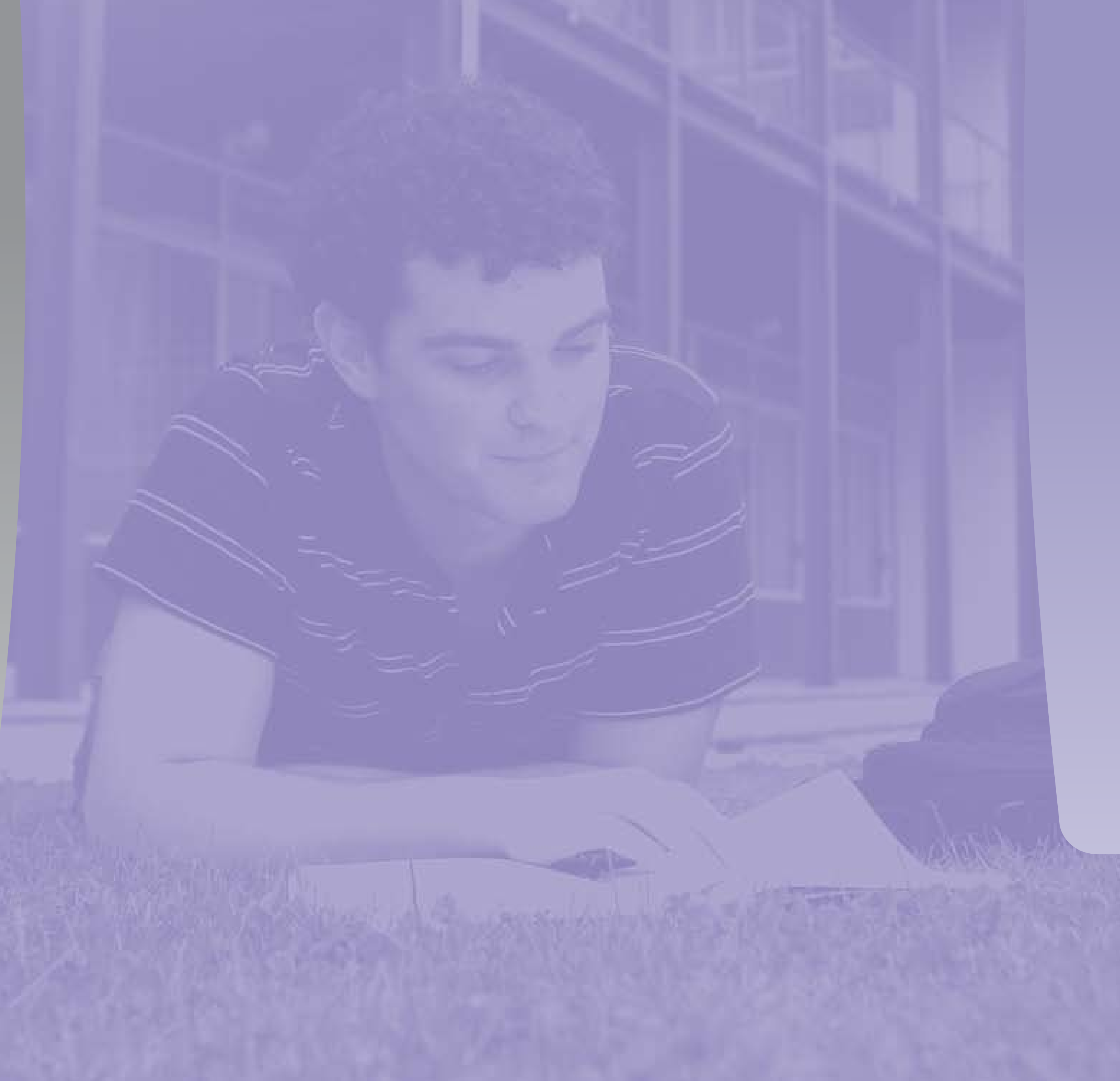
MINISTRY OF EDUCATION
Te Tāhuhu o te Mātauranga

STUDENT LOAN SCHEME

Annual Report

OCTOBER 2008

Incorporating the Financial Statements to 30 June 2008



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

October 2008

Foreword

I am pleased to present the 2008 Student Loan Scheme Annual Report and the 2007/08 Financial Statements.

The overall number of people who have taken out a student loan since the scheme began is 779,000, representing about 23 percent of New Zealanders who were aged 15 or over at the end of 2007. Since 1992, 237,000 loans have been fully repaid.

It is now sixteen years since the introduction of student loans for tertiary study at the beginning of the 1992 academic year. Over this time, the loan scheme has been frequently modified to better meet the changing needs of New Zealand and its people.

The number of New Zealanders who have accessed the scheme each year has grown from 44,000 in 1992 to 174,000 in 2007. This increase mirrors the growth in the number of people who choose to study at the tertiary level and the increase in student loan uptake rates. The total amount borrowed in 2007 was $1,173 million.

This year's report looks at the development of the loan scheme, what happened in 2007 and how this compares with earlier years. The report also includes the financial statements for the fiscal year to 30 June 2008 and an independent audit opinion. Some new and improved methodologies have been used to produce the statistical information.

The purpose of this report is to provide public accountability information to government and to New Zealanders to assure them that the scheme is being properly managed and achieving its primary objective – that tertiary education is attainable for all New Zealanders.

The information provided in the report is a collation of data held by the Ministry of Social Development, Inland Revenue, Statistics New Zealand and the Ministry of Education. These four agencies have worked together to bring you an accurate and up-to-date picture of the loan scheme as it operated in 2007 and the financial situation in the 2007/08 fiscal year. The report also looks at future developments and provides forecasts of future uptake and expenditure.

This interagency cooperation allows me to present you with what I believe is an interesting and comprehensive insight into how many New Zealanders are choosing to invest in tertiary education with the help of a major investment of public funds – the Student Loan Scheme.

