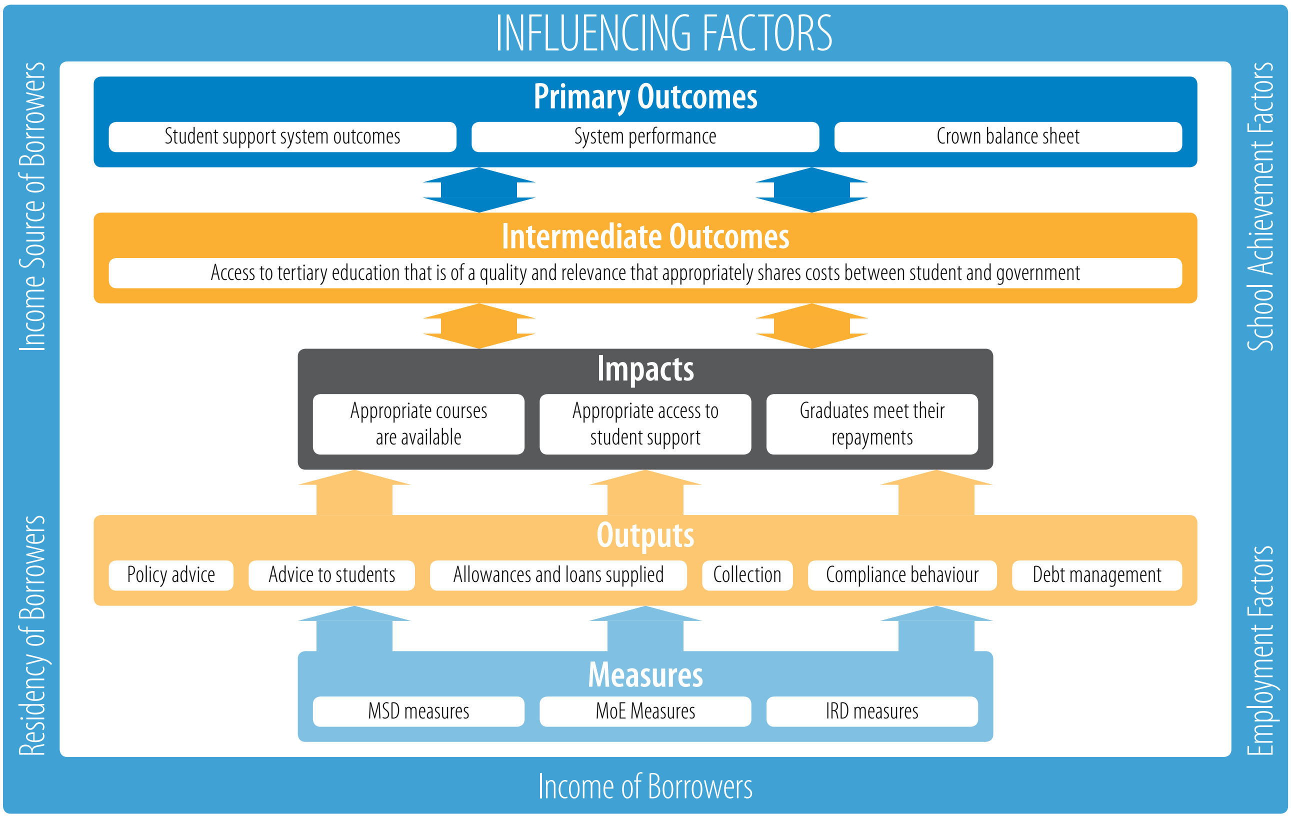
2.1 Understanding the Student Loan Scheme outcomes framework

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

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

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

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



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

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

The agencies monitor at three levels:

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

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

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

2.2 Tertiary education system outcomes

The tertiary education system contributes to society by helping people gain the skills and the qualifications that are valued by employers. Research and analysis[18] have shown that qualifications gained in the New Zealand tertiary education system lead to greater earnings. This obviously benefits the individuals with those qualifications. But it also indicates that employers value the skills acquired during tertiary study. The premium paid for those with qualifications is an indicator of the acquisition of *human capital* and therefore the extent to which our student support system and the tertiary education sector contribute to our national economic development.[19]

And tertiary education lifts social outcomes – those with tertiary education have higher living standards and better outcomes in a number of areas.

The Student Loan Scheme contributes to those outcomes by providing access to tertiary education and hence to qualifications. It does this by reducing the barriers that would exist if people had to meet the costs of their study upfront.

Qualifications

In chapter 1, we reported that enrolments in 2009 were 86 percent higher than in 1994. As enrolments in tertiary education have risen, so has the number of people completing tertiary qualifications. Data from Statistics New Zealand's Household Labour Force Survey shows a steady rise in the number of people in New Zealand holding tertiary qualifications, especially at degree level. In 2009, one in two New Zealanders held a tertiary qualification, up from 44 percent in 1999, while the proportion with a bachelors degree rose from 10 percent to 17 percent.

Economic benefits

Household Labour Force Survey data shows that those who complete a bachelors degree or higher earn, on average, more than 2.5 times the amount that someone without qualifications can expect to earn. Statistics from the integrated dataset on student loans and allowances show that employers pay a premium for completed qualifications.

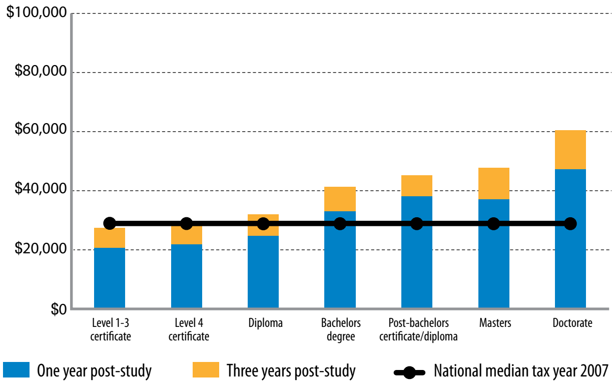
A study of the premium paid by employers to recent young graduates shows that there is a clear earnings advantage to those with qualifications, that this advantage emerges soon after graduation and that it grows over time. Figure 8 shows the median earnings for young students who completed a qualification and left study in 2003 (around 118,000 domestic students). The research conducted focused on a subgroup of these leavers whom we have called 'young leavers'.[20] They represent the students who moved to tertiary education more or less directly after school and who were more likely to be completing their tertiary education for the first time, and entering the labour market for the first time. Education is likely to have more of a direct influence on earnings for young leavers than it is for older students, who perhaps already hold qualifications or have a number of years of work experience.

18 Scott, D. (2009) *What do students earn after their tertiary education?* Wellington: Ministry of Education and Statistics New Zealand; Smart, W. (2006) *Outcomes of the New Zealand tertiary education system – a synthesis of the evidence*, Wellington: Ministry of Education; Nair, B. (2007) *Measuring the returns on investment in tertiary education three and five years after study*, Wellington: Ministry of Education; Maani, S. & Maloney, T. (2004) *Returns to post-school qualifications: new evidence based on the HLFS Income Supplement (1997-2002)*, Wellington: Department of Labour.

19 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.

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

Figure 8 Median earnings for young students who completed a qualification and left study in 2003



Source: Scott, D. (2009) *What do students earn after their tertiary education?* Ministry of Education and Statistics New Zealand.

Figure 8 shows that the higher the qualification, the higher the expected earnings. The graph shows that:

- the median earnings of bachelors graduates was above the national median earnings in the first year after study
- those with diplomas and level 4 certificates reached the national median by the third year after study
- three years post-study, the median earnings of young bachelors degree graduates were 51 percent higher than those who completed level 1 to 3 certificates, and 30 percent higher than diploma completers
- the median earnings of young masters degree graduates were 16 percent higher than those of young bachelors degree graduates three years post-study
- young doctorate completers earned 46 percent more than bachelors degree completers three years post-study.

The median earnings of young graduates grew by around 30 percent after three years. By comparison, the national median grew by 8 percent between tax years 2005 and 2007.[21]

Social outcomes

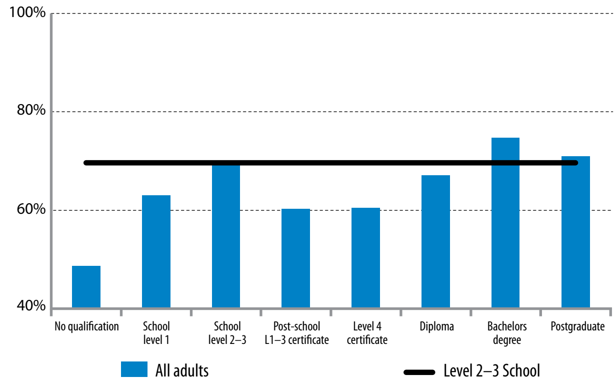
In addition to the economic benefits of education, there is also a range of non-economic benefits associated with having a higher qualification. New data from Statistics New Zealand's General Social Survey gives an idea of some of the broader benefits that flow from having a higher educated population.

Higher levels of education were:

- strongly associated with: higher household income, better health status, and not being a smoker
- moderately associated with: higher rates of employment, better economic standard of living, greater levels of tolerance, and higher levels of volunteering and voting.

Figure 9 shows the relationship between self-rated overall health status and highest level of qualification. This relationship is mirrored in the relationship between education and likelihood of being a regular smoker. Those with a bachelors degree are 5 percent more likely to rate their health as very good or excellent, and 8 percent less likely to be a regular smoker, than those with a level 2-3 school qualification.

Figure 9 Percentage of 25 to 64 year olds who rated their health as very good or excellent by level of qualification



Source: Scott, D. (2010) *Social and economic indicators of education*, Ministry of Education.

Note: The vertical axis starts at 40%.

In *Education at a Glance 2005*, the OECD reported that there are three key routes through which higher levels of education can affect people's health.[22] Firstly, those with higher levels of education generally have lower levels of unemployment and therefore avoid some of the physical and mental health issues associated with this state. In addition, the higher incomes associated with higher levels of education can result in better access to health care and avoid stresses involved with financial insecurity.

Secondly, individuals with higher levels of education can make better-informed decisions about their health care – such as choosing not to smoke.

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

University of Otago researchers have also found that those with tertiary qualifications have improved mortality.[23]

In a review of a number of New Zealand and overseas studies of the relationship between health and education level, a Treasury study[24] concluded that they suggest that higher-level education leads to better mental and physical health outcomes.

2.3 System performance

While the loan scheme is only one of several factors affecting the level of participation in tertiary education in New Zealand since 1991, its introduction has enabled the government to share the costs of funding tertiary education and hence provide funding for more places in tertiary education organisations. Without this funding, many providers would have needed to limit entry to courses.

Since 2000, the government has shifted the balance between the share of the full cost of tertiary education borne by students and their families and the share paid by government. In 2000, students paid 32 percent of the full cost through their tuition fees. However, as a result of fee stabilisation policies, this figure has fallen since then, reaching 26 percent in 2009.

While the government's share was nominally 74 percent in 2009, in practice it is larger than that. This is because much of the student share is met through borrowing through the Student Loan Scheme to pay compulsory fees. There is an implicit government subsidy in that component of the student's share.

21 Scott, D. (2009) *What do student earn after their tertiary education?* Wellington: Ministry of Education and Statistics New Zealand. www.educationcounts.govt.nz.

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

23 Atkinson, J. (2005) *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.

24 Johnston, G. (2004) *Healthy, wealthy and wise? A review of the wider benefits of education*, Wellington: The Treasury.

Discounting for that subsidy, the government's share rises to 84 percent.

One way that students meet their share of the costs of tertiary education is through paid work during the year. In its triennial survey of student income and expenditure, the New Zealand Union of Students' Associations[25] reported that full-time students work an average of 14 hours a week. This is comparable with the numbers of hours worked in some other countries such as the United Kingdom[26] and the United States.[27]

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

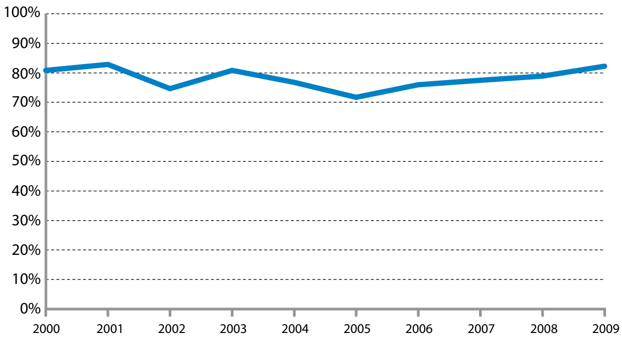
Borrowing behaviour

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

A useful way of looking at borrowing behaviour is by considering uptake rates – the proportion of people eligible to take out a loan who actually do so.

As shown in Figure 10, the estimated uptake rate among full-time students rose to 81 percent in 2001 but ranged between 72 percent and 76 percent between 2003 and 2005. In 2006, it rose to 81 percent, but then fell to 77 percent in 2007, and reached 82 percent in 2009.

Figure 10 Student loan uptake rates for full-time students



Source: Ministry of Education and Ministry of Social Development.

Note: In 2010, the method of reporting student loan eligibility changed to better reflect the different combinations of study status of students over an academic year. Consequently, the figures used for student loan uptake rates in this report (both for the 2010 year and historically) differ from those reported in previous annual reports.

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

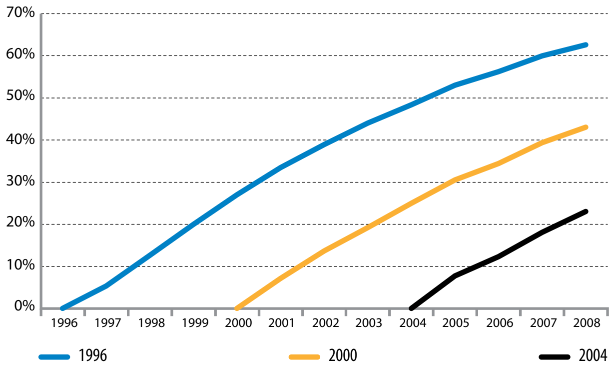
While the majority of loans are under $15,000, with 28 percent of loans less than $6,000, there is a very small number of very high loans. About 2,000 loan accounts with Inland Revenue – 0.4 percent of all accounts – were over $100,000 on 30 June 2010.

Repayment behaviour

The Student Loan Scheme gives people access to finance to allow them to gain qualifications and thus to improve their earnings prospects. Because repayments depend on people's earnings, one way of looking at the performance of the system is to look at rates of repayment of loans.

Figure 11 below looks at the proportion of people who had completely repaid their loans over the years for three cohorts of leavers since they left study.

Figure 11 Percentage of borrowers fully repaid in each year who left study in 1996, 2000 and 2004



Source: Statistics New Zealand, integrated dataset.

Notes:

1. The leaving cohorts are those who last studied in 1996, 2000 and 2004, had borrowed from the scheme, and had a student loan balance of $20 or more ($10 or more prior to 2007) at 31 March in the following year. Excluded are those who had repaid their student loan before 31 March in the year after leaving study.
2. Full repayment is deemed to occur when the student loan balance has fallen below $20 ($10 prior to 2007), and includes both tax non-resident and tax resident borrowers.

Of those who left in 1996, nearly two-thirds (63 percent) had completely repaid by the end of 2008 – 12 years after leaving study, while the proportion of the 2000 and 2004 cohorts of leavers who had completely repaid by the end of 2008 were 43 and 23 percent respectively.

The introduction of the interest-free student loans policy in 2006 and the changes made to the rules governing repayment by borrowers overseas have led to two changes in repayment behaviour. Firstly, it is less likely that people get into 'negative repayment' – a situation where the loan balance increases once borrowing has finished. In the past, those who took time out from the workforce or who went overseas would often see their nominal loan balance increase as base interest was added to their account, while their repayments had stopped. Secondly, there has been a fall-off in voluntary additional repayments since the introduction of interest-free loans. However, it is too early to detect the effects of these changes in Figure 11.

Looking to the future, the forecast median repayment time for those who left study in 2004 and who remain in New Zealand is 4.4 years. For all 2004 leavers, the forecast median repayment time is 6.6 years. There is more information on repayment time forecasts in chapter 3.

The OECD provides information on repayment rates in student loan schemes in some of its member countries. They report[28] that in 2004/05 the expected repayment time for a New Zealand bachelors graduate was significantly lower than the comparable figures for Norway, Denmark, Sweden, the Netherlands or the United States.

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

26 NatWest Student Living Index 2008.

27 US Bureau of Labor Statistics.

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

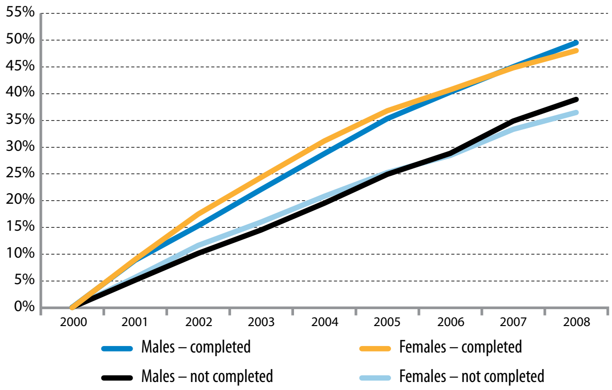
Impact on repayments

The loan scheme has a repayment threshold, so there is no repayment obligation for those whose income falls below the threshold, and the unpaid portion is written off on death. The loan scheme allows for the fact that some people may not be able to repay their loans, such as people who suffer illness or disability that reduces or removes their work opportunities. During this period of higher unemployment, resulting from the recession of 2008-2009, we expect that an increased proportion of borrowers will experience a period during which their income is below the repayment threshold. This is expected to lead to a reduction in repayment rates over the next few years.

It is evident from Figure 11 that, as time goes on, the number repaying in full increases each year, but at a decreasing rate. There are some borrowers who never succeed in repaying their loan completely and some who make no progress towards repayment over an extended period.

Figure 12 below shows that the probability of repaying a loan depends on whether the borrower has completed a qualification, but gender has little effect. While the differences between the repayment of loans by men and women are very slight, it is notable that women appear to repay a little more quickly in the first few years after leaving study but that men tend to catch up over time.

Figure 12 Percentage of borrowers who left study in 2000 who had completely repaid their loans by the end of 2008, by gender and completion status



Source: Statistics New Zealand, integrated dataset.

Notes:

1. The leaving cohorts are those who last studied in 2000, had borrowed from the scheme, and had a student loan balance of $20 or more ($10 or more prior to 2007) at 31 March in the following year. Excluded are those who had repaid their student loan before 31 March in the year after leaving study.
2. Full repayment is deemed to occur when the student loan balance has fallen below $20 (prior to 2007 the threshold was $10), and includes both tax non-resident and tax resident borrowers.
3. A student is deemed to have completed if he/she successfully completed a qualification in his/her last year of study.

It is perhaps surprising that women repay their loans as quickly as men, given that most studies on earnings in the labour market show that women tend to earn less than men with similar qualifications.[29] While there is no immediately obvious explanation for that trend, it is likely that there are two factors that influence this. The first is that women tend to borrow slightly less than men and therefore have less to repay than men.[30] The second is that women may be more debt-averse and so strive to repay more quickly.

Unintended outcomes

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

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

An analysis of those borrowers who last studied in 1997 showed that those who had made no progress at all in reducing the size of their loans in the 11 years to 31 March 2009:

- are more likely to have left study without completing a qualification – 34 percent had made no progress, compared with 21 percent of those who had completed their qualifications
- are more likely to have taken lower-level qualifications – 32 percent of those who studied below degree level had made no progress, compared with 24 percent who studied at bachelors level or higher
- are equally likely to be male and female – 30 percent of men had made no progress, compared with 28 percent of women
- are more likely to be Māori or Pasifika than of any other ethnic group – 38 percent of all Māori borrowers and 45 percent of Pasifika borrowers had made no progress, compared with 22 percent for those of European ethnicity.

Some surveys[31] have reported students as suggesting that their student loans may encourage them to go overseas after their studies and deter them from returning or that their loans may discourage home ownership or cause people to delay having children. As well, some have said that many people – especially women – may never repay their loans.

Around 40 percent of couple families comprising partners aged 18-24 have student loan debt. This falls to 30 percent among those aged 25-34 and to 10 percent at ages 35-44. The corresponding figures for mortgage debt are: 15 percent, 50 percent and 60 percent.[32]

The effects of loans on trends in child bearing, overseas travel and home ownership are difficult to trace. However, there is no statistical evidence that the presence of loans causes adverse effects in these areas.

A recent Australian study published in the *Journal of Population Research* looked at whether Australia's Higher Education Contribution Scheme or HECS – which has many similarities with student loans in New Zealand – has affected the birth rate in that country. The research compared university-educated women

29 See, for example, Maani, S. & Maloney, T. (2004) *Returns to post-school qualifications: new evidence based on the HLFS Income Supplement (1997-2002)*, Wellington: Department of Labour. Statistics New Zealand's releases of data from the integrated dataset also show that the advantage enjoyed by men in earnings tends to increase over time. See www.stats.govt.nz. However, there is evidence that higher qualifications tend to reduce the disadvantage that women experience, meaning that the return to women from higher qualifications is greater.

30 Note, however that in some years, especially before 1999, women often left study with a higher median loan balance – refer to Figure 30 on page 32 of this report. The higher leaving balance of women in some years may reflect the fact that women have achieved more in tertiary education and so tend to enter the labour market with better qualifications on average.

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

32 Legge, J. & Heynes, A. (2009) Beyond Reasonable Debt: A background report on the indebtedness of New Zealand families. *Social Policy Journal of New Zealand*, 35, Wellington: New Zealand Families Commission and New Zealand Retirement Commission.

with and without HECS debts yet similar in other significant ways. It found that falling fertility rates are not related to HECS. Further, evidence from countries that have no loans and that have very low tertiary tuition fees – such as France – shows that birth rates among women with tertiary qualifications have fallen. These two findings suggest that the factors that drive birth rates and the age of child bearing among women with tertiary qualifications are complex but that the presence of student loans is not a key factor.

A Ministry of Education statistical analysis[33] of the relationship between student loans and going overseas concluded that those who have larger loans are more likely to go overseas. But while the effect is statistically significant, it is very slight.

A recent statistical study by researchers from the Universities of Canterbury and Otago, using a longitudinal dataset, found that the presence of a student loan 'had little observable effect' on the subjects' mental health or residence in New Zealand.[34]

2.4 Trends in the value of the loan scheme asset

The Student Loan Scheme is a significant financial asset. The government agencies responsible for the scheme are expected to manage it in a way that protects that asset. The value of the scheme depends on a variety of factors. Firstly, the policies that govern the scheme affect its value. The loan scheme is intended as a cost-effective means of enhancing access to tertiary education and developing human capital. Repayments are conditional on the borrower having an income above a threshold, so that the level of an individual's repayment obligation depends on the level of their income. Loans are interest-free to those who remain in New Zealand.

The second group of factors affecting the value of the scheme is related to economic conditions in New Zealand. Rising incomes and employment will have a positive effect on repayments but in an economic downturn the impact will be negative. The prevailing rate of interest affects the Government's cost of borrowing to finance the loan scheme, so the discount rate that applies to the loan scheme value changes as interest rates change.

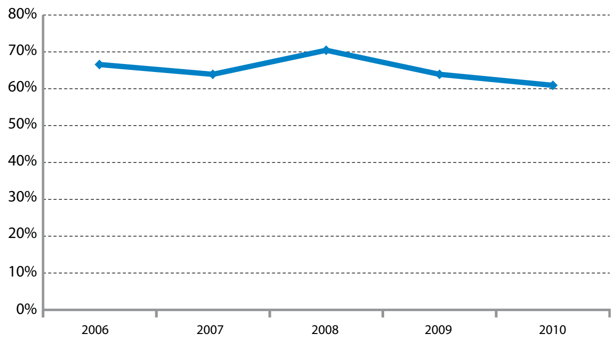
The third factor relates to borrower behaviour. If many borrowers choose to go overseas once they finish their studies, this affects the value of the scheme because it is more difficult to collect repayments. More detailed information about the impact of time spent overseas on loan repayment times can be found in chapter 3.3. Some borrowers also make payments in excess of their repayment obligation, or make payments even though they are not obliged to repay, for example if they are overseas and are on a repayment holiday. Incentives such as the repayment bonus play an important role in influencing borrower behaviour, but it is too early to draw firm conclusions about the impact of the repayment bonus at this stage.

Finally, the value is affected by how well the agencies manage their roles in the scheme. Refer to chapter 3.4, Agency performance, for more information on how the agencies' performance is measured.

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

On 30 June 2010, the value of the scheme in the Crown's accounts was 61 percent of the total amount of money on loan (which is called the nominal value). This is down from 64 percent in 2009, 70 percent in 2008, 64 percent in 2007 and 67 percent in 2006. This is shown in Figure 13 below.

Figure 13 Ratio of carrying value of the Student Loan Scheme to nominal value



Source: Student Loan Scheme Financial Statements.

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

2.5 Conclusion

The analysis of the longer-term outcomes of a policy such as the loan scheme is complex and it takes many years for trends to emerge. As the loan scheme matures and new data is added to the integrated dataset on student loans and allowances and as new research opportunities are explored, the agencies will be able to strengthen their analysis and expect to have a greater understanding of the long-term outcomes of the scheme.

Current research and analysis indicate that in the short term the loan scheme is a valuable tool in improving access to tertiary education for all New Zealanders. Through enabling greater access to the tertiary education sector, the loan scheme is increasing the proportion of the population with a higher education, and in turn contributing to raising both economic and social standards in New Zealand.

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

34 Kemp, S., Horward, J. & Fergusson, D. (2006) Student loan debt in a New Zealand cohort study, *New Zealand Journal of Educational Studies*, 41(2): 273-291, Wellington: New Zealand Council for Educational Research and New Zealand Association for Research in Education. This paper reports on a statistical analysis of the student loan characteristics of people in the Christchurch Health and Development Survey dataset. This is a longitudinal dataset with extensive family and academic information on people born in Christchurch in 1977. The study related the subjects' loan characteristics to their family and demographic characteristics.

CHAPTER THREE:
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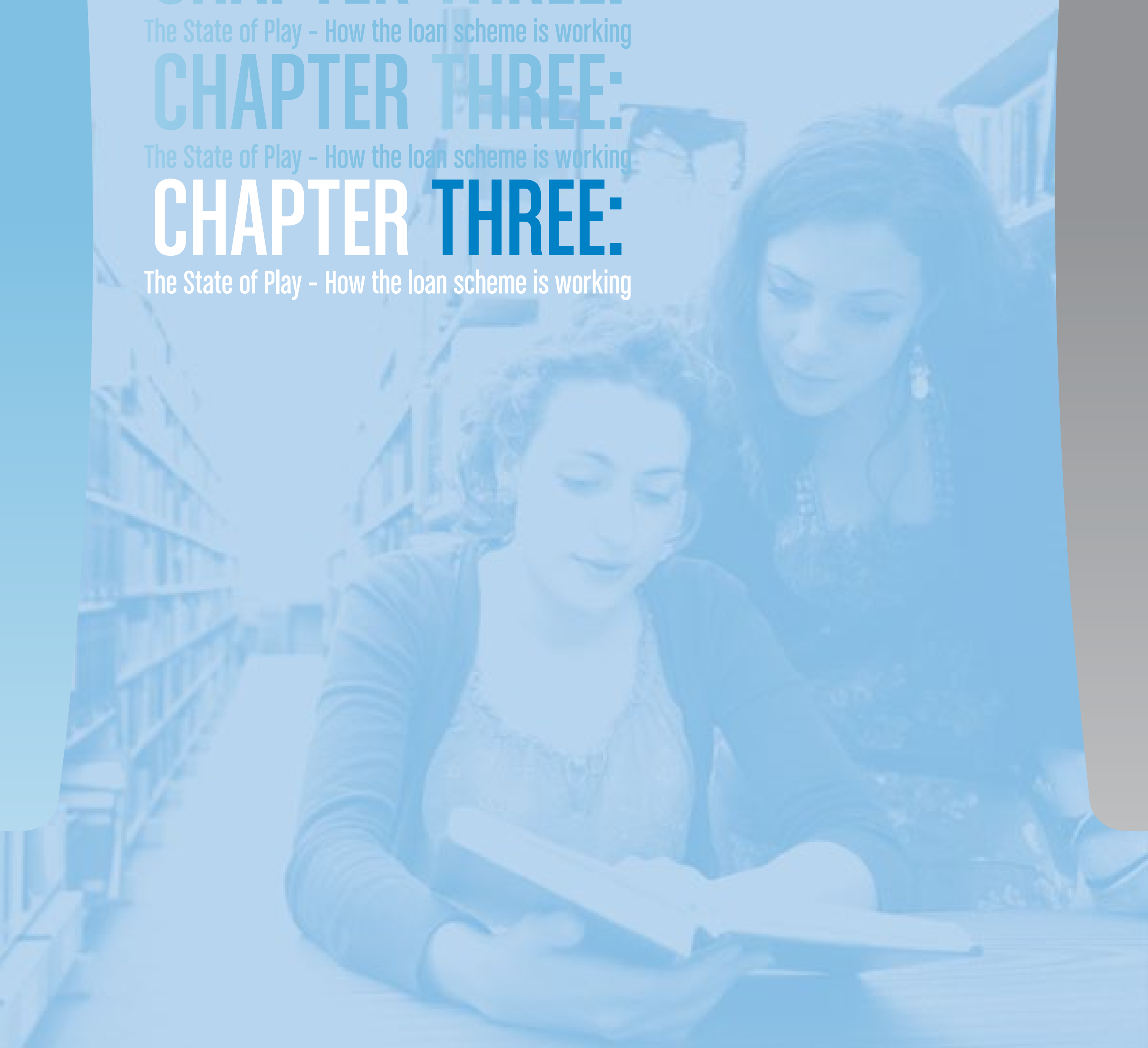


3.0 The loan scheme – an assessment of impacts

Fluctuations in the uptake of student loans are a good indicator of how changes to student support policy and social and economic conditions can impact borrowing behaviour. Participation in tertiary education by domestic students has declined since 2005, but despite this, the number of eligible students actually borrowing from the loan scheme has increased steadily over this period. The rise is largely due to the introduction of the interest-free loans policy from 2006 onwards.

The type of tertiary study undertaken and study status also affect the uptake of student loans. This is not only because of eligibility criteria, but also because full-time students have a higher financial burden to meet due to higher tuition fees, so have a greater propensity to access the loan scheme than part-time students.[35]

This chapter has information about:

- the students borrowing through the loan scheme in 2009 and the amounts they borrowed
- borrowers and their loan balances with Inland Revenue on 30 June 2010
- repayment rates and factors influencing repayment and collection
- how each of the three key agencies involved in managing the scheme has performed.

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

The information on borrowing is largely drawn from the Ministry of Social Development. Information on new borrowers up to 2008 is drawn from the integrated dataset maintained by Statistics New Zealand, while Inland Revenue has supplied data on the repayments and loan balances of all borrowers, including those who have left study.

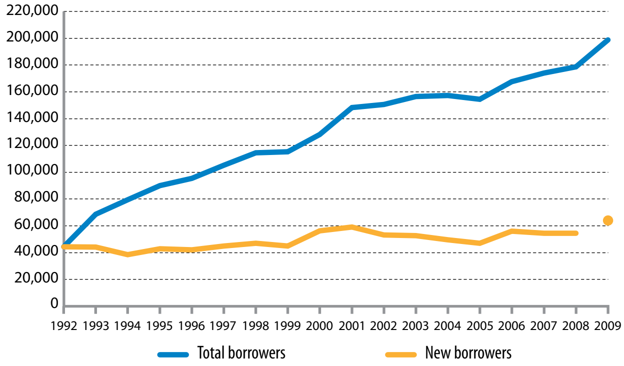
3.1 Amounts borrowed

Uptake and uptake rates in 2009

The overall number of people who have taken out a student loan since the scheme began is 894,000. This represents about 26 percent of the New Zealand population aged 15 or over.[36] In 2009, 199,000 students borrowed under the loan scheme, a substantial increase of 11 percent on the 179,000 borrowers in 2008. This increase can likely be attributed to the ongoing impact of the interest-free loans policy introduced in 2006 and the growth in overall student enrolments in 2009. Student loan borrowers in 2009 represented about 5.8 percent of the estimated population living in New Zealand aged 15 and over in 2009.

Figure 14 shows the growth in borrower numbers and in the number of new borrowers since 1992.

Figure 14 Student loan borrowers and new borrowers in each academic year

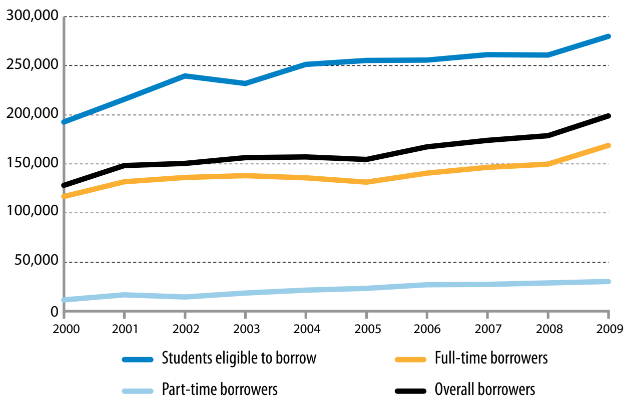


Source: Ministry of Social Development and Statistics New Zealand, integrated dataset.

Note: 2009 data on new borrowers was provided by the Ministry of Social Development and is provisional. A dot is used to distinguish this data from data provided by Statistics New Zealand from the integrated dataset, which does not yet include 2009 data. The two sets of data are derived from different datasets and therefore are not directly comparable.

Figure 15 shows the number of students eligible to borrow and, of those, the number who actually do so. This graph also provides the number of students who accessed the Student Loan Scheme broken down by full-time and part-time study status. Between 2000 and 2002 there was an increase of 47,000 students enrolled who were eligible for a student loan. This reflects the increase in enrolments after the introduction of the interest-free while studying policy in 2000. From 2005 to 2008, the number of students eligible for student loans remained stable with only a gradual increase each year; however, the actual number of full-time students borrowing from the scheme increased as a result of the 2006 interest-free loan policy. In 2009, there was a higher demand for tertiary education places resulting in a significant rise in the number of students eligible for a student loan. There were 280,000 eligible students in 2009, increasing from 261,000 in 2008. Of the 280,000 students eligible to borrow from the loan scheme in 2009, 199,000 did so.

Figure 15 Student loan uptake numbers



Source: Ministry of Social Development and Ministry of Education.

Note: In 2010, the method of reporting student loan eligibility changed to better reflect the different combinations of study status of students over an academic year. Consequently, the figures used for student loan uptake numbers in this report (both for the 2010 year and historically) differ from those reported in previous annual reports.

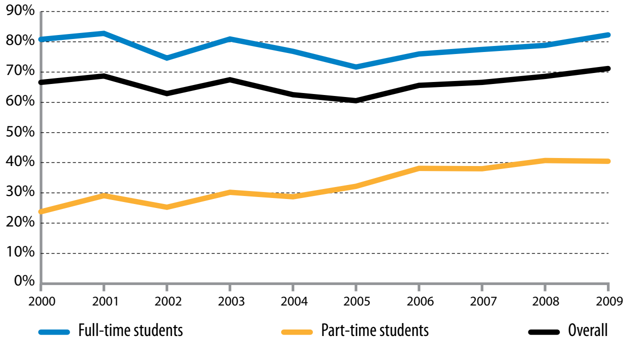
35 For more information on access to and participation in tertiary education in New Zealand refer to chapter 1.1.

36 Statistics New Zealand estimates that the population of New Zealand at 31 December 2009 who were aged 15 and over was 3.427 million.

Figure 16 presents the proportion of students eligible to borrow who do so. In 2009, the overall uptake rate was 71 percent of eligible students. This compares with 69 percent in 2008, 67 percent in 2007 and 66 percent in 2006. Rises in uptake rates are partly the consequence of changes to loan policy, but are also as a result of changing economic conditions. There was an increase in uptake in 2000 and 2001 after the introduction of no interest while studying and the 50/50 repayment rules,[37] and further increases from 2006 onwards due to the introduction of the interest-free loan policy.

While the rate of eligible full-time students accessing the loan scheme has gone from 77 percent in 2007 to 82 percent in 2009, there has been only minor growth since 2007 in the uptake rates of part-time students (from 38 percent in 2007 to 40 percent in 2009). A factor contributing to this is the policy introduced to align student support with funded qualifications, since 2007 students enrolled in qualifications that do not attract government funding do not qualify for student loans or allowances.

Figure 16 Student loan uptake rates



Source: Ministry of Social Development and Ministry of Education.

Notes:

1. Overall uptake rate reflects the mix of full-time and part-time borrowers.
2. In 2010, the method of reporting student loan eligibility changed to better reflect the different combinations of study status of students over an academic year. Consequently, the figures used for student loan uptake rates in this report (both for the 2010 year and historically) differ from those reported in previous annual reports.

New borrower characteristics

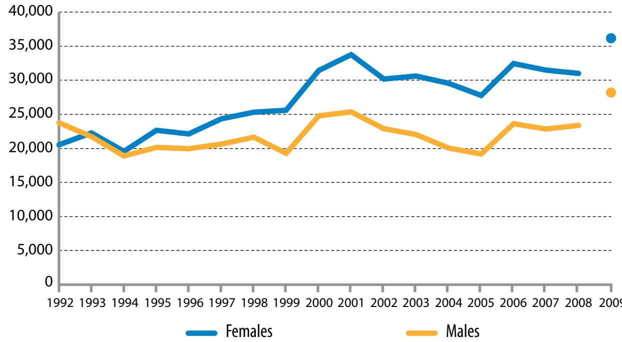
By looking at new borrowers it is possible to learn more about how the characteristics of those entering the loan scheme are changing over time. The term 'new borrowers' refers to people entering the loan scheme for the very first time. Figures 17, 18 and 19 present the gender, age and ethnic composition of new borrowers and Table 3 shows the average and median ages over time. Based on provisional data, the number of new borrowers in 2009 was about 64,200. New borrowers constituted 32 percent of all students borrowing through the loan scheme in 2009.

Gender

The gender composition of new borrowers shows that, other than in 1992 (the year the Student Loan Scheme was introduced), females have made up the greatest portion of new borrowers each year. In 2009, based on provisional data, of those entering the loan scheme for the first time, females represented 56 percent and outnumbered males by 7,940. From Figure 17 we can also see that although females have made up a larger proportion of student loan borrowers since 1993, both genders show similar fluctuations over time. This suggests that many of the factors that influence new borrowers entering the loan scheme have similar effects on both males and females.

One difference noted in recent years is that the number of males entering the loan scheme for the first time, although still lower, has been growing at a faster rate than for females. When looking at the period between 2005 and 2008 (interest-free loans were introduced in 2006) the uptake of loans by males for the first time increased by 22 percent (from 19,200 to 23,300), whereas the number of females borrowing for the first time increased by 12 percent (from 27,700 to 31,000).

Figure 17 New borrowers by gender



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

Note: 2009 data on new borrowers was provided by the Ministry of Social Development and is provisional. A dot is used to distinguish this data from data provided by Statistics New Zealand from the integrated dataset, which does not yet include 2009 data. The two sets of data are derived from different datasets and therefore are not directly comparable.

Age

Table 3 presents the average and median ages of new borrowers entering the scheme every year since it began. The average age of new borrowers increased from 23 years in 1992 to 26 in 1999. It has remained stable at 25 years since 2005. Over the last seven years the median age of new borrowers entering the scheme has remained at 20 years with the exception of 2008, when it dropped to 19 years.

Table 3 Average and median ages of new borrowers 1992-2009

Year	Average	Median	Number of new borrowers
1992	23	21	44,256
1993	23	21	43,965
1994	23	20	38,415
1995	24	20	42,735
1996	25	21	42,015
1997	25	21	44,928
1998	25	21	46,884
1999	26	21	44,841
2000	25	21	56,172
2001	26	21	59,028
2002	26	21	53,049
2003	26	20	52,587
2004	26	20	49,566
2005	26	20	46,917
2006	26	20	56,004
2007	25	20	54,315
2008	25	19	54,321
2009	25	20	64,200

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

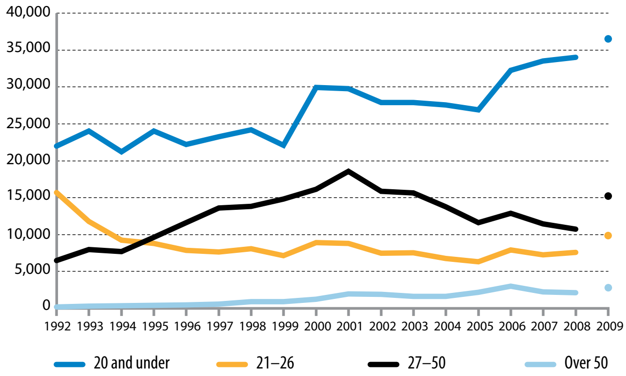
Notes:

1. 2009 data on new borrowers was provided by the Ministry of Social Development and is provisional. Data for previous years comes from the Statistics New Zealand integrated dataset. The two sets of data are derived from different datasets and therefore are not directly comparable.
2. All counts from the Statistics New Zealand integrated dataset have been randomly rounded to base 3.
3. Prior to 2009, age is calculated as at 1 July.