Karen Sewell

Karen Sewell
Secretary for Education

Contents

HIGHLIGHTS

STUDENT LOAN SCHEME PORTFOLIO

As at 30 June 2008:

- The fair value of the loan scheme was approximately $5,521 million. (Refer to chapter 5.0.)
- The carrying value of the loan scheme – calculated using International Financial Reporting Standards – was $6,741 million. (Refer to chapter 5.0.)
- The nominal value of loan balances was $9,573 million. (Refer to chapter 5.0.)
- 530,000 people had a student loan with Inland Revenue for collection. (Refer to chapter 4.3.)

Since the loan scheme began:

- 779,000 people have used the loan scheme – 23.3 percent of the population aged 15 and over at 31 December 2007. (Refer to chapter 4.1.)
- 237,000 loans have been fully repaid. (Refer to chapter 4.4.)
- Inland Revenue had collected $4,350 million in loan repayments at 30 June 2008. (Refer to chapter 4.4.)

Interest-free student loans:

- In the first two years of the interest-free student loan policy, borrowers benefited by $976 million in interest. (Refer to chapter 4.4.)

During 2007/08:

- New repayment provisions were put in place for borrowers overseas. These changes allow these borrowers to take a three-year repayment holiday and simplify the annual compulsory repayment obligation after that holiday. (Refer to chapter 3.3.)
- The amnesty on penalties for overseas borrowers was also extended by one year. (Refer to chapter 3.3.)
- Overseas borrowers who are not eligible for a repayment holiday have a new repayment obligation based on the size of their loan balance. (Refer to chapter 3.3.)
- Students who undertake qualifications that do not receive student component funding are no longer eligible for student loans and allowances. (Refer to chapter 3.3.)
- The vocational and employment requirements for part-time, part-year students undertaking a course load of between 0.25 and 0.30 equivalent full-time student units were removed. (Refer to chapter 3.3.)

OUTCOMES OF THE STUDENT LOAN SCHEME

- Research shows that people with tertiary qualifications have lower unemployment, higher incomes and increased wellbeing. (Refer to chapter 2.2.)

From 1994 to 2007:

- The number of tertiary students (domestic and international) in 2007 was 484,000, compared with 252,000 domestic and international students in 1994. (Refer to chapter 2.2.)
- The proportion of New Zealanders aged 15 and over at 31 December 2007 who have participated in tertiary education has increased to 13.3 percent – up from 8.9 percent in 1994. (Refer to chapter 2.2.)
- Enrolments by women in public tertiary education providers have increased by 69 percent. (Refer to chapter 2.2.)
- Enrolments in public providers by Māori and Pasifika peoples have increased by 166 percent. (Refer to chapter 2.2.)
- The number of people with a bachelors degree or higher qualification almost doubled – from 224,000 to nearly 448,000. (Refer to chapter 2.2.)

ABOUT STUDENTS BORROWING FROM THE STUDENTLOAN SCHEME IN 2007

- 174,000 students (66 percent of eligible students) borrowed from the loan scheme. (Refer to chapter 4.1.)
- Of these, there were 58,000 new borrowers (based on provisional Ministry of Social Development data), representing 30 percent of all borrowers. (Refer to chapter 4.1.)
- The total amount borrowed in the year was $1,172.6 million. (Refer to chapter 4.2.)
- 96 percent of borrowers borrowed to pay course fees; 60 percent borrowed to help meet course-related costs and 50 percent borrowed to meet living costs. (Refer to chapter 4.2.)
- 25 percent of borrowers borrowed to pay for course fees only. (Refer to chapter 4.2.)
- 13 percent of borrowers borrowed to pay for living costs and received student allowances as well. (Refer to chapter 4.2.)
- 32 percent of borrowers were aged 20 or under, 34 percent were 21 to 26 years of age, 29 percent were aged from 27 to 50, and 4.8 percent were over 50 years of age. (Refer to chapter 4.1.)
- 17 percent of borrowers identified themselves as Māori, 16 percent as Asian and 7 percent as Pasifika peoples. (Refer to chapter 4.1.)
- The average amount borrowed was $6,747 and the median amount borrowed was $5,868. (Refer to chapter 4.2.)

ABOUT THOSE MAKING REPAYMENTS IN 2007

- 88 percent were under 45 years of age, 54 percent were aged under 30, and 6 percent were aged over 50. (Refer to chapter 4.3.)

OF THOSE WHO USED THE LOANSCHEME BETWEEN 1997 AND 2007

- About 56 percent were women. (Refer to chapter 4.3.)
- 54 percent were European, 23 percent were Māori, 11 percent were Asian and 8 percent were Pasifika peoples. (Refer to chapter 4.3.)
- 42 percent had studied at a university or college of education, 32 percent at a polytechnic and 22 percent at a private training establishment. (Refer to chapter 4.3.)
- 52 percent had studied at non-degree level, 41 percent at bachelors level and 8 percent at postgraduate level. (Refer to chapter 4.3.)

As at 30 June 2008:

- The average loan was $16,966 and the median loan balance was $11,384, including accrued interest. (Refer to chapter 4.4.)

During 2007/08:

- 15,000 loans were fully repaid. (Refer to chapter 4.4.)

VALUING AND FORECASTING THE STUDENTLOAN SCHEME

- The median repayment time for those who finished study in 1999 was forecast to be nine years. (Refer to chapter 5.4.)
- The median repayment time for those who finished study in 2005 is expected to be seven years. (Refer to chapter 5.4.)

Over the next four years:

- The average annual increase in total borrowing is forecast to be 6.6 percent per annum. (Refer to chapter 5.3, Table 19.)
- The average annual increase in total repayments is forecast to be 10.9 percent per annum. (Refer to chapter 5.3, Table 19.)

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

Introduction

The purpose of this annual report is to inform Parliament and the public about the performance of the loan scheme and associated trends. It also provides information about the loan scheme's financial performance from 1 July 2007 to 30 June 2008.

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

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

Tables behind graphs and historical data

The data underlying the graphs in this report and tables providing more detailed historical data will be available on the Education Counts website www.educationcounts.govt.nz later this year. These tables will be available for downloading in spreadsheet format.

Sources

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

Ministry of Education research cited in this report can be found on the EducationCounts website: www.educationcounts.govt.nz.