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

Figure 18 shows that new borrowers aged 20 years and under have consistently represented the largest number of new borrowers each year since the loan scheme began. In 1992 this age group represented 49 percent of new borrowers; by 2009, this increased to 57 percent. There was a significant increase in the uptake of student loans from 1999 to 2000 by the 20 and under age group, most likely resulting from changes to the loan scheme that abolished interest on loans for full-time, full year students and part-time or part-year students on low incomes. Between 2005 and 2006, there was a further increase, of around 5,370, in the number of new borrowers aged 20 and under. This rise was most likely the result of a number of factors, including the introduction of the interest-free loan policy in 2006, and changes in the school leaver eligibility in 2005, which made more school leavers eligible for university.

Figure 18 New borrowers by age



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

Notes:

1. 2009 data on new borrowers was provided by the Ministry of Social Development and is provisional. A dot is used to distinguish this data from data provided by Statistics New Zealand from the integrated dataset, which does not yet include 2009 data. The two sets of data are derived from different datasets and therefore are not directly comparable.
2. Prior to 2009, age is calculated as at 1 July.

The significant rise of new borrower numbers in 2009 brought changes in their composition. The 20 and under age group, although representing the largest proportion of new borrowers, accounted for 57 percent of all new borrowers in 2009, down from 63 percent in 2008. However, the proportion of new borrowers in all three other age groups increased, with the most significant rise seen in the 27-50 years demographic. This group increased in number by 42 percent (from 10,700 in 2008 to 15,200 in 2009), accounting for 24 percent of all new borrowers in 2009 (up from 20 percent in 2008). The overall change in proportions, and in particular the strong increase in new borrowers aged 27-50, is likely a result of the impact of the recession on the New Zealand job market, with many of those made redundant or unable to find employment choosing to study.

Ethnicity

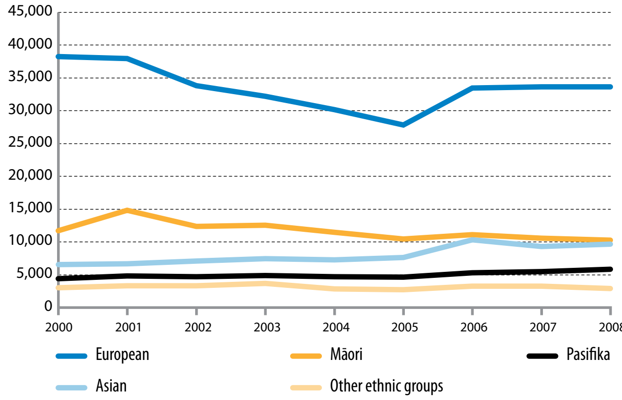
Students are a diverse demographic and this is reflected in the composition of those entering the loan scheme for the first time. Figure 19 illustrates the ethnic composition of new borrowers and changes in composition since 2000.[38]

Of new borrowers between 2000 and 2008:

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

The composition of new borrowers has remained relatively stable since 2006. In 2008, the only ethnic groups to show an increase in actual new borrower numbers were those who identified themselves as Pasifika (up approximately 6.3 percent on 2007) and those identifying as Asian (up approximately 3.7 percent on 2007).

Figure 19 New borrowers by ethnicity



Source: Statistics New Zealand, integrated dataset.

Notes:

1. At the time of the production of this report, 2009 new borrower ethnicities were not available.
2. Due to an error in source data the 2003 'Other ethnic groups' data has been taken from the 2009 report.
3. Counts of new borrowers are based on the first year of borrowing recorded on the Student Loan Accounts Manager, Ministry of Social Development or Inland Revenue system.
4. Students can be included in more than one ethnicity category; as a result, the sum of all the ethnicity counts will be greater than the total count of new borrowers.

Borrower characteristics

New borrowers provide just one snapshot of students accessing the loan scheme. To get a comprehensive understanding of how the loan scheme is being used and its performance over time, the borrowing trends and characteristics of all borrowers must be considered.

Study status

Before 2004, loan eligibility was restricted to those studying on a full-time basis and to part-time students studying for a full year. In 2004, eligibility to borrow tuition fees was extended to include part-time, part-year students studying a course load of 0.3 equivalent full-time student (EFTS) units or more. Further changes in 2005 also increased access to student loans. Under these changes, students whose study load was at least 0.25 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 current employment. In 2007, the vocational and employment criteria for student loan eligibility for part-time, part-year students undertaking a course load of between 0.25 and 0.3 EFTS units were removed, allowing more students to qualify for student loans.

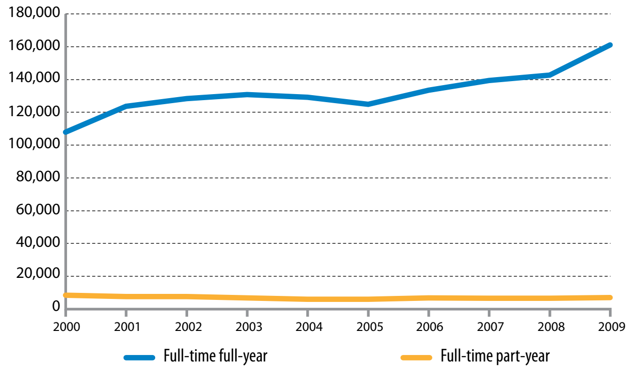
In 2009:

- approximately 49 percent of all domestic students were enrolled on a part-time basis, compared with around 45 percent in 2000
- 30,000 part-time students (40 percent) who were eligible to borrow did so
- 169,000 full-time students (82 percent) who were eligible to borrow did so.

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

Figures 20a and 20b present the number of borrowers by study status from 2000 to 2009. Figure 20a shows that the numbers of full-time, part-year students have remained comparatively stable from 2000 to 2009. Full-time, full-year student numbers steadily increased between 2005 and 2008. This is likely a result of the introduction of the interest-free student loan policy in 2006. In 2009 there was a sharp rise in borrowing by full-time, full-year students; this is due to the continued impact of the interest-free student loan policy, but can also be attributed to an overall increase in student enrolments leading to greater demand for loans.

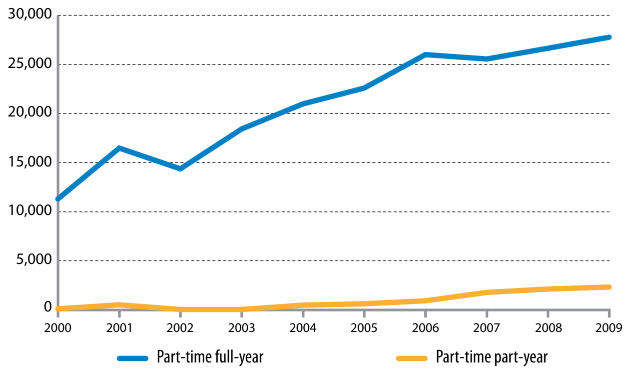
Figure 20a Borrowers with full-time study status



Source: Ministry of Social Development.

Figure 20b shows that the number of part-time, full-year borrowers increased markedly over the last seven years, from 14,300 in 2002 to 27,800 in 2009. The number of part-time, part-year borrowers has also increased significantly since 2004, from 490 in 2004 to 2,320 in 2009. This is mainly a result of policy changes aimed at increasing access to the Student Loan Scheme for part-time, part-year students.

Figure 20b Borrowers with part-time study status

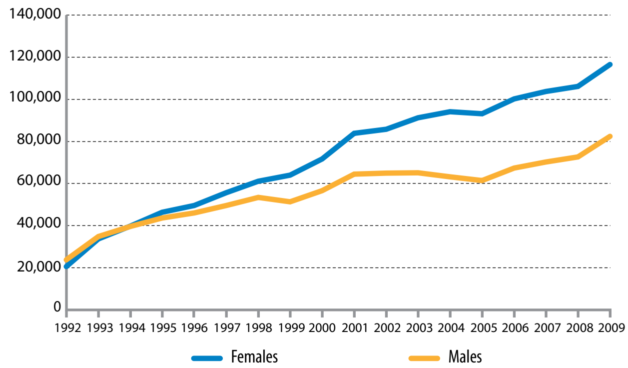


Source: Ministry of Social Development.

Gender

Figure 21 shows the number of all borrowers by gender since the loan scheme started. With the exception of 1992 and 1993, females have consistently outnumbered males as participants in the Student Loan Scheme. In 1992, there were 20,500 females accessing the student loan scheme, constituting 46 percent of all borrowers. This compares with 23,700 men. Between 1994 and 2005, women as a proportion of borrowers steadily increased from 50 percent in 1994 to 60 percent in 2005. Since 2005, the gender composition of borrowers has remained at around 60 percent women and 40 percent men. In 2009, the number of females accessing the Student Loan Scheme was 116,000 compared with 82,000 males.

Figure 21 Number of borrowers by gender



Source: Ministry of Education and Ministry of Social Development.

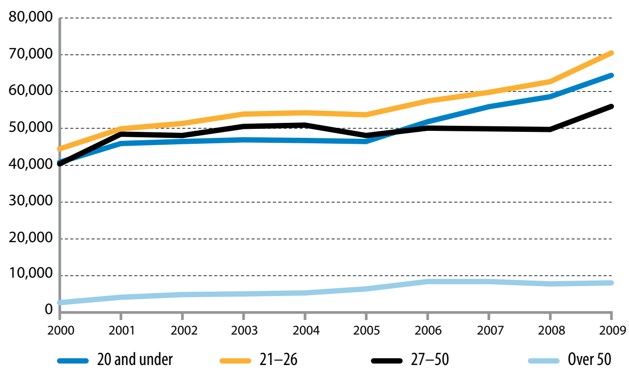
Age

Figure 22 shows the number of all student loan borrowers by age group for each year of borrowing since 2000. The age composition of borrowers reflects trends in tertiary enrolments and since 2000 tertiary education has experienced a general rise in enrolments. Between 2001 and 2005 borrower composition remained comparatively stable. From 2005, the composition changed, and in particular the proportion of young borrowers (those aged 26 and under) grew significantly. Two key factors contributing to this increase are the introduction of interest-free student loans in 2006, and the changes to the secondary school assessment system, which increased the number of young people qualified to enter university.

Between 2008 and 2009, the number of borrowers across all four demographic groups increased. The over-50 age group experienced only a slight increase in the number of borrowers, while the other three age groups all increased by 10 percent or more. The most significant increase occurred with the 27-50 years demographic, which grew by 12.7 percent, from 49,700 borrowers in 2008 to 56,000 in 2009. This was followed by the 21-26 age group, which increased in 2009 by 12.5 percent, growing from 62,600 borrowers in 2008 to 70,400 in 2009. The largest demographic, the 20 and under age group, increased 10 percent in 2009 to 64,400, from 58,500 in 2008.

In 2009, 68 percent (135,000) of all student loan borrowers were under the age of 27. Those borrowers aged 27 to 50 represented 28 percent (56,000) of borrowers. The over-50 age group totalled around 7,960 and constituted 4 percent of all borrowers.

Figure 22 Number of borrowers by age



Source: Ministry of Social Development.

Note: 2009 data is provisional.

Ethnicity

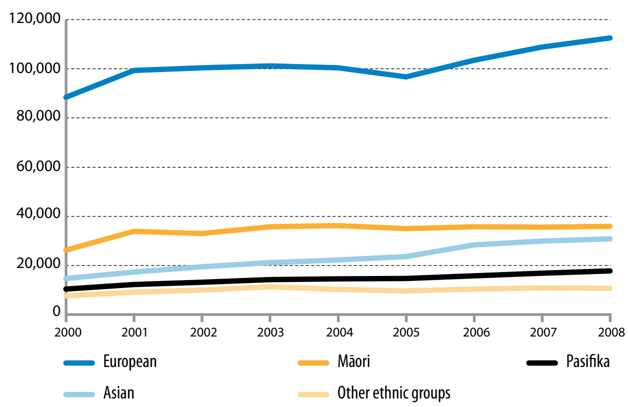
The ethnic composition of borrowers and changes in composition between 2000 and 2008 can be seen in Figure 23.[39]

Between 2000 and 2008:

- 55 percent of borrowers identified themselves as European
- 19 percent of borrowers identified themselves as Māori
- 13 percent of borrowers identified themselves as Asian
- 7.9 percent of borrowers identified themselves as Pasifika.

Rising student enrolments have brought increases in the number of borrowers in all ethnic groups. While students identifying as European still represent the largest proportion of all borrowers, there have been significant rises in the number of borrowers identifying as Pasifika and Asian. In 2008, 30,700 students identified themselves as Asian; this is an increase of 31 percent on the 2005 figure of 23,400 students. The 17,600 students identifying as Pasifika in 2008 was an increase of 21 percent on the 14,600 students in 2005.

Figure 23 Number of borrowers by ethnicity



Source: Statistics New Zealand, integrated dataset.

Notes:

1. At the time of production of this report, 2009 borrower ethnicities were not available.
2. Due to an error in source data the 2003 'Other ethnic groups' data has been taken from the 2009 report.
3. Students can be included in more than one ethnicity category. As a result, the sum of all ethnicity counts will be greater than the total count of borrowers.

Drawings

Total borrowing

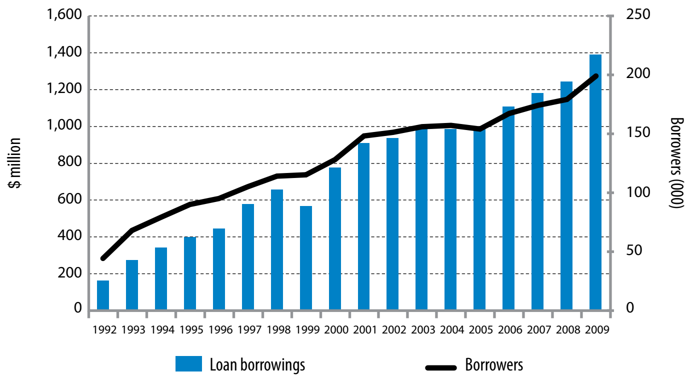
Since the loan scheme began, students have borrowed a total of $13,909 million. The total amount borrowed and the number of borrowers each year are shown in Figure 24. As the loan scheme developed and enrolments in tertiary education increased during the 1990s, the total amount borrowed per year grew significantly. This increase in the amount borrowed was also a consequence of the steady rise in fee levels over that period. In 1999, the amount that could be borrowed for course-related costs was reduced, leading to a fall in total borrowing that year. The following year that reduction was reversed. This contributed to a rise in total borrowing by 37 percent between 1999 and 2000 (from $566 million to $776 million).

From 2001 to 2005, the aggregate amount borrowed was relatively stable. There are three main reasons for this:

- The controls on fees since 2001 meant that fees, the largest component of borrowing, stabilised.
- Enrolment growth began to slow.
- Although there was an increase in enrolments by part-time students, they have smaller entitlements and are therefore more likely to finance their studies privately.

In 2006, the introduction of interest-free student loans for New Zealand-resident borrowers and some changes to the conditions for borrowers overseas contributed to an increase in the number of borrowers. From 2005 to 2006, the number of borrowers increased by 8.4 percent and the amount borrowed by 12 percent. Increased levels of enrolment in tertiary education in 2009 resulted in a significant rise in the number of students borrowing. The total number of students borrowing increased from 179,000 in 2008 to 199,000 in 2009 (an increase of 11 percent). These 199,000 students borrowed a total of $1,389 million from the loan scheme in 2009.

Figure 24 Total loan borrowings by year



Source: Ministry of Social Development and Ministry of Education.

Average and median borrowing

Figure 25 illustrates the average amount borrowed from 1992 to 2009 and the median amount borrowed from 2000 to 2009. The gradual increase recorded since 2005 in both the average and median amounts borrowed declined slightly in 2009, with only very minor rises of 0.5 percent and 1.7 percent respectively. In 2009 the average amount borrowed was $6,991, an increase of just $38 on the previous year. This compares with an increase of $161 (2.4 percent) from 2007 to 2008 and $182 (2.8 percent) from 2006 to 2007. The median amount borrowed in 2009 was $6,101, an increase of $101 from 2008.

The average amount borrowed showed a steady increase between 1992 and 1998, in part reflecting increases in student fees. As a result of a decrease in the maximum course-related costs entitlement from $1,000 in 1998 to $500 in 1999[40] and of other changes that restricted the purposes for which finance from the loan scheme could be used,[41] there was a decrease in average borrowing in 1999. Average borrowing increased again in 2000 when some of the changes in 1999 were rescinded (notably the reduction in course-related costs entitlement and the removal of the right to borrow compulsory student services levies and students' association fees).

The fee stabilisation policy[42] implemented in 2001 meant that tuition fees charged by most tertiary education providers have remained stable since 2001. Since 2004, fees have been regulated by the fee and course costs maxima

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

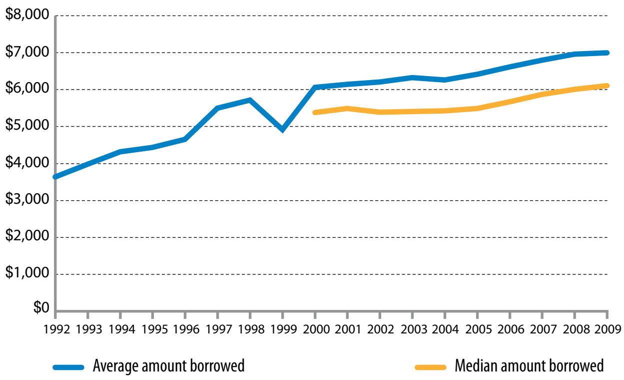
40 The entitlement was changed back to $1,000 in 2000.

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

42 See the glossary in appendix 2 for details of the fee stabilisation policy.

policy.[43] Under this policy, providers are permitted to increase fees, but only within strict limits. The introduction of interest-free student loans in 2006 and some growth in fees have contributed to a gradual increase in both the average and median amounts borrowed since 2005.

Figure 25 Average amount borrowed 1992-2009 and median amount borrowed 2000-2009



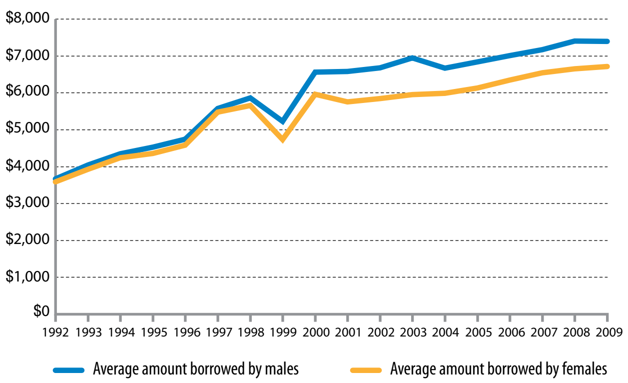
Source: Ministry of Social Development and Ministry of Education.

Note: The median amount borrowed was not calculated until 2000.

Gender differences

The average amount borrowed by gender per year is shown in Figure 26. Females have represented a larger portion of borrowers than males since 1995 (as shown earlier in Figure 20) but males have borrowed more on average each year since the introduction of the loan scheme in 1992. The trend of average amounts borrowed in Figure 26 tells us that many of the factors that influence the average amount borrowed have had similar impacts on both male and female borrowers. Both genders have experienced similar fluctuations in the average amount borrowed over time, although since 2000 there has been a pronounced trend for males to borrow more, on average, than females. This is thought to be due to the different behavioural responses of males and females to the introduction in 2000 of no interest while studying. It is interesting to note that in 2009 borrowing by males remained stable with the average amount borrowed by men being $5 less on average in 2009 than in 2008 (a decrease from $7,397 to $7,392). This is in comparison with a small increase of $57 (0.9 percent) in the average amount borrowed by females, from $6,649 in 2008 to $6,706 in 2009.

Figure 26 Average amount borrowed by gender and year



Source: Ministry of Social Development and Ministry of Education.

Loans by component

Most borrowers use the loan scheme to pay for the compulsory fees charged by the tertiary education provider. In 2009:

- 93 percent borrowed to pay fees
- 63 percent borrowed to help meet course-related costs
- 49 percent borrowed towards meeting their living costs
- 25 percent borrowed to pay fees only
- 66 percent of those eligible to borrow fees did so.