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

The integrated dataset

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

The integrated dataset combines:

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

The dataset has recently been updated with records up to 31 March 2007.

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.

Data from 2000

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

CHAPTER ONE

Student Loans in the Tertiary Education System

CHAPTERONE
Student Loans in the Tertiary Education System

1.0 Introduction

Government's priorities

Government has outlined three themes that have shaped its priorities:

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

These themes aim to ensure that all New Zealanders enjoy prosperity and a good quality of life, and to make New Zealand the best place in the world for future generations of New Zealanders to live.

The formal statement on the government priorities is available on the Department of the Prime Minister and Cabinet website www.dpmc.govt.nz/dpmc/publications/government-priorities.html.

The Tertiary Education Strategy

The Tertiary Education Strategy (TES) and the Statements of Tertiary Education Priorities (STEPs) set out how the tertiary education system is expected to contribute to the government priorities mentioned above.

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

The Tertiary Education Strategy 2007/12 (the structure of which is illustrated in Appendix 1) provides new goals and a new focus for the tertiary education system. The three areas of focus are:

- success for all New Zealanders through lifelong learning
- creating and applying knowledge to drive innovation
- strong connections between tertiary education organisations and the communities they serve.

The Tertiary Education Strategy identifies the contribution of the student support system to meeting tertiary education outcomes.

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

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

The following sections provide further detail on how funding policy and student support policy currently contribute to these government objectives.

1.1 Funding tertiary education

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

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

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

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

While the share of the total costs of tertiary education borne by students rose from 28 percent in 1998 to 33 percent in 2000, it fell back to 26 percent by 2007 due to fee stabilisation and rising subsidy rates.

1.2 Funding policy and its effect on tertiary fees

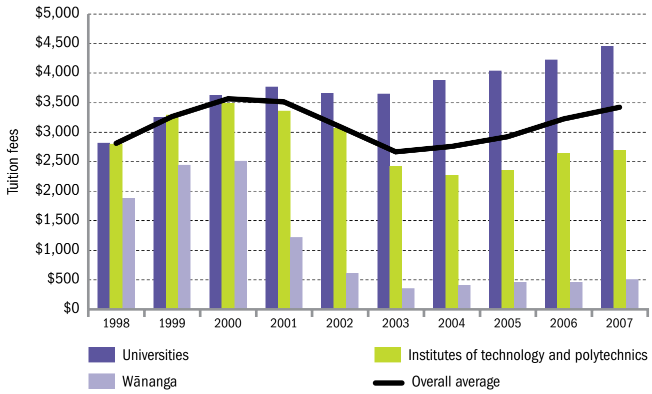
Between 1998 and 2000, the funding rates paid to tertiary education providers were reduced. This led to providers increasing their fees; the average tuition fee per equivalent full-time student in public tertiary education institutions increased by 27 percent (from $2,806 to $3,562) during this period.

From 2001, government introduced policies aimed at stabilising fees and the average fee per equivalent full-time student fell by 24 percent (from $3,513 to $2,664) between 2001 and 2003. The extent of the fall in average fees from 2001 to 2003 was magnified by several polytechnics and wānanga reducing their fees for some qualifications to zero during this time. The average fee per equivalent full-time student then increased by 24 percent (from $2,759 to $3,417) between 2004 and 2007. Some of this increase was due to a fall in the proportion of students in low-cost courses, especially in wānanga.

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

Figure 1 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 2007.

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



Source: Ministry of Education and Tertiary Education Commission.

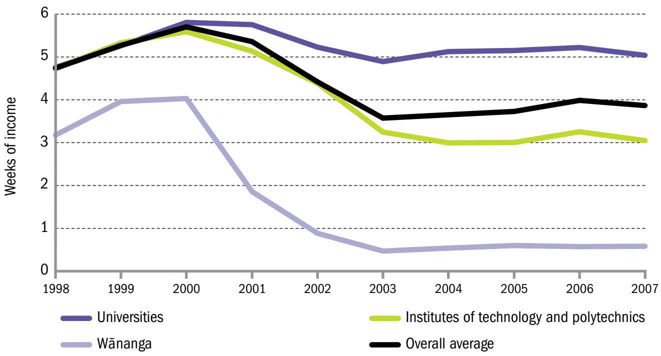
Notes:

1. Auckland University of Technology and Wellington Polytechnic are treated as universities for the entire period.
2. Data for the colleges of education is included in the university sub-sector as all colleges of education are now merged with universities.
3. Fees include GST.
4. The trends in fees 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.

The affordability of tertiary education

Fee stabilisation was introduced in 2001 and replaced by the fee and course costs maxima in 2004. This has meant that tertiary education has become more affordable since 2000, when the average full-year, full-time tuition fee at a university was equivalent to 5.8 weeks' average weekly income for the employed.[2] By 2007, this had fallen to 5.0 weeks' average weekly income. This is demonstrated in Figure 2.

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



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

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 fees 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.

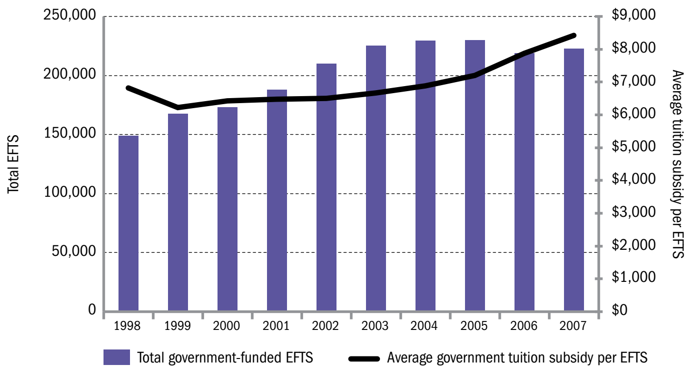
Increased spending on tuition subsidies

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

Since 2000, funding in the form of tuition subsidies has increased. In the 2007/08 fiscal year, $2,185 million in tuition subsidies[3] was allocated to tertiary education providers, compared with $1,084 million in 1999/2000.[4] The increased funding is due to an increase in tertiary student numbers and in subsidy rates.

As shown in Figure 3, between 2000 and 2007, the number of government-funded student places (measured in equivalent full-time student units) in formal education increased by 29 percent, from 173,000 to 223,000. Over the same period, the tuition subsidy rate (the funding per equivalent full-time student) increased by 31 percent for public tertiary education organisations.

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



Source: Ministry of Education and Tertiary Education Commission.

Notes:

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

The rapid increase in participation in tertiary education that began in the late 1990s began to flatten in 2004. Between 2004 and 2007 there was a reduction in funded enrolments (on an equivalent full-time student basis). This was partly in response to government moves to strengthen the relevance and quality of tertiary provision at certificate and diploma level, which led to a reduction in numbers in some qualifications.

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

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2 The definition of employed is as in the *New Zealand Income Survey* at www.stats.govt.nz/products-and-services/info-releases/nzis-info-releases.htm.

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

4 Tuition subsidies are exclusive of GST.

Table 1 Government financial support for tertiary study 1997/98-2007/08

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	2.1%
1998/99	378	1,114	618	2,110	2.1%
1999/2000	375	1,084	702	2,161	2.0%
2000/01	391	1,210	867	2,468	2.2%
2001/02	401	1,381	935	2,717	2.2%
2002/03	387	1,576	952	2,915	2.3%
2003/04	380	1,724	997	3,101	2.2%
2004/05	359	1,701	969	3,029	2.0%
2005/06	354	1,811	1,046	3,211	2.1%
2006/07	382	1,921	1,176	3,479	2.1%
2007/08	385	2,185	1,201	3,771	2.1%

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

Notes:

1. The tuition subsidy figure for 2007/08 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 indicates, expenditure on tuition subsidies, student allowances and student loans was 2.1 percent of the country's gross domestic product in the 2007/08 fiscal year. As Table 1 shows, this has been more or less constant over the last decade.

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

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

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

Table 2 shows the distribution of government expenditure on tertiary education. In 2005, financial support for students accounted for 42 percent of government spending on tertiary education in New Zealand, the second highest of all OECD countries. OECD countries spend, on average, 18 percent of their public budgets for tertiary education on financial aid to students.

This high proportion in New Zealand is intended to maintain the diversity and open access of the New Zealand tertiary education system by providing students with access to tertiary education, regardless of their financial situation.

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

Table 2 Distribution of government spending on tertiary education in 2005

	Institutions	Financial aid to students	
		Student loans	Scholarships/ Other grants
New Zealand	58%	30%	12%
OECD average	82%	8%	10%

Source: OECD, *Education at a Glance: OECD indicators 2008*, Table B5.2.

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.

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

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

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

The new investment system is now managed by using three-year plans to allocate the funding. The government determines how much is allocated to each sub-sector (universities, institutes of technology and polytechnics, etc). The funding may alter over time as account is taken of inflation pressures, expected demographic change, student demand and competing priorities within and outside the education sector. These changes will give greater funding certainty to the government, and to tertiary education organisations.

Implications for student loans and allowances

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

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

- Continuation of the stabilisation of tuition fees will manage the effect of fees on student loan borrowing.
- The current Statement of Tertiary Education Priorities (see chapter 1.0) would be likely to result in more people progressing into tertiary education, succeeding, and spending more time in tertiary education at a higher level of study. This means that the uptake of student loans and allowances and the amount borrowed would be likely to increase over time.

The Statement of Tertiary Education Priorities is designed to provide both students and the taxpayer with better value for their investment in tertiary education. If students study at higher qualification levels, their income is likely to be higher after study. In addition, some fields of study will give students better returns. Thus the factors associated with high borrowing are related to higher incomes and quicker repayment. Analysis of information from the integrated dataset on student loans and allowances supports these conclusions.[5]

1.4 The student support system

Reducing barriers to participation

The student support system aims to enhance access to tertiary education by reducing financial barriers to participation. It has two main components, the Student Loan Scheme and the Student Allowances Scheme,[6] both of which provide direct funding to students. All New Zealand students enrolled in approved qualifications[7] can access the loan scheme, whereas student allowances are only available to students who meet income-based and age-related eligibility criteria. The government also gives financial support to some students through a range of scholarships.

Principles of the student support system

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

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

How the system compares internationally

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

In addition:

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

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

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

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

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

1.5 Student Loan Scheme

Tertiary Education Strategy access and affordability objectives

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 of high quality 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 very low, they may not have to make repayments. As a borrower's income increases and they can afford to repay more, their repayment obligation increases. This ensures that people who benefit from their tertiary education pay for the cost of their studies.
- The interest-free policy benefits borrowers who live in New Zealand by stabilising the level of their loan balances. This feature also provides incentives for graduates to stay in New Zealand and strengthen the skills and competencies of our workforce.

Shared responsibility

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

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

CHAPTER TWO

Outcomes of the Student Loan Scheme

2.0 Introduction

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

The costs of tertiary education are shared between the taxpayer and students and their families to facilitate participation in tertiary education. This means that the government is able to fund more places in tertiary education organisations than would otherwise have been the case.

Students are able to borrow money to pay their fees and, for some, to assist with their living costs. 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 those who do not benefit financially from their tertiary education are protected.