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

- Since 2000, the total amount drawn to pay for fees is 62 percent of all money drawn from the loan scheme. In 2009, money used to pay for fees was 64 percent of all money drawn in 2009.
- Since 2000, the total amount drawn to pay for course-related costs is 8.9 percent of all money drawn from the loan scheme. In 2009, money used to pay for course-related costs was 8.9 percent of all money drawn in 2009.
- Since 2000, the total amount drawn to pay for living costs is 29 percent of all money drawn from the loan scheme. In 2009, money used to pay for living costs was 27 percent of all money drawn in 2009.

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

Table 4 presents the average, median and total amounts drawn by loan components for the period 2000 to 2009. Over this period, the average amount borrowed to pay for fees increased by 25 percent, from $3,817 in 2000 to $4,766 in 2009.

43 See the glossary in appendix 2 for details of the fee and course costs maxima policy.

Table 4 Average and median amounts borrowed by loan component 2000–2009

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Course fees $										
Average	3,817	3,986	4,025	4,107	4,051	4,253	4,408	4,576	4,743	4,766
Median	3,690	3,807	3,787	3,792	3,906	4,068	4,230	4,455	4,618	4,744
Living costs $										
Average	3,410	3,472	3,617	3,745	3,770	3,824	3,839	3,866	3,875	3,815
Median	3,150	3,300	3,580	3,800	3,907	4,050	4,129	4,256	4,256	3,900
Course-related costs $										
Average	896	935	940	936	938	943	950	948	955	987
Median	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000

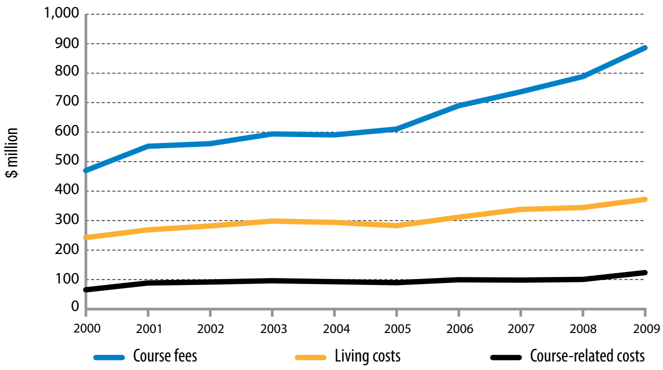
Source: Ministry of Social Development.

Students are entitled to borrow up to $1,000 for course-related costs. From 1 January 2009 to 31 March 2009, students could borrow up to $155 per week for living costs, less any student allowances they receive; this limit increased to $160.24 per week from 1 April 2009 to 31 March 2010. Since the beginning of 2007, fees can be borrowed for government-funded courses only.

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

The total amounts drawn for both living costs and course-related costs rose slightly in 2009. A number of factors might have contributed to these increases, including the general rise in student enrolments and the increase in the living costs entitlement.

Figure 27 Total amounts drawn by loan component



Source: Ministry of Social Development.

Living costs and allowances

The government helps students meet their living costs by providing student loans and student allowances. The two schemes are interconnected. For the 2009/10 tax year, full-time students could borrow up to $160.24 a week for living costs from the loan scheme, less any student allowances they receive. The maximum entitlement is adjusted annually for inflation on 1 April each year, and has increased to $163.38 for the 2010/11 tax year.

In 2009:

– 15 percent of all borrowers borrowed living costs under the loan scheme and also received student allowances; in 2008, this group was 13 percent of all borrowers

– 37 percent of people receiving student allowances used the loan scheme to supplement their living costs, compared with 35 percent in 2008.

Table 5 presents the number of living costs borrowers and recipients of student allowances, and the average living costs and allowances received in 2009.

Table 5 Student allowances compared with student loan living costs borrowings in 2009

	Number of students	Average allowances	Average living costs loan	Average allowances and living costs loan
Student allowances only	52,334	$6,930		$6,930
Student allowances and living costs loan	30,299	$5,855	$1,780	$7,635
Living costs loan only	66,930		$4,737	$4,737

Source: Ministry of Social Development.

On average, in 2009:

– those who received only student allowances received $6,930

– those who received student allowances *and* used the living costs entitlement under the loan scheme borrowed $1,780 from the loan scheme and received $5,855 in student allowances – meaning they were paid a combined total of $7,635 from both schemes

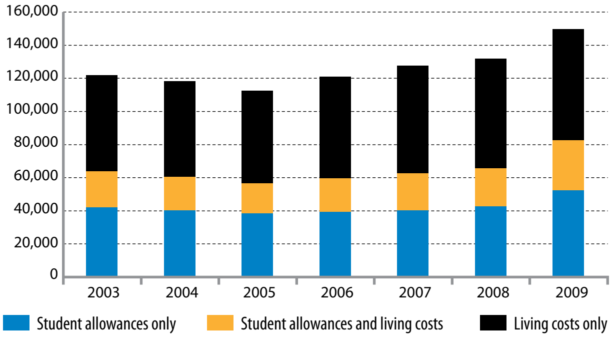
– those who relied solely on the living costs entitlement under the loan scheme borrowed $4,737 on average.

The number of students borrowing living costs and/or receiving student allowances is illustrated by Figure 28. There was a declining trend in the number of students borrowing living costs and/or receiving student allowances from 2003 to 2005, with the number decreasing by 7.7 percent to a total of 112,000 students. From 2005 the number increased steadily, but rose sharply in 2009. By 2009, the number of students benefitting from student allowances and/or borrowing living costs increased by 33 percent from the 2005 level, with an additional 37,000 recipients. Two key policy changes that were announced in Budget 2008, and came into effect in 2009, are the likely drivers behind the significant increase in the number of students receiving either a full or partial student allowance in 2009. The first change reduced the age limit for parental income testing to establish eligibility for an allowance from 25 to 24 years. The second change increased both the parental income threshold for the full student allowance by 10 percent (increasing it to $50,318.22 per annum), as well as the parental income limit at which students became ineligible to receive an allowance.

In 2009:

- 150,000 students in total either borrowed the student loan living costs component or received student allowances, or both; this is a 14 percent increase over the 2008 level (18,000 additional students)
- 52,000 students received student allowances only, an increase of 22 percent, or 9,500 additional recipients, on 2008 levels
- 30,000 students received student allowances and also borrowed living costs, an increase of 32 percent, or 7,400 students, over the 2008 level
- 67,000 students borrowed living costs only, an increase of 1.5 percent or 990 additional borrowers over 2008.

Figure 28 Students borrowing living costs loans and receiving student allowances



Source: Ministry of Social Development.

Provider type

Table 6 shows the number of students who borrowed course fees from 2006 to 2009, broken down by provider type and the proportion they represent out of all students borrowing course fees. Overall there has been little change in the composition of borrowers over the past four years, with students attending universities consistently representing the greatest proportion of course fee borrowers.

Between 2006 and 2009, the proportion of course fee borrowers enrolled in universities and institutes of technology and polytechnics has increased gradually; in particular, the proportion of borrowers from institutes of technology and polytechnics has grown from 24 percent in 2006 to 27 percent in 2009. In comparison, there has been a slight decline in the proportion of borrowers from private training establishments. This group represented 22 percent of course fee borrowers in 2006; by 2009 this had reduced to 18 percent.

Table 6 Students who borrowed course fees by provider type 2006-2009

	2006		2007		2008		2009	
	Borrowers	%	Borrowers	%	Borrowers	%	Borrowers	%
Universities	83,552	53.5	89,530	55.7	92,797	55.9	102,345	55.1
Institutes of technology and polytechnics	38,077	24.4	39,514	24.6	41,589	25.0	50,332	27.1
Private training establishments	34,485	22.1	32,101	20.0	32,400	19.5	34,016	18.3
Wānanga	2,826	1.8	2,819	1.8	2,654	1.6	3,239	1.7
Total	**156,236**	100.0	**160,855**	100.0	**166,112**	100.0	**185,745**	100.0

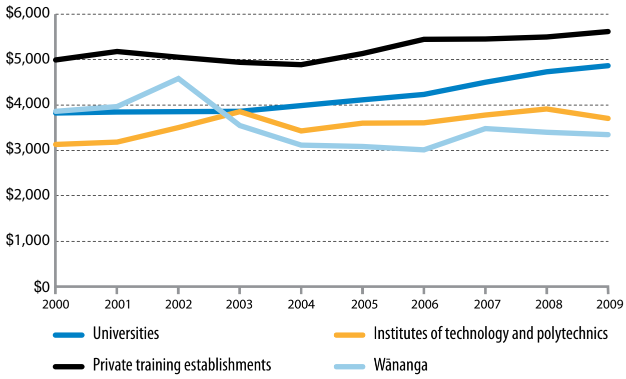
Source: Ministry of Social Development.

Notes:

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

The average course fees borrowed by provider type are shown in Figure 29. Overall there was little change in the average course fees borrowed, with a slight increase of 0.24 percent ($11), in the average course fees borrowed across all providers from 2008 to 2009. Across the different types of providers, both universities and private training establishments had a year-on-year increase in the average course fees borrowed. Universities recorded an increase of 2.8 percent ($134) while private training establishments increased by 2.2 percent ($120). In comparison, the average course fees borrowed by students at institutes of technology and polytechnics, and wānanga decreased. The greatest difference was at institutes of technology and polytechnics, where the average course fee borrowed reduced in 2009 by $207 (a 5.3 percent decrease on 2008); average course fees at wānanga dropped by 1.4 percent ($46 less than in 2008).

Figure 29 Average course fees borrowed by provider type



Source: Ministry of Social Development.

Notes:

1. Colleges of education are now included with universities.
2. A student studying at more than one provider type has been counted in each provider type.

Qualification level

Table 7 provides a breakdown of borrowers by the level of qualification enrolled in and gender, and the average borrowing by qualification level and gender, from 2006 to 2009. In 2009, the number of borrowers enrolled in bachelors-level and above qualifications, such as doctorates, masters, honours, bachelors degrees, and postgraduate and graduate certificates and diplomas, increased 10 percent on 2008. An additional 3,500 borrowers were enrolled in diplomas, certificates and other non-degree programmes in 2009. This is an increase of 4.7 percent on the 2008 number and is consistent with the level of borrowers in 2007. In 2009, across all qualification levels, males borrowed more on average than females, a pattern that is consistent over the last four years.

Table 7 Student loan borrowers by level of qualification, gender and average amounts borrowed 2006-2009

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

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

Notes:

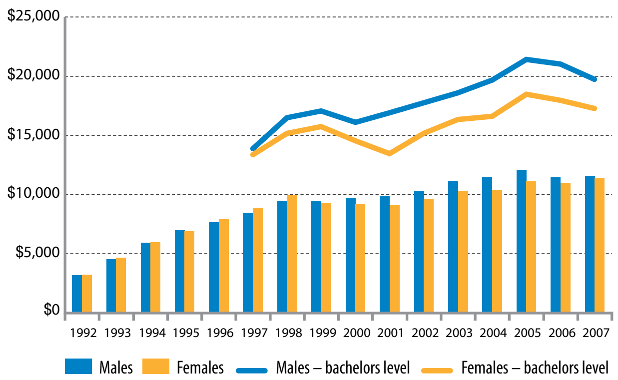
1. Some borrowers were enrolled in qualifications at more than one level.
2. This data is provisional.

Leaving balances

Figure 30, drawn from the integrated dataset on student loans and allowances, gives the median leaving balances of males and females in the leaving cohorts from 1992 to 2007. Between 1992 and 1998 (with the exception of 1995) women have left study with higher median loan balances than men, despite the fact that they tend to borrow less on an annual basis. From 1999 onwards this trend reversed with men leaving study with higher loan balances than women.

The greatest volume of borrowing has tended to be by students at bachelors level.[44] Figure 30 also tracks the loan balances of those who studied at this level and left between 1997 and 2007. According to the graph, male borrowers who studied bachelors-level qualifications leave study with higher leaving loan balances than female borrowers who studied at bachelors level. The level of the loan balance depends on many factors, such as the field of study enrolled in, the provider attended and the individual's pass rate. One of the explanations for the difference in leaving loan balances across gender groups can be explained by the higher pass rate of female students in bachelors-level studies. Higher pass rates mean that students complete their studies more quickly and borrow less.

Figure 30 Median loan balances for 1992-2007 leavers by gender – all borrowers and those who studied at bachelors level 1997-2007



Source: Statistics New Zealand, integrated dataset.

Note: 2007 is the latest leaving cohort available.

3.2 Loan balances with Inland Revenue

Inland Revenue manages the repayment process for student loans. Loans are made to students by StudyLink during the academic year and are transferred to Inland Revenue in the following year. In this section of the report we refer only to the Inland Revenue portion of outstanding loans. The financial report in chapter 5 of this report covers both Inland Revenue and StudyLink information on all loans and repayments. Some borrowers repay StudyLink in the year the loan is taken up, usually because they have discontinued their course.

Most loans are repaid through the tax system – as a deduction by employers from salary or wages if a borrower's income exceeds the repayment threshold.[45] Self-employed borrowers have to file a tax return and make payments during the year. The repayments are 10 cents for every dollar of taxable income above the repayment threshold. New Zealand-based borrowers have interest-free loans, but borrowers who are overseas-based[46] are charged interest and have repayment obligations based on the size of their loan, although they can receive a repayment holiday of up to three years while overseas.

Inland Revenue provides customer service through its online services and contact centres. Borrowers can also check their loan balances or calculate the impact of making extra repayments with Inland Revenue's online services.[47]

Nominal value of balances

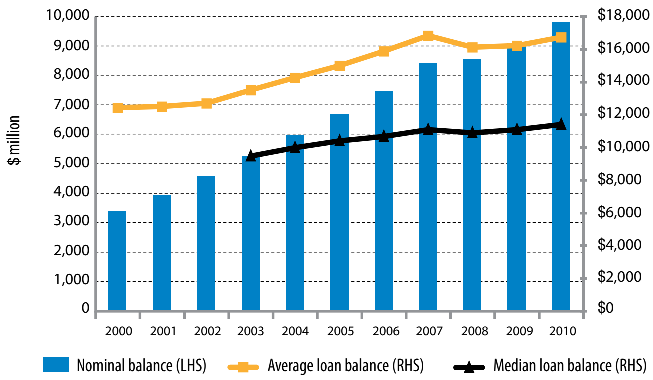
The nominal value of all loans for collection with Inland Revenue as at 30 June 2010 was $9.8 billion, an increase of $0.7 billion (8 percent) over the previous year. The nominal value includes all obligations held by borrowers, such as loan principal, interest and penalties. The net change in the balance from year to year reflects:

– the addition of loans from the previous year being transferred from StudyLink, interest applied to overseas-based loans and penalties on overdue repayments
– repayments and loans written off due to death or bankruptcy.

The nominal value is the basis for other calculations such as the carrying value[48] and average and median balances. For details of the valuation of the portfolio, refer to the financial statements for the scheme in chapter 5.

Figure 31 shows the value of total loans held by Inland Revenue and their average and median values since 2001. The number of borrowers by range of loan balances is presented in Table 8.

Figure 31 Nominal value of student loans and the average loan balance from 2000 and median loan balances from 2003, held by Inland Revenue at 30 June



Source: Inland Revenue.

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

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

45 The repayment threshold is $19,084 for the tax years 1 April 2009 to 31 March 2010, and 1 April 2010 to 31 March 2011.

46 Overseas-based borrowers are those who have been away from New Zealand for 183 consecutive days or more. Interest is charged on their loans.

47 For more detailed information about the student loan services provided by Inland Revenue visit the website at http://www.ird.govt.nz/studentloans/.

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

Table 8 Range of loan balances held by Inland Revenue at 30 June 2010

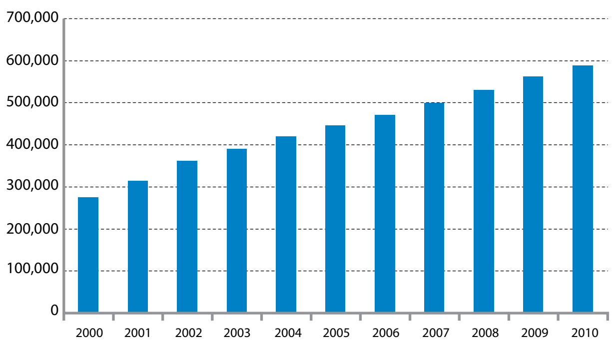
Range of loan balances	Borrowers	Percentage	Cumulative percentage
$1–1,999	50,542	8.6%	8.6%
$2,000–3,999	53,547	9.1%	17.7%
$4,000–5,999	60,886	10.4%	28.1%
$6,000–7,999	53,784	9.2%	37.2%
$8,000–9,999	45,104	7.7%	44.9%
$10,000–14,999	90,614	15.4%	60.3%
$15,000–19,999	59,330	10.1%	70.4%
$20,000–24,999	46,036	7.8%	78.3%
$25,000–29,999	32,514	5.5%	83.8%
$30,000–34,999	25,371	4.3%	88.1%
$35,000–39,999	18,586	3.2%	91.3%
$40,000–44,999	13,516	2.3%	93.6%
$45,000–49,999	10,058	1.7%	95.3%
$50,000–54,999	7,064	1.2%	96.5%
$55,000–59,999	5,131	0.9%	97.4%
$60,000–79,999	9,898	1.7%	99.1%
$80,000–99,999	3,435	0.6%	99.6%
$100,000–119,999	1,220	0.2%	99.9%
$119,999–139,999	466	0.1%	99.9%
> $139,999	396	0.1%	100.0%
Total	587,499	100.0%	

Source: Inland Revenue.

Borrowers

At 30 June 2010, there were around 587,500 student loan borrowers, compared with around 562,000 last year. Figure 32 shows the growth in the number of borrowers who had loans with Inland Revenue since 2000. Over the last 10 years the growth in borrower numbers with Inland Revenue has averaged about 7 percent, but the rate of increase has progressively declined. In the year to 30 June 2010, the borrower base with Inland Revenue for collection grew by 4.5 percent.

Figure 32 Borrowers with Inland Revenue at 30 June



Source: Inland Revenue.

Characteristics of people with loans

Information from the integrated dataset on student loans and allowances indicates that of those who borrowed under the scheme after 1997 and had a student loan at 31 March 2009:

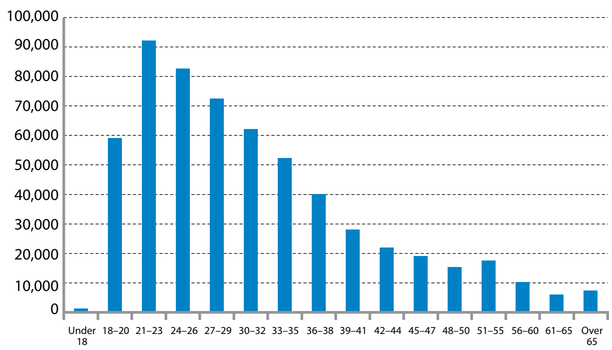
		% of borrowers	% of total loan balance
Ethnicity	European	50.0	52.7
	Māori	21.8	19.6
	Pasifika	8.3	8.5
	Asian	11.5	12.1
	Other	4.1	4.3
	Unknown	4.3	2.8
Gender	Male	42.7	45.4
	Female	57.3	54.6
Provider/sub-sector	University	40.4	50.9
	Polytechnic	30.7	24.1
	Wānanga	5.1	4.3
	Private training establishments	23.8	20.8
Qualification	Doctorates	0.7	1.2
	Masters	2.5	4.0
	Honours/Postgrad cert/dip	4.8	6.9
	Bachelors	34.9	42.9
	Diplomas	13.8	13.1
	Level 4 certificates	10.6	7.7
	Level 1-3 certificates	24.2	16.1
	Level unknown	8.6	8.2

Source: Statistics New Zealand, integrated dataset.

Of those with loan balances, 52 percent were under 30 years of age, 87 percent were under 45 years, and 7.0 percent over 50 years. The borrower population continues to age as the loan scheme matures and the group of people making no progress in repaying their loans becomes older.

Figure 33 shows the age distribution of borrowers. Those aged under 30 years with student loans represent 33 percent of the New Zealand population between 15 and 30 years, whereas borrowers aged over 50 years are 3 percent of the population in that age range.[49]

Figure 33 Borrowers with Inland Revenue at 30 June by age group



Source: Inland Revenue.

49 As estimated by Statistics New Zealand, the population of New Zealand at 31 March 2010 aged between 15 and 30 years of age was about 925,820. The population over 50 years of age was about 1.33 million.