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

2.1 Student Loan Scheme outcomes

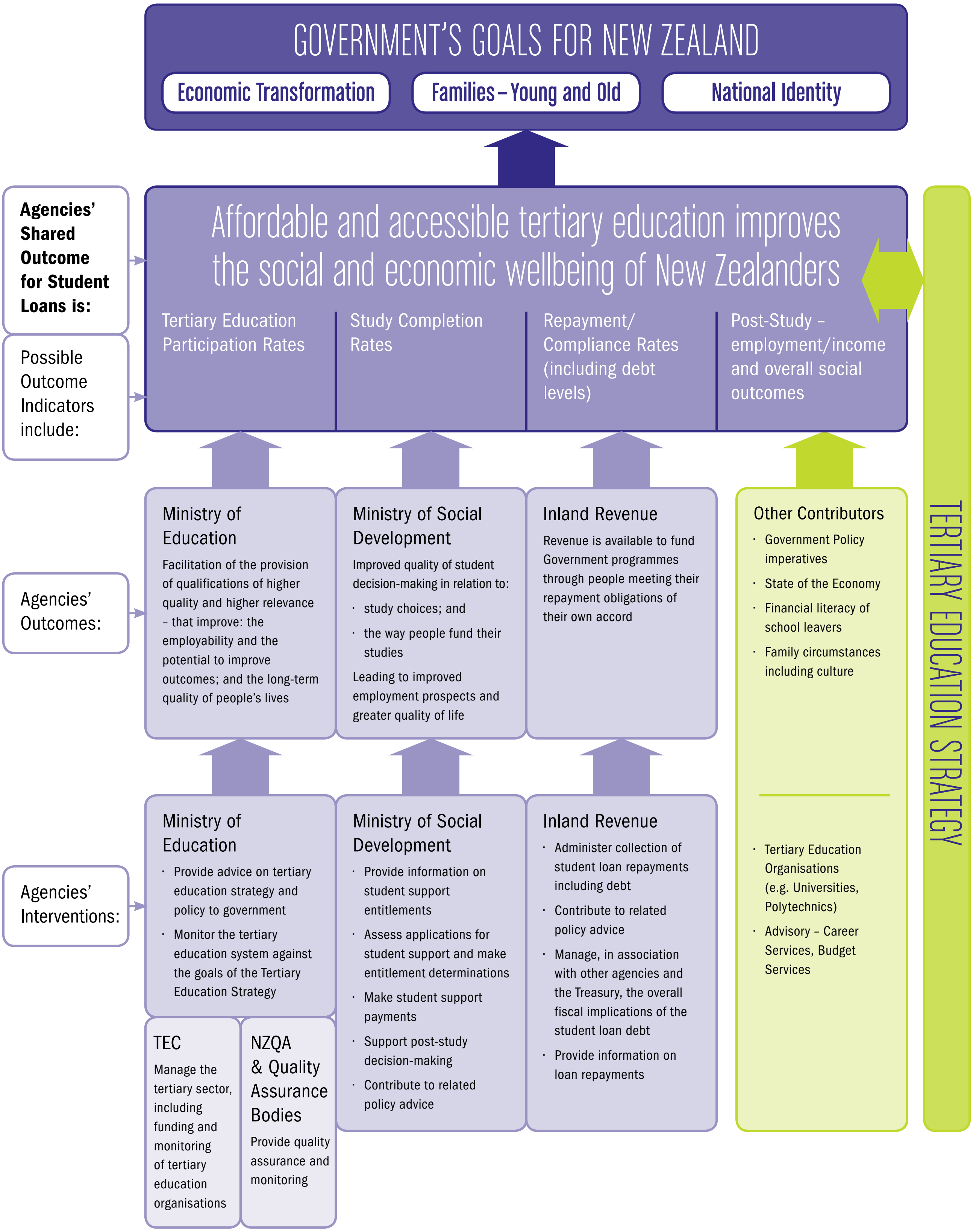
The agencies that manage the scheme have developed a statement of their shared outcomes for the loan scheme:

'Affordable and accessible tertiary education improves the social and economic wellbeing of New Zealanders.'

The following diagram illustrates how the Ministry of Education, the Ministry of Social Development, Inland Revenue, the New Zealand Qualifications Authority and the Tertiary Education Commission[9] each contribute to the shared outcome for student loans. It describes the linkage to each agency's outcomes and interventions and it explains how the loan scheme is linked to the government's goals for New Zealand. It also recognises the contributions of other government agencies to the shared outcome.

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

New Zealand's goals



The agencies are currently working to broaden the scope of that shared outcome to include all aspects of student support.

2.2 Evidence for Student Loan Scheme outcomes

Participation in tertiary education

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

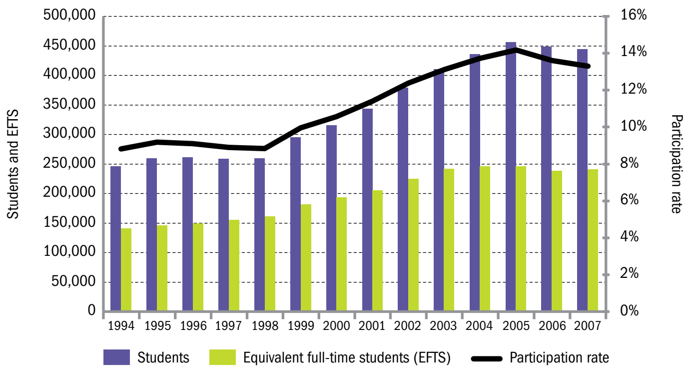
Growth in participation is reflected in the following trends:

- The number of tertiary students (including domestic[10] and international students) has nearly doubled, from 252,000 in 1994 to 484,000 in 2007.
- There were 444,000 domestic students in 2007.
- The proportion of all New Zealanders aged 15 and over at 31 December 2007 who participated in tertiary education in 2007 rose to 13.3 percent, up from 8.9 percent in 1994.

Figure 4 shows student numbers and equivalent full-time student numbers and the participation rate in tertiary education from 1994 to 2007. The differences between student numbers and equivalent full-time student numbers relate to the proportion of part-time students enrolled and the study load they enrol for.

The significant increase in the level of participation from 1998 to 2005 has abated in 2006 and 2007. The reduction is largely due to a decline in enrolments in certificate-level qualifications, largely in response to moves to strengthen the quality and relevance of lower-level qualifications.

Figure 4 Participation by domestic students in tertiary education



Source: Ministry of Education.

Notes:

1. Data before 1999 excludes private training establishment and 'other tertiary education provider' students.
2. Data relates to domestic students enrolled at any time during the year.
3. The participation rate is the number of enrolments as a percentage of Statistics New Zealand's estimate of the population aged 15 and over at 31 December 2007.
4. Excludes industry training, non-government-funded private training establishments, formal courses of a week or less, and all non-formal learning.

The expansion in enrolments between 1994 and 2007 has been especially marked among women, Māori and Pasifika. Over this period:

- enrolments by women in public tertiary education providers grew by 69 percent. Of all enrolments by domestic students in 2007, more than 54 percent – 241,000 – were by women
- enrolments in public providers by both Māori and Pasifika grew by 166 percent. In 2007, there were 84,000 Māori with formal enrolments in tertiary education providers, 19 percent of the total, while the 29,000 formal enrolments by Pasifika represented 6.6 percent of all enrolments.

The Student Loan Scheme is part of the broader programme of student support that includes targeted student allowances and some scholarships. The combination of loans and targeted allowances has been reported in North American research[11] 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[12] 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.

A shared contribution

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

Since 2000, the government has shifted the balance between the share of the full cost of tertiary education borne by students and their families and the share paid by government. In 2000, students paid 33 percent of the full cost through their tuition fees. However, as a result of fee stabilisation policies, this figure has fallen steadily since then, reaching 26 percent in 2007.

While the government's share was nominally 74 percent in 2007, in practice it is larger than that. This is because much of the student share is met through borrowing through the Student Loan Scheme to pay compulsory fees. There is an implicit government subsidy in that component of the student's share. Discounting for that subsidy, the government's share rises to 79 percent.

One way that students meet their share of the costs of tertiary education is through paid work during the year. In its triennial survey of student income and expenditure, the New Zealand Union of Students' Associations[13] reported that full-time students work

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

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

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

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

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[14] and the United States.[15]

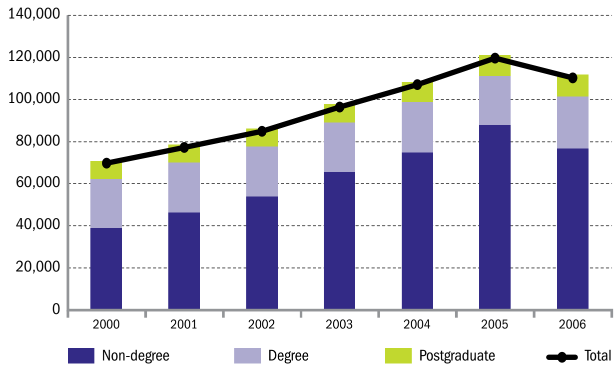
Many students also receive financial support from their families. One in six respondents to the New Zealand Union of Students' Associations' 2007 income and expenditure survey received financial gifts from their parents, but both the number receiving that form of support and the level of support had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

More people with tertiary qualifications

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

- The number of people with a bachelors degree or higher qualification almost doubled, from just over 224,000 to nearly 448,000.
- The proportion of the population aged 25 to 64 with a degree or higher rose from 8 percent in 1996 to 14 percent in 2006.

Figure 5 Domestic students completing tertiary qualifications by level



Source: Ministry of Education.

Notes:

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

While Figure 5 shows a downturn in the number of completions in 2006, this is a consequence of a 12 percent fall in the number of completions of non-degree qualifications that followed the government's moves to strengthen the quality and relevance of non-degree provision. There was a 4 percent increase in postgraduate completions and a 5 percent increase for degree-level qualification completions between 2005 and 2006.

Economic benefits

While the loan scheme has helped New Zealand lift participation in tertiary education, the ultimate aim of the scheme is to help people acquire qualifications that are valued by employers. Research and analysis[16] have shown that qualifications gained in the New Zealand tertiary education system lead to greater earnings. This obviously benefits the individuals with those qualifications. It also indicates that employers value the skills acquired during tertiary study. The premium paid to 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.[17]

Data from the Statistics New Zealand Household Labour Force Survey shows that those who complete a bachelors degree or higher earn, on average, more than 2.5 times the amount that someone without qualifications can expect to earn. Statistics from the integrated dataset on student loans and allowances show that employers pay a premium for completed qualifications. Of bachelors degree students who left study in 2000, data shows that after three years those who graduated had a 28 percent income margin over those who did not.[18] After six years, the margin rises to 31 percent.

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

In the 2006 Census:

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

New Ministry of Education research[19] shows that those who borrow using the loan scheme experience a slight, but marginally statistically significant, benefit in their earnings after study, compared with those who receive allowances only and don't borrow.

Benefits to wellbeing

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

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

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

14 NatWest Student Living Index 2008.

15 US Bureau of Labor Statistics.

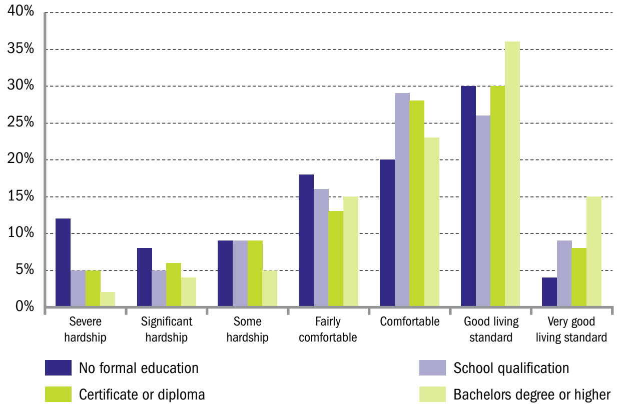
16 Ministry of Education (2007) *Profile & Trends 2006 New Zealand's Tertiary Education Sector*, chapter 5, p 40.

17 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.

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

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

Figure 6 Living standards of New Zealanders by qualification level 2000

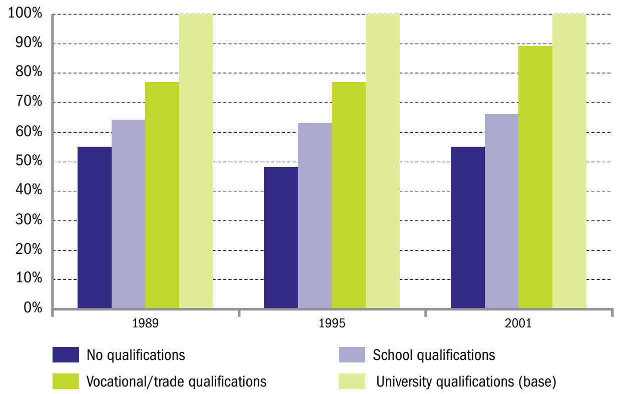


Source: Ministry of Social Development (2002) *Living Standards 2000*.