Summary of student loans with Inland Revenue at 30 June	2008	2009	2010	% change
		Number of borrowers		
Borrowers based:				
- in New Zealand	453,512	479,462	502,362	4.8%
- overseas	76,777	82,337	85,137	3.4%
Total	**530,289**	**561,799**	**587,499**	**4.6%**
		Nominal balances		
Borrowers based:	$ million	$ million	$ million	
- in New Zealand	6,820	7,199	7,743	7.6%
- overseas	1,733	1,910	2,087	9.3%
Total	**8,553**	**9,109**	**9,830**	**7.9%**
		Average loan		
Average loan	$16,129	$16,213	$16,731	3.3%
		Median loan		
Borrowers based:				
- in New Zealand	n/a	$10,396	$10,657	2.5%
- overseas	n/a	$17,125	$17,901	4.5%
All borrowers	**$10,883**	**$11,090**	**$11,399**	**2.8%**
Overdue repayments				
		Number of borrowers		
Borrowers based:				
- in New Zealand	75,488	80,328	57,921	-27.9%
- overseas	30,148	34,070	34,491	1.2%
Total	**105,636**	**114,398**	**92,412**	**-19.2%**
		Overdue amount		
Borrowers based:	$ million	$ million	$ million	
-in New Zealand	153	192	142	-26.0%
-overseas	54	114	183	60.5%
Total	**207**	**306**	**325**	**6.2%**

Source: Inland Revenue.

Note: The median loan balance was only recorded from 2009 onwards. It is not possible to calculate retrospectively.

Inland Revenue has identified about 85,000 borrowers as being overseas-based, some 14 percent of all borrowers. Information from the integrated dataset shows that those borrowers who spent some time overseas after study:

- were more likely to be male – while 46 percent of all borrowers were male, 49 percent of those assessed as overseas-based were male
- were less likely to be Māori – Māori represented 18 percent of all borrowers but only 13 percent of those going overseas. For borrowers of European ethnicity, the figures were 55 percent of all borrowers and also 55 percent of overseas-based borrowers. For Asian borrowers, the corresponding figures were 10 percent and 14 percent
- were more likely to have studied at a university and less likely to have studied at any other type of provider – 52 percent of those assessed as having spent time overseas were university leavers, against 39 percent among all borrowers
- were more likely to have been successful at completing a qualification – while 49 percent of borrowers based overseas had completed a qualification, only 42 percent of all borrowers had successfully completed a qualification
- were more likely to have last studied at bachelors level or higher – among those overseas, 39 percent had studied at bachelors level in their last study period, while among all borrowers the figure was 29 percent.

3.3 Repayment performance

Repayment numbers and value of collections

In the year to June 2010, 73 percent of repayments were collected through the PAYE tax system. The remainder came from borrowers living overseas, self-employed borrowers in New Zealand, borrowers under the income threshold who made voluntary repayments, and those who chose to make payments over their assessed repayment amount.

Inland Revenue received $25.3 million more in net repayments than last year, but the rate of increase in repayments actually reduced. This is mainly due to the recession which resulted in higher unemployment rates and wage freezes, ultimately slowing down the growth in cash collected.

Table 9 Loan repayments received by Inland Revenue - borrower/employer split 2005/06-2009/10

Repayments	2005/06 $ million	2006/07 $ million	2007/08 $ million	2008/09 $ million	2009/10 $ million
PAYE system	313.9	344.2	394.3	452.1	473.9
From borrower	172.5	142.3	155.7	167.0	170.5
Total	**486.4**	**486.5**	**550.0**	**619.1**	**644.4**

Source: Inland Revenue.

Note: The repayments shown above are net of refunds made to non-current borrowers.

To ensure that salary and wage earners are using the right tax code to repay their loan, letters are sent to borrowers and employers if Inland Revenue believes they need to change their current code. For the year to 30 June 2010 this was successful in over 96 percent of cases, with the remainder dealt with through phone calls to the employer to request the change in tax code.

Loans fully repaid

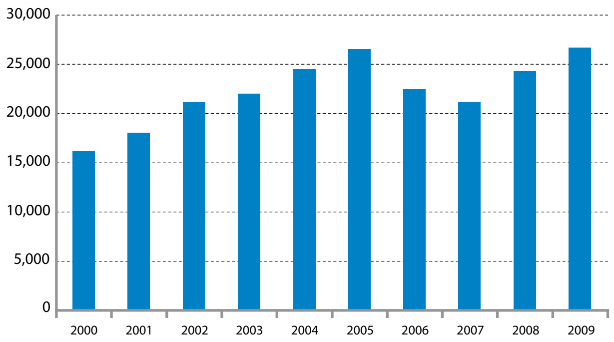
At the time this report was produced, over 278,000 borrowers had repaid their loan since the loan scheme began and 26,665 borrowers had repaid their loans in the year to June 2009.[50]

Inland Revenue has collected a total of $5,612 million in repayments since the loan scheme began. Including repayments made before balances were transferred to Inland Revenue, the total amount collected over this time was $6,407 million. Figure 34 shows the number of loans repaid in full to Inland Revenue at 30 June. The dip in loans fully repaid in 2006 and 2007 is most likely as a result of the introduction of interest-free loans.[51]

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

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

Figure 34 Loans fully repaid to Inland Revenue at 30 June



Source: Inland Revenue.

Repayment bonus

From April 2009, borrowers who made repayments of $500 or more above their repayment obligation received a 10 percent bonus.[52] Table 10 shows provisional data for the 2009/10 tax year. Because some taxpayers have until 2011 to file their tax return, we expect that the number of voluntary repayments will be higher than shown here.

Table 10 Voluntary repayments eligible for bonus scheme in 2009/10 tax year

Bonus repayments	NZ-based	Overseas	Total
Number	3,597	2,021	5,618
Bonus ($ million)	$2.65	$2.39	$5.04
Voluntary repayment ($ million)	$26.51	$23.94	$50.45

Source: Inland Revenue.

Factors influencing repayment and collection

To give an insight into the repayment obligations and payment behaviour of borrowers, Inland Revenue has carried out an analysis of the student loan population for the tax year April 2008 to March 2009. The tax data for this year is near-complete and, where necessary, most taxpayers who are required to file returns have done so, and the payment obligation of most taxpayers has been determined. There is also more certainty over the number of New Zealand and overseas-based borrowers. As this data is based on the 2008/09 tax year it is not directly comparable with other data in this section, which is for the fiscal year to 30 June. Table 11 provides an overview of New Zealand and overseas-based borrowers with and without repayment obligations, loan balances and repayments made, categorised by tax status.

Table 11 Profile of student loan balances and repayments by repayment obligation for 2008/09 tax year

	Number of borrowers		Loan balances $ million		Repayments $ million	
No repayment obligation						
New Zealand-based						
No income	27,000		$407		$5	
Salary or wages	191,000		$2,804		$11	
Self-employed	33,000		$525		$13	
Overseas-based						
Repayment holiday	46,000		$1,022		$36	
Sub-total	**297,000**	**52%**	**$4,758**	**53%**	**$65**	**12%**
With repayment obligation						
New Zealand-based						
Salary or wages	193,000		$2,824		$333	
Self-employed	41,000		$525		$89	
Overseas-based						
Assessment	38,000		$931		$36	
Sub-total	**272,000**	**48%**	**$4,280**	**47%**	**$458**	**88%**
Total	**569,000**	**100%**	**$9,038**	**100%**	**$523**	**100%**

Source: Inland Revenue.

Not all borrowers have an immediate repayment obligation, they may still be studying and earning under the repayment threshold, or are overseas and on a repayment holiday. For the 2009 tax year about:

- 52 percent of borrowers did not have a repayment obligation because they:
  - had no reported taxable income (9 percent of this group) and are most likely to be full-time students
  - had an income, but were below the repayment threshold (76 percent of this group) and are most likely to be full-time students, but with part-time work
  - were overseas and on a repayment holiday (15 percent of this group)
- 48 percent had a repayment obligation and were:
  - salary and wage earners (71 percent of this group)
  - self-employed (15 percent of this group)
  - assessed as overseas borrowers (14 percent of this group).

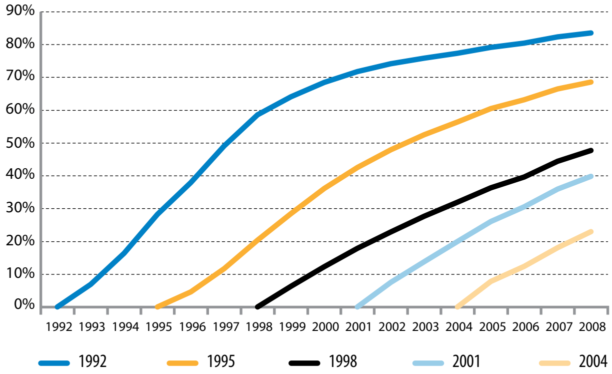
The largest single group in the borrower population is salary and wage earners. They accounted for 73 percent of repayments made by those with a repayment obligation. Although about half of all borrowers in this year did not have a repayment obligation, they contributed 12 percent of all repayments.

Repayment times and rates

As at 30 June 2010, a total of $5,612 million had been collected in repayments since the loan scheme was established in 1992. Of the students who left study in 1992, 69 percent had repaid their loan in full by 2000, and 84 percent by 2008. This cohort had lower borrowing; however, in comparison with those in later years, fees were relatively low during this period and as the loan scheme only commenced in 1992 they had only borrowed for one year.

52 Borrowers are eligible for the repayment bonus if they are up to date with their repayments and filing their income tax returns, their loan balance with Inland Revenue is $550 or more at the beginning of the tax year (1 April), and their excess repayments for the tax year total $500 or more. Voluntary repayments to StudyLink do not qualify for a repayment bonus.

Figure 35 Percentage of borrowers fully repaid who left study in 1992, 1995, 1998, 2001 and 2004



Source: Statistics New Zealand, integrated dataset.

Notes:

1. The leaving cohorts are those who last studied in 1992, 1995, 1998, 2001 and 2004, had borrowed from the scheme, and had a student loan balance of $20 or more ($10 or more prior to 2007) at 31 March in the following year. Excluded are those who had repaid their student loan before 31 March in the year after leaving study.
2. Full repayment is deemed to occur when the student loan balance has fallen below $20 ($10 prior to 2007), and includes both tax non-resident and tax resident borrowers.

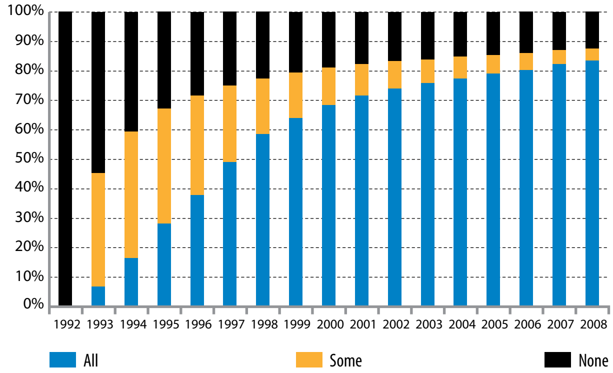
Rates of repayment fluctuate from year to year. Students who left study after 2000 appear to have faster repayment rates than those who borrowed and left study in the late 1990s. However, the rate of repayment for students who left study in 2004 follows a similar trend to those who left in 1998. The variance in repayment times is in part due to changes in student support policy, such as:

- more generous repayment provisions – 50 percent of compulsory repayment obligation, less inflation, credited to principal (introduced in 2000)
- no interest while studying for full-time students and for part-time students on low incomes[53] (introduced in 2000)
- fee stabilisation policies that have operated since 2001 (refer to chapter 1.1)
- interest-free student loans for New Zealand-based borrowers (introduced in 2006)
- repayment holidays for overseas-based borrowers (introduced in 2007).

Of the students who left study in 1998, 22.8 percent had fully repaid their loan four years later in 2002. By comparison, fours years after leaving study, 26.0 percent of students from the 2001 cohort and 23.0 percent of students from the 2004 cohort had repaid their loan in full.

Information from data collected shows that there are some borrowers who never succeed in repaying their loan completely and others who make no progress toward repayment over extended periods of time. Figure 36a shows that although around 84 percent of students who left study in 1992 with a student loan had fully repaid by 2008, 4.1 percent still had some outstanding balance owing and 12.4 percent had made no progress toward repayment at all.

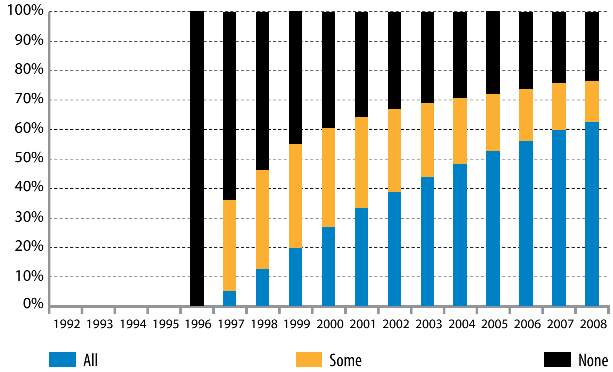
Figure 36a Proportion of borrowers who left study in 1992 who had repaid all, some or none of their student loans by the end of 2008



Source: Statistics New Zealand, integrated dataset.

In Figure 36a the trend in progress to repayment in full can be clearly seen. In the years immediately following exit from study, the rate of repayment is higher and there is an obvious rise in the proportion of borrowers who have repaid their loan in full, and a steady decrease in the proportion making no progress toward repayment. One year out of study, 6.9 percent of borrowers who left study in 1992 had repaid their loan in full, while 55 percent had made no progress. By 1997, 49 percent of borrowers from this group had repaid their loan in full and only 25 percent had made no reduction in their loan balance. The same trend in progress can be seen with borrowers who left study in 1996. Figure 36b shows that in 1997 5.3 percent of this group had repaid their loan in full while 64 percent had made no repayment progress. By 2001, 33 percent of borrowers who left study in 1996 had repaid their loan in full and the proportion of borrowers that had made no progress toward repayment had decreased to 36 percent.

Figure 36b Proportion of borrowers who left study in 1996 who had repaid all, some or none of their student loans by the end of 2008

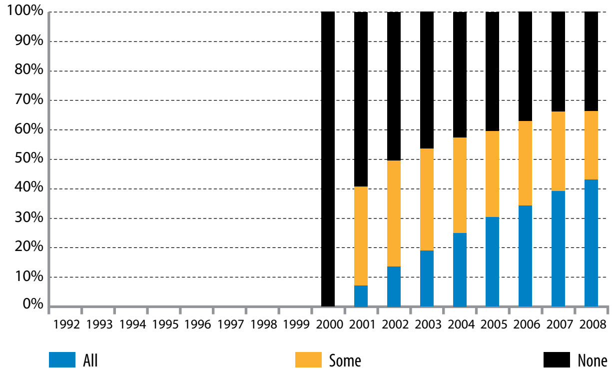


Source: Statistics New Zealand, integrated dataset.

Figures 36a and 36b also illustrate how the rate of repayment reduces over time. For borrowers who left study in 1992, Figure 36a shows that the rate of repayments begins to slow about 10 years out of study and the proportion of borrowers who have made no progress toward repayment begins to plateau. The same trend can be seen emerging in Figure 36b with borrowers who left study in 1996. This suggests that a proportion of borrowers might never make progress in repaying their loan, and that they are either not in the New Zealand labour market or are earning below the repayment threshold. Figure 36c shows that for leavers in the 2000 cohort, there continues to be an increase in the proportion of borrowers repaying their loan in full.

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

Figure 36c Proportion of borrowers who left study in 2000 who had repaid all, some or none of their student loans by the end of 2008



Source: Statistics New Zealand, integrated dataset.

Between 2007 and 2008, across all three cohorts there was virtually no change in the proportion of borrowers making no repayment progress, while the proportion of borrowers who had made some repayment toward their loan or repaid in full continued to grow. The reduction in repayments during 2008 is largely attributed to higher unemployment and reductions in wage increases as a result of the recession. These figures suggest that the recession had a greater effect on those making no progress toward repayment than on those who had already repaid some of their loan.

Impacts on repayment

In 2006, the interest-free student loans policy was introduced and an amnesty on student loan penalties extended to certain overseas-based borrowers. This was followed in 2007 by a number of changes to policy on overseas-based borrowers, including a one-year extension on the penalties amnesty, the introduction of the three-year repayment holiday option, and new repayment obligations.

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

The interest-free loan policy and repayment holiday option, however, resulted in a reduction in voluntary repayments. To curb this trend and encourage borrowers to make voluntary repayments, the Government introduced the 'Voluntary repayment bonus' scheme. The scheme, which took effect on 1 April 2010 (and includes voluntary repayments made during the 2009/10 tax year), provides an incentive to borrowers to make a minimum of $500 in voluntary repayments per tax year. Once the $500 level has been reached, borrowers receive a 10 percent bonus added to the total of their voluntary repayments at the end of each tax year, helping to decrease their loan faster.[54] Earlier in this section Table 10 provides a breakdown of the voluntary repayments made in the 2009/10 tax year and the resulting bonuses.

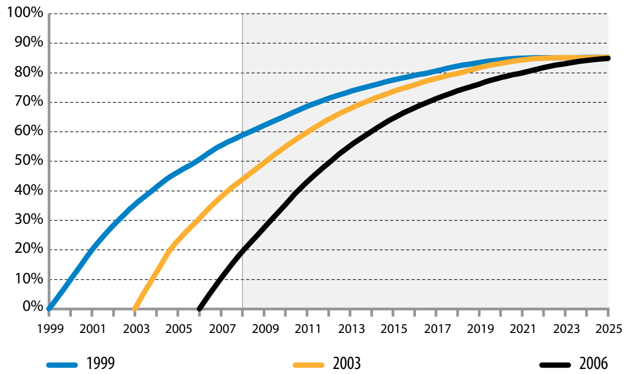
Another factor contributing to the ability to repay and rate of repayment is whether a borrower actually left study with a completed qualification. Men and women have similar rates of repayment, but the difference is marked between those who left study with a completed qualification and those who didn't. Information from the integrated dataset clearly shows that borrowers who leave study with a completed qualification have much faster rates of repayment than those who left without completing (refer to Figure 12 on page 20).

Forecasts of repayment times

This section looks at expected repayment times for different groups of borrowers. It focuses on three groups of people who have used the loan scheme – those who left study in 1999, 2003 and 2006.[55] Each of these groups faced slightly different conditions on leaving, because of changes in the New Zealand and world economies. The approach taken in these forecasts is to look at the repayment experience to date of each of these groups and to combine that with projected repayment behaviour drawn from the Ministry of Education's Student Loans Integrated Model (SLIM). The following forecast repayment times are produced by the 2010 version of the model. We also look at earlier forecasts of repayment times for the 2003 and 2006 leavers and discuss how and why the forecasts have changed.

Figure 37 shows the percentage of borrowers who have fully repaid in each year, who left study in 1999, 2003 and 2006. It also shows the distribution of repayment times for these three cohorts. The repayment times in the graph are the combination of past repayment times before 31 March 2009 and future projected repayment times, with the vertical line showing the time at which the actual data changes to the modelled data.

Figure 37 Percentage of borrowers who have fully repaid in each year who left study in 1999, 2003 and 2006



Source: Ministry of Education, Student Loans Integrated Model.

Notes:

1. The solid vertical line represents the division between the actual repayment performance to 31 March 2009 and the forecast repayments beyond.
2. The vertical line shows the time at which the actual data switches to forecast data.

Figure 37 shows little difference in repayment times between these three groups. The median repayment time – represented by the horizontal line at the 50 percent mark – ranges from 6.5 years for the 2003 cohort and the 2006 cohort to 7.2 years for the 1999 cohort. The median was reached for the 1999 cohort during 2006.

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

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

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

– The 1999 group accumulated interest while they were in study and a good number of them had repaid entirely before the interest-free student loans policy came into effect. The amounts borrowed in 1999 reduced as a result of policy changes. This meant that the people who left study in 1999 had slightly lower leaving loan balances than those who left in the preceding years. They also faced rising tuition fees as they went through study, which increased their borrowings. However, this cohort had the benefit of a strengthening labour market when they left study, which improved their ability to repay quickly. By 31 March 2009, about 60 percent of this group of borrowers had fully repaid their loans.
– In most cases, those in the 2003 leaving cohort would have had the benefit of the 'no interest while studying' policy (which was introduced in 2000) throughout their period of study. They had stable fees from 2001 because of the Government's fee stabilisation policy. And around three-quarters of this group had some benefit from the interest-free student loans policy as they still had unpaid balances when that policy came in to effect on 1 April 2006. This group had several years' benefit from the strong labour market that existed until 2008 – around 40 percent of the cohort had completely repaid by the time the impacts of the recession began to affect the job market.
– The 2006 cohort had the benefit of the interest-free policies and a measure of control on fee levels. But only about one-sixth of the group had repaid by the time the labour market began to turn down. So the great majority face a repayment period when salary growth is lower and when unemployment rates are higher.

In the 2004, 2005, and 2006 annual reports, we forecast the median and quartile repayment times for people leaving study in those years. Table 12 compares those forecasts with these latest ones.

Table 12 Forecast repayment times for the 2004, 2005, 2006 and 2007 leaving cohorts

		Repayment time from leaving year		
Leaving cohort	Annual report forecast	25th percentile	Median	75th percentile
2004	2004	3.6	6.9	12.0
	2009	2.7	6.7	14.7
	2010	**2.6**	**6.6**	**13.5**
2005	2005	3.5	6.7	10.6
	2009	3.1	6.9	15.2
	2010	**2.9**	**6.7**	**13.7**
2006	2006	3.7	6.9	10.5
	2009	3.0	7.0	15.8
	2010	**2.9**	**6.5**	**13.4**
2007	**2010**	**2.4**	**5.0**	**14.0**

Source: Ministry of Education, Student Loans Integrated Model.

Notes:

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

Table 12 shows that the 2010 model has shorter repayment times than the 2009 model forecast. There is more information about the student loan forecasting and costing model in chapter 4.

Forecast repayment times by borrower characteristics

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

Gender

Women tend to have slightly shorter median repayment times than men in the 1999 and 2003 cohorts. In the 2006 cohort, however, the men are expected to repay slightly more quickly. Table 13 gives the median repayment times by gender, plus the 25th and 75th percentiles.[56]

Table 13 Forecast repayment times for borrowers who left study in 1999, 2003 and 2006 by gender

		Repayment time from leaving year		
Leaving cohort	Gender	25th percentile	Median	75th percentile
1999	Male	3.1	7.6	15.9
	Female	2.4	6.7	14.9
	All	2.7	7.2	15.4
2003	Male	2.6	6.6	13.6
	Female	2.2	6.4	13.3
	All	2.4	6.5	13.4
2006	Male	2.7	6.4	13.5
	Female	3.0	6.6	13.3
	All	2.9	6.5	13.4

Source: Ministry of Education, Student Loans Integrated Model.

Notes:

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

Level of study

For all three leaving cohorts, borrowers whose last study was at postgraduate level are expected to have the shortest median repayment time. This is likely to be because of the higher economic potential of postgraduate students after study. It is significant that the forecast median repayment time for borrowers who last studied at certificate level has begun to fall – in the 1999 group, certificate-level borrowers had the highest median repayment time, but among 2006 leavers the median for those who studied at certificate level was the second lowest. In contrast, the median repayment times for borrowers who last studied at a higher level (bachelors and postgraduate) in 2006 are higher than those in the 1999 and 2003 cohorts.

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

Table 14 Forecast repayment times for borrowers who left study in 1999, 2003 and 2006 by level of last study

		Repayment time from leaving year		
Leaving cohort	Study level	25th percentile	Median	75th percentile
1999	Certificates	2.9	7.3	14.1
	Diplomas	2.5	6.6	14.5
	Bachelors	2.5	7.0	16.6
	Postgraduate	1.7	4.3	12.3
	All	2.7	7.2	15.4
2003	Certificates	2.9	6.7	12.3
	Diplomas	2.4	6.5	13.7
	Bachelors	2.1	6.5	14.9
	Postgraduate	1.3	4.1	12.4
	All	2.4	6.5	13.4
2006	Certificate	2.9	6.0	11.5
	Diplomas	2.7	6.3	13.2
	Bachelors	3.2	7.6	15.6
	Postgraduate	1.9	5.9	14.7
	All	2.9	6.5	13.4

Source: Ministry of Education, Student Loans Integrated Model.

Notes:

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

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

Ethnicity

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

Table 15 Forecast repayment times for the 1999, 2003 and 2006 leaving cohorts by ethnicity

		Repayment time from leaving year		
Leaving cohort	Ethnicity	25th percentile	Median	75th percentile
1999	European	2.3	5.7	12.7
	Māori	3.4	8.6	16.2
	Pasifika	5.2	11.3	20.3
	Asian	2.6	9.8	30.6
	Other	2.9	9.7	21.8
	All	2.7	7.2	15.4
2003	European	1.8	5.4	11.7
	Māori	3.7	7.9	14.3
	Pasifika	4.9	9.2	16.2
	Asian	1.9	7.1	22.8
	Other	2.7	7.1	16.6
	All	2.4	6.5	13.4
2006	European	2.5	6.0	12.4
	Māori	3.6	7.2	13.7
	Pasifika	3.7	7.6	14.6
	Asian	3.1	7.5	21.3
	Other	2.8	6.4	14.4
	All	2.9	6.5	13.4

Source: Ministry of Education, Student Loans Integrated Model.

Notes:

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

Forecast repayment times for borrowers who stay in New Zealand or spend time overseas

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

By contrast, overseas-based borrowers have interest added to their loans, and in many cases, take a repayment holiday of up to three years. In addition, many overseas-based borrowers either do not inform Inland Revenue when they go overseas, or do not maintain contact with Inland Revenue, so there is a higher risk of an overseas-based borrower falling behind on repayments and incurring penalties.

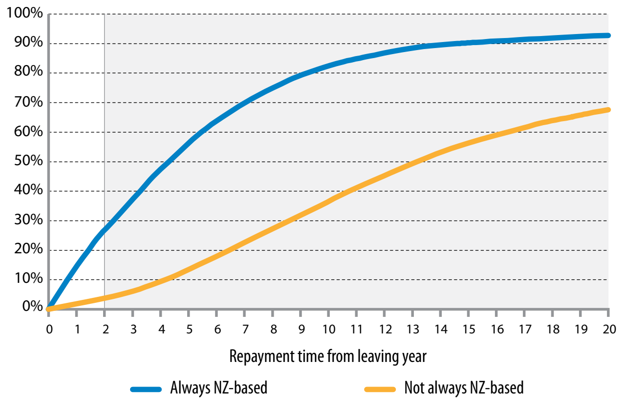
In this section we discuss forecast repayment times for two groups of borrowers:

– *Always New Zealand-based*, who are borrowers that remain in New Zealand after completing their study and do not spend time overseas before repaying their loan in full

– *Not always New Zealand-based*, who are borrowers that spend some time overseas after completing their study, but before repaying their loan in full.

We compare those borrowers who do not go overseas in the projected period, or at least until their loans are repaid, with those borrowers who spend some time overseas (not always New Zealand-based) during the projected period after leaving study in 2006. The comparison of the forecast repayment times by these two groups is shown in Figure 38 and Table 16 below.

Figure 38 Percentage of borrowers who left study in 2006 who have fully repaid each year after leaving, by always New Zealand-based and not always New Zealand-based



Source: Ministry of Education, Student Loans Integrated Model.

Notes:

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

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

Table 16 Forecast median and quartile repayment times for borrowers who left study in 2006

2006 leaving cohort	Repayment time from leaving year: 25th percentile	Median	75th percentile
Always NZ-based	1.9	4.6	8.5
Not always NZ-based	7.9	13.9	-
All	2.9	6.5	13.4

Source: Ministry of Education, Student Loans Integrated Model.

Notes:

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

Of those borrowers in the 2006 leaving cohort who do not go overseas during the projected years, half are expected to have repaid in 4.6 years and three-quarters in 8.5 years after study. By contrast, the median repayment time for those borrowers who spend some time overseas, or are projected to go overseas in future years, is projected to be about 14 years.

Characteristics

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

Gender

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

Table 17 Forecast repayment times for borrowers who left study in 2006 by gender

2006 leaving cohort	Gender	Repayment time from leaving year: 25th percentile	Median	75th percentile
Always NZ-based	Male	1.8	4.2	7.9
	Female	2.1	4.8	8.9
	All	1.9	4.6	8.5
Not always NZ-based	Male	8.0	14.0	-
	Female	7.9	13.8	40.6
	All	7.9	13.9	-

Source: Ministry of Education, Student Loans Integrated Model.

Notes:

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

Level of study

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

Table 18 Forecast repayment times for borrowers who left study in 2006 by level of last study

		Repayment time from leaving year		
2006 leaving cohort	Study level	25th percentile	Median	75th percentile
Always NZ-based	Certificates	2.2	4.7	8.5
	Diplomas	1.7	4.2	8.4
	Bachelors	1.8	4.6	8.6
	Postgraduate	1.3	3.3	7.3
	All	1.9	4.6	8.5
Not always NZ-based	Certificates	7.3	12.4	25.0
	Diplomas	7.6	13.4	-
	Bachelors	8.7	15.0	-
	Postgraduate	7.8	15.9	-
	All	7.9	13.9	-

Source: Ministry of Education, Student Loans Integrated Model.

Notes:

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

Ethnicity

Europeans in the 2006 cohort have the shortest forecast median repayment time for both borrowers who remain in New Zealand and those who spend some time overseas, before repaying their loan in full. Asians have the highest median repayment time if they are projected to spend time overseas. It suggests that Asian borrowers may stay overseas for a longer period of time, or are less likely to come back to New Zealand, compared with other ethnicities that go overseas.

Table 19 Forecast repayment times for borrowers who left study in 2006 by ethnicity

		Repayment time from leaving year		
2006 leaving cohort	Ethnicity	25th percentile	Median	75th percentile
Always NZ-based	European	1.6	4.0	7.7
	Māori	2.7	5.6	9.8
	Pasifika	2.7	5.4	9.8
	Asian	1.8	4.7	9.3
	Other	1.7	4.2	7.8
	All	1.9	4.6	8.5
Not always NZ-based	European	7.6	13.1	25.3
	Māori	8.4	14.2	-
	Pasifika	9.2	15.7	-
	Asian	8.7	16.7	-
	Other	7.3	13.8	-
	All	7.9	13.9	-

Source: Ministry of Education, Student Loans Integrated Model.

Notes:

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

Overdue student loan repayments

Table 20 presents a summary of the overdue repayments by borrower residency. At the end of June 2010, $324.7 million in student loan repayments was overdue. There were 92,412 borrowers with overdue repayments (compared with 114,400 borrowers at the end of June 2009).

Table 20 Overdue student loan repayments at 30 June

Overdue repayments	30 June 09 $ million	30 June 10 $ million	% change
Borrowers based:			
- New Zealand	192.3	142.2	-26.1%
- Overseas	113.7	182.5	60.5%
Total	**306.0**	**324.7**	**6.1%**

Source: Inland Revenue.

The amount overdue from New Zealand-based borrowers decreased by 26.1 percent ($50.1 million) compared with last year. However, this is offset by a 60.5 percent ($68.8 million) increase in the amount overdue from overseas-based borrowers, resulting in an overall increase in the total amount overdue. The increase offsets the work that reduced overdue amounts from New Zealand-based borrowers, achieved through campaigns targeted at new and large overdue repayments. Overdue repayments from New Zealand-based borrowers were also affected by new legislation allowing the capitalisation of small overdue amounts and the reversal of penalties for back years in hardship cases.

The growth in the overseas-based debt is due to borrowers who have been away from New Zealand for more than five years and are not meeting their repayment obligations.

Overseas-based borrowers represent:

- 14.5% of all borrowers
- 37.3% of all borrowers with overdue repayments
- 56.2% of the total amount overdue.

Loan balance write-off due to death or bankruptcy

The loan balances of deceased borrowers are written off under section 60 of the Student Loan Scheme Act 1992. Write-offs do not necessarily occur in the same year as the death or bankruptcy of a borrower.

The student loans of borrowers adjudicated bankrupt are written off under the Insolvency Act 1967. In the year to 30 June 2010, $14.6 million was written off due to bankruptcy. Over the same period the total value of loans written off due to death was $10.7 million.

3.4 Agency performance

The three key agencies that manage the Student Loan Scheme work together to ensure that government, tertiary education organisations and students are kept informed about the Student Loans and Allowances schemes, and that accurate and meaningful information required for policymakers is available.

The performance of both StudyLink (on behalf of the Ministry of Social Development) and the Inland Revenue Department is measured through independent surveys conducted on a quarterly basis.

Ministry of Social Development satisfaction survey results

StudyLink, which manages the Student Loan Scheme responsibilities of the Ministry of Social Development, delivers and administers student loan payments, student allowances, Step Up Scholarships and the unemployment benefit (student hardship). Their performance is measured by surveying student satisfaction through the *Student Satisfaction Monitor*. Currently the target is set as:

The percentage of independently surveyed students satisfied with the quality of service provided will be no less than 80–85 percent.

The results for the year to 30 June 2010 were:

84.3 percent of students surveyed indicated that they were satisfied or very satisfied with the last contact they had with StudyLink.

Inland Revenue satisfaction survey results

After establishing a student loan, the balance is transferred by StudyLink to Inland Revenue the following year. Inland Revenue's role in the Student Loan Scheme is to manage the loan repayment process.

The annual results of the *Customer Satisfaction Survey* (as at 30 June) for Inland Revenue for the past three years were 85 percent in 2010, 83 percent in 2009 and 81 percent in 2008.

As well as monitoring customer satisfaction with the services provided to student loan borrowers, Inland Revenue measures performance against targets set for services that support the repayments process.

The measures are reported in Output Expense 2, Services to inform the public about entitlements and meeting obligations, of Inland Revenue's 2010 Annual Report.

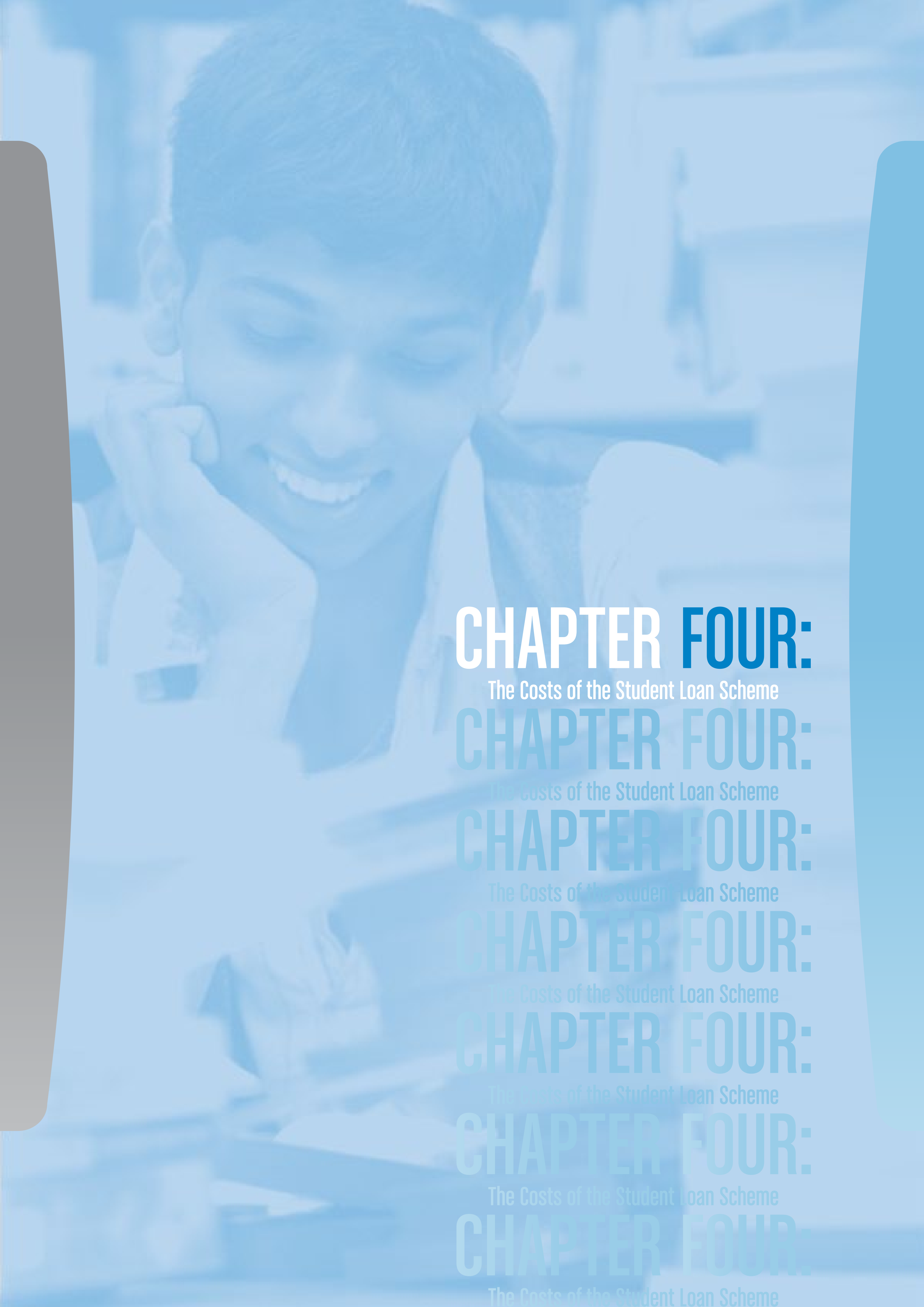
Table 21 Inland Revenue repayment collection performance

2007/08 Actual	2008/09 Actual		2009/10 Target	2009/10 Actual
		By making student loan borrowers aware of their obligations and the services available to help them comply this output will contribute to ensuring that at least:		
85.2%	83.6%	90% of resident student loan borrowers meet their repayment obligations	90.0%	86.2%
85.3%	76.2%	75% of student loan repayments due are collected	75.0%	81.7%

Source: Inland Revenue.

Ministry of Education policy advice performance

The Minister for Tertiary Education has requested that the Ministry of Education develop a measure of the quality of tertiary policy advice. This measure will be used in future for reporting on the quality of advice for student loans.



CHAPTER FOUR:

The Costs of the Student Loan Scheme

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4.0 Introduction

This chapter looks at the latest valuation of the Student Loan Scheme at 30 June 2010 and changes since the previous valuation. It explains the key valuation statistics and the factors that have led to changes over the past year. It also identifies the costs of the scheme and looks at the modelling of the total loan balance into the future.

Student loan valuation terms

Nominal value

The nominal value of student loans is the balance of borrowings with Inland Revenue and the Ministry of Social Development. It is the total amount owed by borrowers at a point in time, including loan principal, interest, fees and penalties. The change in the value from year to year reflects changes in the amount owed by borrowers.

The **nominal value** as at 30 June 2010 was **$11,145 million**.

Carrying value

The carrying value is the value of the Student Loan Scheme asset that is maintained in the scheme's accounts. It increases during the year as new loans are issued and decreases as repayments are made. Adjustments are made each year following an annual valuation of the asset. Since 1 July 2005, valuations have been made in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Under NZ IFRS, the cost to the government of new lending is recognised at the time it is lent, so that, all things being equal, there is no further cost associated with that lending. An annual, NZ IFRS-compliant valuation is undertaken and any adverse difference between the carrying value and the result of this valuation is recorded as an expense.[57]

The **carrying value** as at 30 June 2010 was **$6,790 million**.

Fair value

Fair value is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The fair value calculation discounts expected repayments using a contemporary view of future discount rates. This differs from the carrying value calculation, which uses discount rates that are fixed for each annual cohort of borrowers at the time they first borrow. The fair value has been reported in the accounts since 2003.

The **fair value** as at 30 June 2010 was **$6,366 million**.[58]

Initial write-down[59]

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

Interest unwind

The schedule of revenue and expenditure includes revenue from what is called an 'interest unwind'. As time moves on, loans on the balance sheet come closer to being repaid and are therefore worth more. The interest unwind reflects this increase in value; in effect, this is a partial reversal, or unwinding, of the reduction in value brought about by the initial discounting process.

4.1 Forecasting and costing model

A stochastic model is used to value the loan scheme annually and is used to price policy options. The model starts with actual data and projects future repayments using the past behaviour of borrowers to model future events.

Student Loans Integrated Model (SLIM)

SLIM is built on the integrated dataset on student loans and allowances by actuaries engaged by the Ministry of Education. Each year the integrated dataset is rebuilt to incorporate an extra year's data. Following this the model is revised and updated and is used by the consulting actuaries in preparing their valuation of the scheme. The experience of past borrowers forms the core of the model and is used to predict what present and future borrowers will do in the future.

However, changes in the economic environment and policy changes affect borrowing and repayment behaviour and, depending on timing, these impacts are not necessarily reflected in the data on which the model is built.