The Ministry of Social Development's study *Trends in economic wellbeing: changing patterns in New Zealand 1989 to 2001* analysed the impact of education qualifications on the living standards of New Zealand economic family units (EFUs) between 1989 and 2001.[20] This study used data from Statistics New Zealand's *Household Economic Survey* to calculate an estimate of the median disposable income of the EFU, adjusted by an equivalence scale for factors such as number of children. This measure was used as a proxy for the living standards of New Zealanders.

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

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



Source: Krishnan, V. and Jenson, J. (2005) *Trends in Economic Wellbeing: Changing Patterns in New Zealand 1989 to 2001*, Wellington: Ministry of Social Development.

Higher qualifications are also associated with better health. In *Education at a Glance 2005*, the OECD reported that there are three key routes through which higher levels of education can affect people's health.[21] 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. In addition, the OECD mentions that research has found positive associations between higher levels of education and health behaviours such as lower smoking participation and lower incidences of excessive alcohol consumption.

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

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

University of Otago researchers have also found that those with tertiary qualifications have improved mortality.[22]

In a review of a number of New Zealand and overseas studies of the relationship between health and education level, a Treasury study[23] concluded that they suggest that higher-level education leads to better mental and physical health outcomes.

2.3 Changes in borrower 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.

Borrowing behaviour

A useful way of looking at borrowing behaviour is by considering uptake rates – the proportion of people eligible to take out a loan who actually do so. The uptake rate across the loan scheme as a whole rose from 56 percent in 2006 to 66 percent in 2007. However, much of that change related to changes in the eligibility rules for loans. As a result of decisions made in Budget 2007, students enrolled in qualifications that do not get government funding lost the right to borrow using the loan scheme. This reduced the number of students eligible for loans – especially the number of part-time students. This meant that the proportion of part-time students receiving loans increased sharply, from 19 percent to 35 percent between 2006 and 2007.

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

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

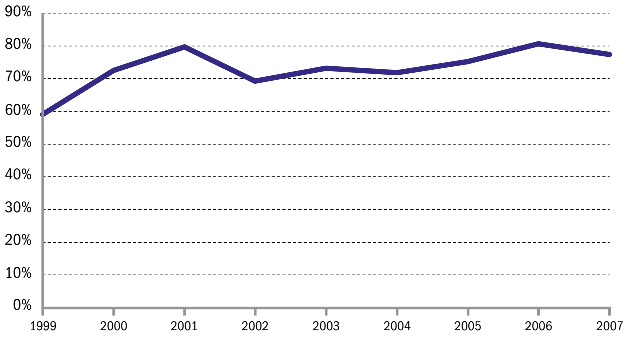
22 Atkinson, J. (2005) *New Zealand Census-Mortality Study Web Table*, Department of Public Health, Wellington School of Medicine and Health Sciences, University of Otago. www.otago.ac.nz/NZCMSWebTable.

23 Johnston, G. (2004) *Healthy, Wealthy and Wise? A Review of the Wider Benefits of Education*, New Zealand Treasury Working Paper 04/04, Wellington: The Treasury.

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

As shown in Figure 8, the estimated uptake rate among full-time students rose to 82 percent in 2001 but ranged between 72 percent and 76 percent between 2003 and 2005. In 2006, it rose to 80 percent, but then fell to 77 percent in 2007.

Figure 8 Student loan uptake rates for full-time students



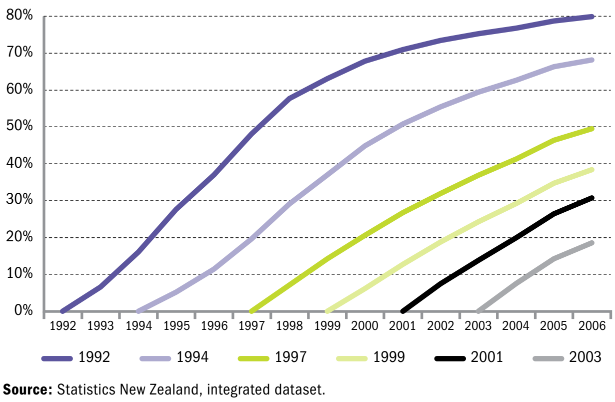
Source: Ministry of Education and Ministry of Social Development.

The increase in uptake rates among full-time students between 1999 and 2001 occurred at the same time as the introduction in 2000 of the 'no interest while studying' policy. Following an increase in borrowing at that time, uptake settled at between 70 and 75 percent between 2003 and 2005. The interest-free student loans policy took effect in April 2006. This too has been associated with an increase in uptake, although, following the increase in borrowing in 2006, there was a decrease in uptake again in 2007.

Repayment behaviour

By 1997, almost half of those who left study in 1992 had repaid in full, while 80 percent had repaid in full by 2006. However, this cohort had very low borrowings as fees were still relatively low and they had borrowed for only one year.

Figure 9 Percentage of borrowers fully repaid by 31 March in each year – those who left study in 1992, 1994, 1997, 1999, 2001 and 2003



Source: Statistics New Zealand, integrated dataset.

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

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

- fee stabilisation policies that have operated since 2001 (see chapter 1.2)
- more generous repayment provisions – 50 percent of compulsory repayment obligation, less inflation, credited to principal – introduced in 2000[24]
- no interest while studying for full-time students and for part-time students on low incomes – introduced in 2000[24]
- high employment in the last five or six years.

The introduction of the interest-free student loans policy in 2006 and the changes made to the rules governing repayment by borrowers overseas have led to two changes in repayment behaviour. Firstly, it is less likely that people get into 'negative repayment' – a situation where the loan balance increases once borrowing has finished. In the past, those who took time out from the workforce would often see their nominal loan balance increase as base interest was added to their account, while their repayments had stopped. Secondly, there has been a fall-off in voluntary additional repayments since the introduction of interest-free loans. It is too early to detect the effects of these changes in Figure 9, however.

Looking to the future, the forecast median repayment time for those who remain in New Zealand is four years. There is more information on forecasts in chapter 5.