This year's model was built on administrative data up until the end of March 2009, giving three full years of experience under the domestic no interest policy and two full years under the current overseas repayment regime. The voluntary repayment bonus policy commenced in the 2010 tax year and so is not represented in the data, as is the case with more recent changes.

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

SLIM benefits from a longitudinal dataset that becomes increasingly rich as further years of data are integrated each year. It gives agencies, researchers and the public a clearer understanding of the loan scheme's probable future status and outcomes. It enables more accurate assessments, for example, the likely effects of the loan scheme or of policy changes on different groups, such as ethnic groups or gender, and the borrowing and repayment behaviour of borrowers in different fields or levels of study.

SLIM is based on a large number of categorical and regression tree models developed from the integrated dataset. The 2010 version of SLIM has 28 sub-models of decision-tree code. Together, these sub-models encapsulate former borrowers' borrowing, repaying, income growth, travelling overseas and other characteristics. A number of borrower features, including residency, income, study duration, borrowing amounts and voluntary repayments, are modelled and projected into the future.

57 For a fuller description see the Statement of accounting policies on page 55 of this report.
58 See also Student loan fair value on page 57 of this report.
59 The initial write-down is called 'fair value write-down' in the financial statement (chapter 5). In this chapter we use the term 'initial write-down' to avoid confusion with 'fair value' which is a different concept.

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

The 2010 version of SLIM has predictive models built on patterns of change in the predictive variables observed over three years. Previous valuations had been based on patterns observed between two successive years only. This is seen as providing a more stable basis for modelling.

Table 22 Summary of valuation assumptions

Area	Assumption
Economic assumptions	This year, for the first time, the Treasury has published a central table of CPI inflation assumptions which are to be used in major accounting valuations for reporting to the Crown. These figures have been adopted for the valuation. The remaining economic assumptions are set by the consulting actuaries in consultation with the Treasury, Inland Revenue, the Ministry of Social Development and the Ministry of Education. For example, the long-term Average Weekly Earnings growth is 3.0 percent in 2010 and increases to 3.5 percent from 2014 onwards.
Discount rates	The carrying value of student loans is based on discount rates that are set for each cohort of new borrowers at the time they first borrow. These incorporate a risk-free component and a risk margin calculated each year for each new cohort of borrowers. The Treasury has also published a central table of risk-free rate assumptions which have been adopted for the valuation. The discounting used to compute the fair value, which is based on current risk-free rates and margins, is equivalent to a single annual discount rate, which for this year's valuation is estimated to be 7.67 percent.
Income of borrowers	Personal income growth from 'career advancement' is modelled from the experience of the loan scheme and from Census data for longer durations. General salary inflation is imposed on top of this 'career advancement' analysis as an economic assumption.
Transitions between being a student, employment and overseas	Modelled from the recent experience of the loan scheme's participants.
Voluntary repayments	The probability and amount of voluntary repayments are modelled from the experience of the loan scheme since the introduction of the interest-free policy. This is adjusted to reflect the expected impact of the 10 percent bonus policy.
Repayment threshold	$19,084 for the 2011 tax year, increasing by CPI thereafter.
Resident underpayment	The probability and amount of underpayment by New Zealand-based borrowers has been modelled from recent data and adjusted for the expected effect of measures being put in place by Inland Revenue to improve compliance.
Repayment holiday	Data is available indicating who, of those overseas, is on a repayment holiday and how many years of repayment holiday entitlement they have remaining. This data was used as a starting point in the projections. Also, based on past experience, all those going overseas for the first time were assumed to go on a repayment holiday.
Bankruptcy	Age-specific, graduated rates were constructed based on the experience of the loan scheme. For example, the rate of bankruptcy at age 40 is 1.96 per 1,000 borrowers each year.
Mortality	Based on the experience of the loan scheme: male mortality is assumed to be 66 percent of the New Zealand Life Tables 2005 and female mortality is assumed to be 81 percent of the New Zealand Life Tables 2005.

Source: Ministry of Education.

4.2 Valuation and accounting

Each year, the student loan asset is valued in accordance with NZ IFRS. If this value is lower than the current carrying value, the carrying value is reduced or 'written down' through what is known as an impairment or reduction in value. If the NZ IFRS value is greater than the carrying value, the carrying value can be increased through a reversal of a previous impairment. Impairment is recognised in the accounts as an expense.

At 30 June 2010, the value of student loans was assessed as $6,790 million, which implied an impairment of $280 million that has been recognised in the scheme's financial statements. The impairment meant that the carrying value after revaluation was $237 million higher than it had been a year earlier. Note that new lending over the year amounted to $1,525 million and repayments to $754 million.

The annual valuation includes measurement of the fair value, which is disclosed in a note to the accounts. This increased during the year by $902 million due to significant decreases in the discount rates used in the valuation. For a more detailed explanation of the method used to determine the impairment, carrying value and fair value refer to chapter 5.5.

Movements in the carrying value over the year

The sources of movements in the carrying value in 2009/10 are set out in Table 23.

The opening carrying value from the last valuation is:

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

Table 23 Movements in the carrying value 2009/10

	$ million
Opening value	6,553
New lending	1,525
Administration fee	11
Initial write-down	-728
Repayments	-754
Interest unwind income	463
Impairment	-280
Closing value (after impairment)	6,790

Source: Student Loan Scheme Financial Statements.

Last year on 30 June 2009, the carrying value was 63.9 percent of the nominal value. Following the valuation this year (and the consequent impairment), the ratio of carrying value to nominal value decreased to 60.9 percent, representing a 4 percent decrease in value.

Factors contributing to the impairment over the year

There are a number of factors that contribute to the impairment of the student loan portfolio during the 2009/10 financial year. Very briefly, these include:

- improvements to models that predict cash flows and the use of the most up-to-date information about borrowers (this has reduced the value by $236 million)
- a change in the composition of borrowers between the time at which the valuation is calculated and the date the loan balance is calculated (this has reduced the value by $64 million)
- a reduction in the level of repayments from that predicted at the last valuation (this has reduced the value by $23 million)
- student loan policy changes such as:
  - maintaining the student loan repayment threshold for 2010/11 at the 2009/10 level, i.e. not adjusting the threshold by CPI (this increases the scheme's value by around $21 million)
  - reversing the penalties for certain hardship cases. The Student Loan Scheme (Exemptions and Miscellaneous Provisions) Amendment Act 2009 corrected an anomaly in the law to allow for the capitalisation of overdue amounts in hardship cases for previous tax years (this reduces the loan scheme's value by $32 million)
  - increasing the Ministry of Social Development loan establishment fee from $50 to $60 and introducing a new $40 annual administration fee for all loan accounts held at Inland Revenue (this increases the loan scheme's overall value by $86 million)
- an interplay between macroeconomic conditions (increasing the value) and lower cash flows (reducing the value) (the net effect is a reduction in value of $32 million).

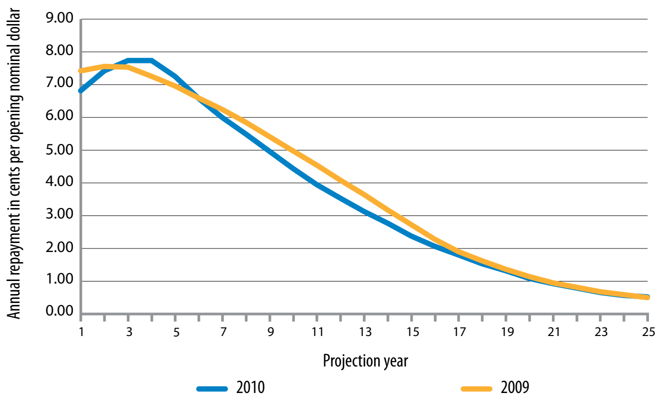
All these factors have the combined effect of reducing the carrying value from 63.9 percent of the nominal value to 60.9 percent of the nominal value.

Fair value change over the year

The fair value has increased from 53.3 percent to 57.1 percent of the nominal value (refer to Table 24). The changes above also impact the fair value figure, but these adverse changes are more than offset by the change in the discount rates between valuations. The fair value is based on current market interest rates and risk premium. The increase in fair value is mainly because of an improvement in economic conditions, and a reduction in risk premiums over the past year means that new lending will not need to be discounted so heavily. In addition, the Budget 2010 initiatives affect the value of new lending but most of them do not affect the value of current loans.

Figure 39 shows how projected repayments have changed between the valuations. It shows the repayments generated by the current loans, expressed as cents per year per opening nominal dollar. Compared with last year's projections, higher repayments are expected from the third year until around the fifth year of projection.

Figure 39 Comparison of projected repayments

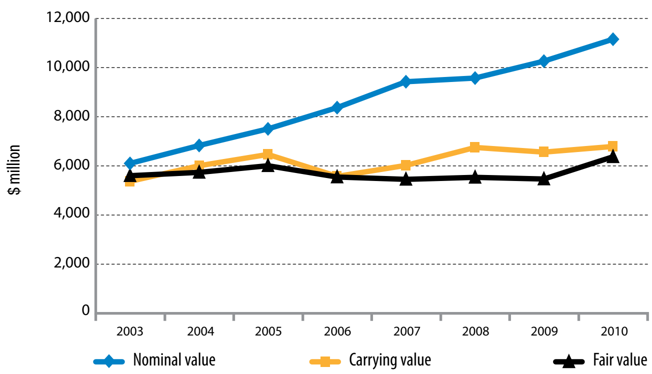


Source: Student Loan Scheme Financial Statements.

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

Figure 40 and Table 24 show the trends in the nominal value of the scheme, the carrying value and the fair value over the last seven years.

Figure 40 The value of the Student Loan Scheme at 30 June



Source: Student Loan Scheme Financial Statements.

Notes:

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

Table 24 The loan scheme's nominal value, carrying value and fair value at 30 June

		2003 $ million	2004 $ million	2005 $ million	2006 $ million	2007 $ million	2008 $ million	2009 $ million	2010 $ million
Values	Nominal value	6,094	6,821	7,499	8,370	9,413	9,573	10,259	11,145
	Carrying value	5,370	5,995	6,465	5,569	6,011	6,741	6,553	6,790
	Fair value	5,592	5,734	5,994	5,537	5,443	5,521	5,464	6,366
		Cents per dollar of nominal value							
Ratios	Carrying value to nominal value	88.1	87.9	86.2	66.5	63.9	70.4	63.9	60.9
	Fair value to nominal value	91.8	84.1	79.9	66.2	57.8	57.7	53.3	57.1

Source: Student Loan Scheme Financial Statements.

Notes:

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

4.3 Historic and forecast cost of the scheme

Table 25 below shows the details of the nominal and carrying value movements over the five-year period from 1 July 2005 to 30 June 2010.

Table 25 Nominal and carrying value movements from 1 July 2005 to 30 June 2010

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

Notes:

1. The nominal balance at 30 June 2007 has been restated as per Table 15 of the 2008 annual report to exclude accrued interest that would be subsequently written off. Death and bankruptcy figures are from this and earlier annual reports. All other figures except the balancing item are from the accounts as published in the loan scheme annual reports.
2. The balancing item includes loan interest charged. It also includes various write-offs of penalties, and small balance write-offs over the period.
3. The no interest for New Zealand-based borrowers policy came into effect on 1 April 2006.

Table 25 shows that over the last five years the scheme has:

- received $3.2 billion in repayments from students and former students
- lent out $6.3 billion to students
- written down new lending over the period by $2.6 billion
- been impaired by $1.0 billion
- expensed $1.4 billion cost in 2005/06 associated with the no interest policy and the adoption of the New Zealand equivalents to the International Financial Reporting Standards (NZ IFRS)
- booked $2.2 billion in interest unwind income.

Hence an asset which had an opening value of $6.5 billion in 2005 is worth $6.8 billion in 2010.

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

Historic expenses of the scheme

Tables 26 and 27 show the net expense and cash outlay of the scheme over the last four years.

Table 26 Cash movements for the year ending 30 June

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

Source: Student Loan Scheme Financial Statements.

Table 27 Costs of the scheme for the year ending 30 June

	2007 $ million	2008 $ million	2009 $ million	2010 $ million
Write-down on new lending	488	487	532	728
Interest unwind income	-360	-407	-473	-463
Impairment	151	-231	779	280
Net expense	279	-151	839	545

Source: Student Loan Scheme Financial Statements.

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

These tables indicate that, in 2009/10, $1,525 million was lent out. Repayments amounted to $754 million, meaning that the net cash outlay was $771 million. The new borrowing incurred an expense through an initial write-down of $728 million. Income of $463 million accrued during the year by way of the interest unwind. The valuation of the scheme at 30 June 2010 produced an impairment of $280 million, leaving a net expense of $545 million for the year.

Forecast expenses of the scheme

The annual valuation also assesses the value to which new lending should be written down for the following financial year. Because new borrowers are, on average, further away from repaying than the typical holder of a student loan, loans held by new borrowers are worth less to the Crown than average. So the initial value write-down is higher than suggested by the carrying value. In 2009/10, the initial write-down was 47.7 cents in the dollar. In 2010/11, this will decrease to 45.3 cents. One way of looking at this is that of every dollar the Crown lends, 54.7 cents is treated as an asset and 45.3 cents as an expense. The main reasons for the reduction in the cost of lending are economic conditions, better information on borrower behaviour, improved modelling, and the Budget 2010 policy change initiatives.

Assuming that the cost of new lending per dollar lent remains constant over the government's baseline period (to 2013/14), the forecast expenses of the Student Loan Scheme over that period are shown in Tables 28 and 29. The current valuation fully accounts for impairment known at this time, and it would take an adverse change in outlook to generate further impairment. Thus we expect, when forecasting, that there is no impairment in future years.

Table 28 Forecast of cash movements for the year ending 30 June

	Actual	Forecast			
	2010 $ million	2011 $ million	2012 $ million	2013 $ million	2014 $ million
New lending	1,525	1,600	1,648	1,664	1,676
Repayments	-754	-828	-912	-1,016	-1,111
Net cash out	771	772	736	648	565

Source: *Budget and Economic Fiscal Update 2010* (BEFU 2010) and Ministry of Education.

Note: The new lending and repayment figures have been reworked from the BEFU 2010 to reflect the valuation results as at 30 June 2010.

Table 29 Forecast of costs of the scheme for the year ending 30 June

	Actual	Forecast			
	2010 $ million	2011 $ million	2012 $ million	2013 $ million	2014 $ million
Write-down on new lending	728	730	752	759	764
Interest unwind income	-463	-486	-533	-576	-615
Impairment	280	-	-	-	-
Net expense	545	243	219	183	148

Source: Ministry of Education.

Note: The new lending and repayment figures have been reworked from the BEFU 2010 to reflect the valuation results as at 30 June 2010.

4.4 Aggregate loan balance projection

Using the forecast of new lending and repayments, and assuming a constant proportion of the loan book held by Inland Revenue is overseas and attracting loan interest, a forecast of nominal loan balance and of the carrying value can be made. This is shown in Table 30.

Table 30 Forecast of scheme loan balance and carrying value as at 30 June

	Actual	Forecast			
	2010 $ million	2011 $ million	2012 $ million	2013 $ million	2014 $ million
Values					
Nominal value	11,145	12,077	12,990	13,825	14,588
Carrying value	6,790	7,331	7,861	8,339	8,767
		Cents per dollar of nominal value			
Ratios					
Carrying value to nominal value	60.9	60.7	60.5	60.3	60.1

Source: Ministry of Education.

Note: The new lending and repayment figures have been reworked from the BEFU 2010 to reflect the valuation results as at 30 June 2010.

4.5 Agency costs

The cost of administering the loan scheme varies from year to year, depending on the number of borrowers, the number of transactions, and any system changes required for the implementation of new policies. Borrowers contribute to the cost of administering the loan scheme through an administration fee that is charged to the borrower's account by StudyLink when the loan is established. Commencing with the 2011/12 tax year, borrowers who have a loan balance held by Inland Revenue will be charged an annual administration fee of $40. This new policy will improve value for money of student support expenditure by recovering more of the costs of administering the Student Loan Scheme.

Table 31 Estimated Student Loan Scheme administration costs 2007/08-2009/10

	2007/08 $ million	2008/09 $ million	2009/10 $ million
Ministry of Social Development	17.0	17.0	13.8
Inland Revenue	26.4	22.2	23.5
Ministry of Education	0.6	0.6	0.7
Statistics New Zealand	0.7	0.7	0.7
Gross agency cost	44.7	40.5	38.7
Less loan administration fees	8.6	9.6	10.5
Net administration cost	36.1	30.9	28.2

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

Note: All amounts exclude GST.

Table 31 shows the estimated total cost for the agencies over the last three years, less the current administration fees. In addition to costs incurred by the Ministry of Social Development and Inland Revenue in managing the lending and repayment process, both the Ministry of Education and Statistics New Zealand have costs resulting from the scheme. The Ministry of Education provides policy advice to government on student support in the tertiary education sector and produces this report. Statistics New Zealand manages the integrated dataset for student loans and allowances; their costs associated with the scheme cover the collation and management of the dataset. The estimates made by the agencies include costs that can be directly attributed to these activities plus estimates of overhead costs where appropriate.

CHAPTER FIVE:

Student Loan Scheme Financial Statements

for the Year Ended 30 June 2010

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5.0 Financial statements for the year ended 30 June 2010

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

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

The schedule of assets shows a total asset value (carrying value) as at 30 June 2010 of $6,790 million ($6,553 million at 30 June 2009).

5.1 Schedule of revenue and expenditure

Table 32 Schedule of revenue and expenditure for the year ended 30 June 2010

Actual 2009 $ million		Actual 2010 $ million	Main Estimates 2010 $ million	Supp. Estimates 2010 $ million
	Revenue			
473.1	Interest unwind	463.0	515.9	472.5
9.6	Administration fees - MSD	10.5	9.9	10.8
482.7	**Total revenue**	**473.5**	**525.8**	**483.3**
	Expenditure			
779.2	Impairment	279.7	110.0	211.3
532.4	Fair value write-down on new borrowings	727.8	572.6	770.8
7.7	Other	0	0	0
1,319.3	**Total expenditure**	**1,007.5**	**682.6**	**982.1**
-836.6	**Net deficit**	-534.0	-156.8	-498.8

- The accompanying accounting policies and notes on pages 55-57 form part of these financial statements.
- Budget figures represent the combined total for the applicable agencies.
- For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated audited Financial Statements of the Government, for the year ended 30 June 2010.
- Details of the Consolidated Movements Schedule for the year ended 30 June 2010 are shown in Note 1.

5.2 Schedule of assets

Table 33 Schedule of assets as at 30 June 2010

Actual 2009 $ million		Actual 2010 $ million	Main Estimates 2010 $ million	Supp. Estimates 2010 $ million
	Current assets			
761.0	Student loans	759.0	864.1	773.6
761.0	**Total current assets**	**759.0**	**864.1**	**773.6**
	Non-current assets			
5,791.7	Student loans	6,030.5	6,794.0	6,108.9
5,791.7	**Total non-current assets**	**6,030.5**	**6,794.0**	**6,108.9**
6,552.7	**Total assets**	**6,789.5**	**7,658.1**	**6,882.5**

– The accompanying accounting policies and notes on pages 55-57 form part of these financial statements.
– Budget figures represent the combined total for the applicable agencies.
– For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated audited Financial Statements of the Government, for the year ended 30 June 2010.
– Details of the Consolidated Movements Schedule for the year ended 30 June 2010 are shown in Note 1.

5.3 Schedule of cash flows

Table 34 Schedule of cash flows for the year ended 30 June 2010

Actual 2009 $ million		Actual 2010 $ million	Main Estimates 2010 $ million	Supp. Estimates 2010 $ million
	Cash flows – investing activities			
	Cash was provided from:			
710.0	Repayments received	754.2	793.7	750.6
	Cash disbursed for:			
-1,350.3	New borrowings	-1,525.0	-1,477.6	-1,579.3
-640.3	**Net cash outflow from investing activities**	-770.8	-683.9	-828.7
-640.3	**Net student loan cash outflow**	-770.8	-683.9	-828.7

– The accompanying accounting policies and notes on pages 55-57 form part of these financial statements.
– Budget figures represent the combined total for the applicable agencies.
– For a full understanding of the Crown's financial position and the results of its operations for the year, refer to the consolidated audited Financial Statements of the Government, for the year ended 30 June 2010.
– Details of the Consolidated Movements Schedule for the year ended 30 June 2010 are shown in Note 1.

5.4 Statement of accounting policies for the year ended 30 June 2010

Reporting entity

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

Statutory authority

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

Budget figures

The budget figures are those presented in the Budget Night Estimates (Main Estimates) and those amended by the Supplementary Estimates (Supp. Estimates) and any transfer made by Order in Council under section 26A of the Public Finance Act 1989. The budget figures provided are extracted from the details of the Estimates of Appropriation for Inland Revenue and the Ministry of Social Development, as applicable. The totals shown are the combined totals for the applicable agencies.

Financial instruments

Student loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method, plus or minus any impairment movement. Fair value on initial recognition is determined by projecting forward the expected repayments required under the scheme and discounting them back at an appropriate discount rate. The difference between the amount lent and fair value is expensed on initial recognition.

The subsequent measurement at amortised cost is determined using the effective interest rate calculated at initial recognition.

The effective interest rate discounts estimated future cash flows through the expected life of the loan to the net carrying amount of the loan, excluding future credit losses. Interest is recognised on the loan evenly in proportion to the amount outstanding over the period to repayment.

Allowances for impairment are recognised when there is objective evidence that the loan is impaired. Impairment movements are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan, and that the event (or events) has an impact on the estimated future cash flows of the student loan carrying value that can be reliably measured.

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

Interest

Interest is calculated on the nominal student loan account balances on a daily basis at a rate determined by the government, currently 6.6 percent per annum. Interest is charged to both New Zealand-based borrowers and overseas-based borrowers; however, there is a concurrent write-off for New Zealand-based borrowers under the interest-free policy.

Credit risk

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

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

The credit risk is reduced by the collection of compulsory repayments from New Zealand-based borrowers through the tax system.

Interest rate risk

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

Changes in accounting policies

There have been no changes in the student loan accounting policies applicable to the preparation of financial statements of Crown activities administered by the Ministry of Social Development and Inland Revenue for Crown consolidation, from those used in the previous year. All accounting policies have been applied on a basis consistent with the previous year.

5.5 Notes to the financial schedules

Note 1: Consolidated movements schedule for the year ended 30 June 2010

Table 35 Consolidated movements schedule for the year ended 30 June 2010

Consolidated Actual 2009 $ million		Consolidated Actual 2010 $ million	Inland Revenue 2010 $ million	Ministry of Social Development 2010 $ million
10,259.3	Nominal balance	11,145.1	9,829.4	1,315.7
-3,706.6	Adjustment due to initial fair value recognition and impairment	-4,355.6	-3,725.2	-630.4
6,552.7	**Total carrying value**	**6,789.5**	**6,104.2**	**685.3**
6,741.3	**Opening balance**	**6,552.7**	**5,825.7**	**727.0**
0	Borrowings transferred from Ministry of Social Development to Inland Revenue	0	1,268.4	-1,268.4
0	Fair value write-down on borrowings transferred	0	-475.5	475.5
1,350.3	Amount borrowed in current year	1,525.0	0	1,525.0
-532.4	Fair value write-down on new borrowings	-727.8	0	-727.8
9.6	Administration fees on loans made in current year	10.5	0	10.5
-710.0	Repayments made in current year	-754.2	-652.0	-102.2
117.5		**53.5**	**140.9**	**-87.4**
473.1	Interest unwind	463.0	394.8	68.2
473.1		**463.0**	**394.8**	**68.2**
3.6	Impairment losses reversed	0	0	0
-782.8	Impairment	-279.7	-257.2	-22.5
-779.2	**Net decrease in other movements**	**-279.7**	**-257.2**	**-22.5**
6,552.7	**Student loans carrying value**	**6,789.5**	**6,104.2**	**685.3**

Note 2: Recognition

Student loan nominal value

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

Student loan carrying value

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

The main factors relating to the $280 million impairment of student loans include policy changes, refinements to the actuarial model used and the change in the demographic profile of the participants.

Fair value on initial recognition of student loans is determined by projecting forward expected repayments required under the scheme and discounting them back at an appropriate discount rate. The subsequent measurement at amortised cost is determined using the effective interest rate calculated at initial recognition. This rate is used to spread the interest income across the life of the loan and determines the loan's carrying value at each reporting date.

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

Table 36 Significant assumptions

	30 June 2010	30 June 2009
Carrying value		
Effective interest rate	6.97%	6.73%
Interest rate applied to loans for overseas borrowers	6.6%-6.8%	6.7%-6.8%
Consumer Price Index	2.4%-3.0%	1.5%-2.5%
Future salary inflation	3.0%-3.5%	1.5%-3.5%
Fair value		
Fair value ($000)	6,366,000	5,464,200
Discount rate	7.67%	9.18%
Impact on fair value of a 1% increase in discount rate ($000)	-361,000	-275,800
Impact on fair value of a 1% decrease in discount rate ($000)	412,200	308,000

Source: Inland Revenue.

Notes:

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

The data for the valuation of student loans has been integrated from files provided by Inland Revenue, the Ministry of Social Development and the Ministry of Education. The current data is up to 31 March 2009 and contains information on borrowings, repayments, income, educational factors, and socio-economic factors amongst others and has been analysed and incorporated into the valuation model. The integrated data has been supplemented by less detailed, but more recent, data to value student loans at balance date.

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

Student loan fair value

Fair value is the amount for which the loan book could be exchanged between knowledgeable, willing parties in an arm's length transaction as at 30 June 2010. It is determined by discounting the estimated cash flows at an appropriate discount rate. The estimated fair value of the student loan debt at 30 June 2010 has been determined to be $6,366 million ($5,464 million at 30 June 2009).

Fair values will differ from carrying values due to changes in market interest rates, as the carrying value is not adjusted for such changes, whereas the fair value was calculated using a discount rate that was current at 30 June 2010. At that date the fair value was calculated on a discount rate of 7.67 percent (9.18 percent at 30 June 2009) whereas a weighted average discount rate of 6.97 percent (6.73 percent as at 30 June 2009) was used for the carrying value. The difference between fair value and carrying value does not represent an impairment of the asset.

Note 3: Reconciliation of impairment allowance account

Table 37 Reconciliation of impairment allowance account

Impairment allowance account	30 June 2010 $ million	30 June 2009 $ million
Balance at beginning of year	1,082	303
Impairment losses recognised on receivables	280	779
Balance at end of year	**1,362**	**1,082**

Source: Inland Revenue.

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 2010

The Auditor-General is the auditor of the financial statements of the Student Loan Scheme. The Auditor-General has appointed me, Robert Manktelow, using the staff and resources of Audit New Zealand, to carry out the audit. The audit covers the financial statements of the Student Loan Scheme for the year ended 30 June 2010.

Unqualified opinion

In our opinion:

- The financial statements of the Student Loan Scheme on pages 51 to 57:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect:
    - the Student Loan Scheme's financial position as at 30 June 2010; and
    - the results of its revenue, expenditure and cash flows for the year ended on that date.

The audit was completed on 8 October 2010, and is the date at which our opinion is expressed.

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

Basis of opinion

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

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

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

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

Audit procedures generally include:

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

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

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

Responsibilities of the Secretary for Education and the Auditor

The Secretary for Education is responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Student Loan Scheme as at 30 June 2010 and the results of its revenue, expenditure and cash flows for the year ended on that date.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

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

Robert Manktelow, Audit New Zealand
On behalf of the Auditor-General, Wellington, New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the Student Loan Scheme for the year ended 30 June 2010 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 8 October 2010 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: Parameters of the Student Loan Scheme

Eligibility

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

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

Undischarged bankrupts are not eligible to apply for a student loan.[60]

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[61] offered by a recognised tertiary education provider, and
  - be studying:
  - full-time for not less than 12 weeks, or
  - part-time for a full year (32 weeks or longer), or
  - part-time for part of the year (less than 32 weeks) with a course load of 0.25 equivalent full-time student units or more.

Loan components

A student loan has four components:

Compulsory fees

Students can borrow the full amount of their compulsory fees. These are direct-credited to the borrower's chosen tertiary education provider.

Where compulsory, students' association fees can be borrowed as part of the compulsory fees loan entitlement. Otherwise, students' association fees can be borrowed as part of a student's course-related costs entitlement.

Course-related costs

Students can borrow up to $1,000 each year to help cover expenses related to their studies such as equipment, textbooks and field trips. Students have to provide justification of their expenses. This can be either a statement from their provider listing the items needed for their course and an estimate of the cost, or receipts for expenditure incurred. Students studying part-time for part of the year are not able to access this component of the loan scheme.

Living costs

Only full-time students are eligible for the living costs entitlement for each week of the course, less any student allowances.[62] The living costs entitlement is paid in weekly instalments in arrears. In 2009, living costs were indexed by inflation following a one-off increase from $150 to $155 per week. In the 2009/10 tax year, students could borrow up to $160.24 per week[63] (this increased to $163.38 for the 2010/11 year).

Students nominate the amount they wish to draw each week up to the maximum entitlement. If they nominate less than their full entitlement, the remainder cannot be claimed retrospectively at a later date.

Administration fee

When a new loan account is established, an administration fee of $50 is charged by StudyLink.[64] This is added to the student's loan balance when the student first draws from the loan account, or when fees are transferred to the provider (on the student's instructions). The administration fee is charged once when the loan is established. If a student borrows for three academic years, this equates to three loans and therefore three administration fees are charged, one for each academic year.

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

Loan repayments

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

New Zealand-based borrowers

The amount a New Zealand-based borrower is required to repay is based on income. Any borrower earning over the repayment threshold during a tax year is required to make repayments towards the loan. In the tax year from April 2009 to March 2010, the threshold was $19,084 (for the 2010/11 tax year the threshold remains the same). Compulsory repayments are made at the rate of 10 cents for every dollar of income over the repayment threshold.

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

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

Overseas-based borrowers

Overseas borrowers have a different repayment obligation from those based in New Zealand, where repayment obligations are based on income. The repayment obligations are calculated as shown in Table 38.

60 'No asset procedure' debtors are able to access the Student Loan Scheme. However, unlike for bankruptcy, the student loans of these debtors cannot be written off. The 'no asset procedure' was put in place by the Insolvency Act 2006 as an alternative to bankruptcy.

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

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

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

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

Table 38 Overseas-based borrowers' repayment obligation from 1 April 2007

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

Source: Inland Revenue.

Since 1 April 2007, overseas-based borrowers have been able to take a repayment holiday for a maximum of three years. Borrowers do not have to make repayments, although their loans still attract interest. Those entitled to the repayment holiday include those who went overseas after 1 April 2007 and those who were already overseas and had either kept up to date with their repayments or had been overseas for less than a year.

Voluntary repayments

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

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

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

Starting with the 2009/10 tax year, borrowers who make repayments totalling $500 or more above their repayment obligation for that year receive a 10 percent bonus (for example, a borrower who makes voluntary repayments totalling $1,000 in the 2009/10 tax year will have a total of $1,100 credited against their loan balance). The voluntary repayments don't need to be made in a lump sum payment and borrowers do not need to apply for the bonus. To be eligible to receive the 10 percent bonus, borrowers must be meeting their compulsory repayment obligations, not be in default, be using the correct tax code and be filing income tax returns (if applicable).[65]

Overdue repayments

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

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

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

Small balance write-offs

If at the end of a tax year the borrower has a loan balance of less than $20, this is written off in accordance with sections 51 and 60 of the Student Loan Scheme Act 1992.

Interest

Most borrowers no longer pay interest on student loans because they are New Zealand-based. To be eligible, student loan borrowers must be living in New Zealand for 183 consecutive days or more, or qualify for an exemption from being overseas-based borrowers.[66]

Those borrowers who do not qualify for an interest-free student loan – defined as 'overseas-based borrowers' – will continue to be charged interest at the rate set each year. Borrowers who have returned to New Zealand after being classified as overseas-based have interest charged for the first 183 days without the concurrent write-off. However, once 183 days have passed, the interest charged from the date they returned is written off and the daily concurrent interest write-off takes over.

The interest rate for the tax year from April 2009 to March 2010 was 6.8 percent, and was set at 6.6 percent for the following year.

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

66 Some borrowers may qualify for exemption from interest charges if they are overseas and, for example, they are studying or working as a volunteer. Full details are available at www.ird.govt.nz/studentloans/.

Appendix 2: Glossary

Academic year

The academic year is from 1 January to 31 December.

Amortised cost

The amount that represents the initial fair value write-down plus interest unwind. The interest unwind rate effective at the initial fair value write-down is used to spread the interest over the life of the loan.

Approved qualification

A formally assessed qualification approved by the New Zealand Vice-Chancellors' Committee or the New Zealand Qualifications Authority (NZQA) or bodies delegated by NZQA.

Borrower

Any person who has drawn from the Student Loan Scheme.

Borrowers overseas

Until 31 March 2007, a borrower living overseas was called a non-resident borrower and defined as a borrower not living in New Zealand in terms of section OE 1 of the Income Tax Act 1994.

From 1 April 2007, borrowers living overseas are referred to as 'overseas-based borrowers'. An overseas-based borrower now includes anyone not eligible for an interest-free student loan.

Carrying value

The carrying value is the value of the Student Loan Scheme asset which is maintained in the scheme's accounts. It increases during the year as new loans are issued and decreases as repayments are made. Adjustments are made each year following an annual valuation of the asset. Since 1 July 2005, valuations have been made in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Cohort

A group of people with a common statistical factor. For example, a cohort could be a group of students for whom 2008 is their first year of tertiary education.

Compulsory fees or tuition fees

Compulsory fees charged for tuition by public and private tertiary education providers.

Compulsory repayments

Compulsory repayments are repayments a borrower must make on his/her loan.

For New Zealand-based borrowers, compulsory repayments commence when their earnings cross the income threshold. When this happens, loan repayments must be made to Inland Revenue, even if the borrower is still studying. The repayments are 10 cents in every dollar earned over the threshold.

For overseas-based borrowers, compulsory repayments commence once the three-year repayment holiday ends. When this happens, loan repayments must be made to Inland Revenue twice a year. One instalment is due on 30 September, the other on 31 March. The amount to be repaid is based on the size of the borrower's loan. For more details about repayment rates for overseas-based borrowers visit the Inland Revenue Department website at www.ird.govt.nz/studentloans/overseas/long-trip/.

Course

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

Course-related costs

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

Equivalent full-time student (EFTS)

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

Fair value

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

Fee and course costs maxima policy (FCCM)

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

Fee stabilisation policy

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

Fiscal year

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

Formal education/study

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

Full-time

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

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

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

Impairment

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

Income year or tax year

From 1 April to 31 March.

Industry training organisations (ITOs)

These are organisations that develop high-quality, systematic training arrangements (through tertiary institutions, private training establishments and the workplace) for employees in their industry.

Institutes of technology

'Institutes of technology' is an alternative name for polytechnics.

Institutes of technology and polytechnics (ITPs)

Institutes of technology and polytechnics are public tertiary education institutions characterised by diverse vocational and professional programmes.

Integrated dataset

The integrated dataset is managed by Statistics New Zealand. It combines:

- information collected by tertiary education providers on students, enrolments and courses
- information collected by StudyLink on students' borrowings under the loan scheme and student allowances payments
- data on student loan balances, repayments, income and tax status from Inland Revenue
- data on student loan borrowing from the now-defunct Student Loan Account Manager provided by Inland Revenue and the Ministry of Education.

Interest-free student loans

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

Interest rate setting

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

Interest unwind

Refer to chapter 4.

Interest write-offs

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

Loan balance

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

New borrowers

Borrowers who entered the loan scheme for the first time in a given year. For example, 2008 new borrowers are those that entered the loan scheme for the first time in 2008, and 2007 new borrowers are those that entered the loan scheme for the first time in 2007. A small number of new borrowers may have also borrowed during the 1990s.

New Zealand-based borrowers

All borrowers who qualify for an interest-free student loan. Since 1 April 2006, if borrowers live in New Zealand for six months (183 days) or more, interest charged to their loan balance is written off daily.

Nominal value

The nominal value of student loans is the balance of borrowings with Inland Revenue and the Ministry of Social Development. It is the total amount owed by borrowers at a point in time, including loan principal, interest, fees and penalties. The change in the value from year to year reflects changes in the amount owed by borrowers.

Non-degree

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

Non-formal education/study

Learning opportunities in the New Zealand tertiary education system can be categorised as formal and non-formal. Non-formal study does not contribute towards a recognised qualification.

Non-resident borrower

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

Other tertiary education providers (OTEPs)

Providers recognised by the Minister of Education under section 321 of the Education Act 1989 as bodies that provide an educational or developmental service or facility.

Overseas-based borrowers

All borrowers who are not eligible for an interest-free student loan. Borrowers are no longer eligible for an interest-free student loan if they travel overseas for a period longer than six months (184 days), or for more than 31 days during the 183-day qualifying period.

Part-time

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

Pasifika

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

PAYE (pay as you earn)

If your income is from salary, wages, benefits or taxable pensions, tax is deducted automatically under the PAYE (pay as you earn) system. Employees who are taxed under the PAYE system and have a student loan must indicate this by selecting a certain tax code. This ensures that borrowers make the correct repayments on their student loan, according to their level of income.

Private training establishments (PTEs)

These are private providers of tertiary education registered with the New Zealand Qualifications Authority.

Programme of study

A programme of study is a collection of courses, classes or work that leads to a qualification.

Qualification

An official award given in recognition of successful completion of a programme of study that has been quality assured, by a recognised quality assurance agency. All recognised qualifications must be registered on the New Zealand Qualifications Authority's Register of Quality Assured Qualifications.

Repayment deductions

Amounts deducted by employers from a borrower's salary or wages when a borrower's income exceeds the repayment threshold and where the borrower has notified their employer of their student loan repayment obligation by using the appropriate tax code.

Repayment holiday

Overseas-based borrowers who are living overseas for six months (184 days) or more can opt to take a 'repayment holiday' of up to three years, which means that they won't have to make any repayments on their loan during this time. Interest, however, will continue to accumulate on the loan during this period.

Repayment holidays finish on the borrower's arrival back into New Zealand, but can be restarted again any time a borrower goes overseas for more than six months, provided they have not already reached the three-year limit.

Repayment obligation

The amount a borrower must repay toward their loan in any given income year. For New Zealand-based borrowers, this is calculated as the amount by which the borrower's net income exceeds the repayment threshold, multiplied by 10 percent. From 1 April 2007, the amount of repayment for overseas-based borrowers is based on the size of their loan.

Repayment threshold

The amount a New Zealand-based borrower can earn in a year before having to make repayments on their loan ($19,084 before tax for the periods 1 April 2009 to 31 March 2010 and 1 April 2010 to 31 March 2011). Once a person earns more than the threshold, they will have to pay 10 cents for every dollar earned over the threshold.

Resident borrower

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

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

Student allowances

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

Student Loan Accounts Manager (SLAM)

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

Student Loans Integrated Model (SLIM)

The stochastic model used to provide an annual valuation of the loan scheme and price policy options. Refer to chapter 4.1 for more details.

Study status

This refers to whether a person is studying full-time or part-time.

StudyLink

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

Tax year

From 1 April to 31 March.

Tertiary education

Tertiary education comprises all involvement in post-school learning activities, including industry training and community education. It also includes in-school programmes such as Gateway and the Secondary-Tertiary Alignment Resource (STAR).

Tertiary education institutions (TEIs)

Tertiary education institutions are public providers of tertiary education. TEIs are universities, institutes of technology and polytechnics, and wānanga. On 1 January 2007, the last two remaining colleges of education merged with their local universities.

Tertiary education organisations (TEOs)

These are all institutions and organisations that provide or facilitate tertiary education. They include tertiary education providers and industry training organisations.

Tertiary education providers (TEPs)

Tertiary education providers are all the institutions and organisations that provide tertiary education. These include public tertiary education institutions, private training establishments, other tertiary education providers and government training establishments.

Tertiary Education Strategy (TES)

The Tertiary Education Strategy sets the Government's goals and priorities for New Zealand's tertiary education system so that it contributes to New Zealand's national goals and is closely connected to enterprise and local communities.

Total interest rate

This is the interest charged on loans. Interest is adjusted annually from 1 April. The total interest rate was 6.7 percent for 2008/09, 6.8 percent for 2009/10 and has been set at 6.6 percent for 2010/11. From 1 April 2006, only overseas-based borrowers are liable for interest.

Tuition fees or compulsory fees

Compulsory fees charged for tuition by public and private tertiary education providers.

Voluntary repayments

Any student loan repayment that is made over and above a borrower's compulsory annual repayment obligation and is not an overpayment is considered a voluntary repayment.

Wānanga

A public tertiary institution that provides programmes with an emphasis on the application of knowledge regarding ahuatanga Māori (Māori traditions) according to tikanga Māori (Māori custom).

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