The Organisation for Economic Co-operation and Development provides information on repayment rates in student loan schemes in some of its member countries. They report[25] 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.

2.4 Unintended outcomes

Some surveys[26] 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 people have said that many people – especially women – may never repay their loans.

This section explores the evidence for signs of these unintended outcomes.

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

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

26 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.

Impact on home ownership, having children and mental health

A study[27] on household wealth in New Zealand explored the statistical relationships between the presence and size of student loans and home ownership. It conducted a similar analysis of the relationship between loans and having children.

This study reached the following conclusions:

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

A recent Australian study, published in the *Journal of Population Research*, looked at whether Australia's Higher Education Contribution Scheme or HECS – which has many similarities with student loans in New Zealand – has affected the birth rate in that country. The research compared university-educated women with and without HECS debts yet similar in other significant ways. It found that falling fertility rates are not related to HECS.

A Ministry of Education statistical analysis[28] 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.[29]

Impact on repayments

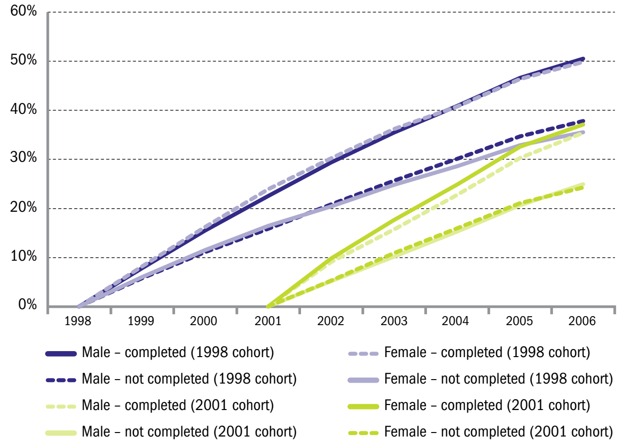
The loan scheme has a repayment threshold, so there is no repayment obligation for those whose income falls below the threshold, and the unpaid portion is written off on death. The loan scheme allows for the fact that some people may not be able to repay their loans, such as people who suffer illness or disability that reduces or removes their work opportunities.

It is evident from Figure 9 that, as time goes on, the number repaying in full increases each year, but at a decreasing rate.

There are some borrowers who never succeed in repaying their loan completely and some who make no progress towards repayment over an extended period.

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

Figure 10 Percentage of borrowers who left study in 1998 and 2001 who had completely repaid their loans by 31 March 2006 – by gender and completion status



Source: Statistics New Zealand, integrated dataset.

Notes:

1. The leaving cohorts are those who last studied in 1998 and 2001, had borrowed from the scheme, and had a student loan balance of $10 or more at 31 March in the following year. Excluded are those who had repaid their student loan before 31 March in the year after leaving study.
2. Full repayment is deemed to occur when the student loan balance has fallen below $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.[30] While there is no immediately obvious explanation for that trend, it is likely that there are two factors that influence this. The first is that women tend to borrow slightly less than men and hence have less to repay than men.[31] The second is that women may be more debt-averse and hence strive to repay more quickly.

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

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

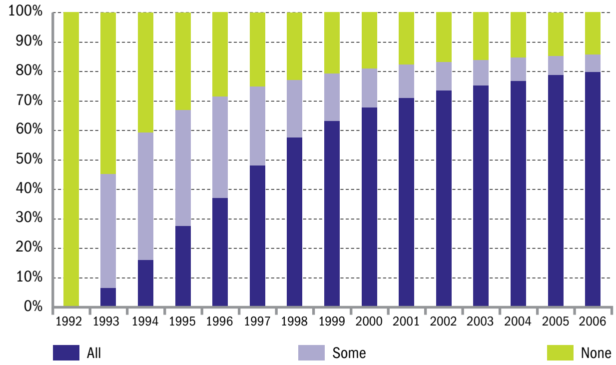
28 Smart, W. (2006) *Do student loans drive people overseas – what is the evidence?* Ministry of Education, Wellington.

29 Kemp, S., Horward, J. & Fergusson, D. (2006) Student loan debt in a New Zealand cohort study, *New Zealand Journal of Educational Studies 2006*; 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.

30 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.

31 Note, however, that in the 1997 leaving cohort, whose data is represented in the graph, women left study with a higher median loan balance – refer to Figure 23 later in this report. The higher leaving balance of women in some years may reflect the fact that women have achieved more in tertiary education and hence tend to enter the labour market with better qualifications on average.

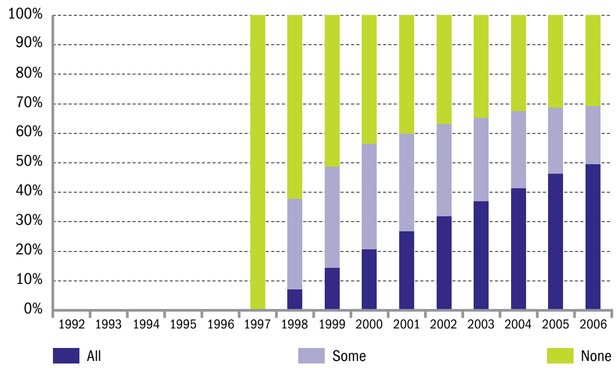
Figure 11a Proportions of borrowers who left study in 1992 who had repaid all, some or none of their student loans by 31 March 2006



Source: Statistics New Zealand, integrated dataset.

Figure 11a shows that the number of people who complete repayment increases every year – even among the 1992 leavers who had been out of study for 14 years. However, the number who made progress towards repaying their loans remained steady between 2004 and 2006. This implies that there is a proportion of borrowers – 15 percent in the case of the 1992 leavers – who are not in the New Zealand labour market and who may not be able to repay. Likewise, looking at Figure 11b, it is possible to see a similar trend emerging for the 1997 leavers – there was only a small reduction in the numbers who have made no progress to repayment between 2005 and 2006.

Figure 11b Proportions of borrowers who left study in 1997 who had repaid all, some or none of their student loans by 31 March 2006



Source: Statistics New Zealand, integrated dataset.

Because the Student Loan Scheme is a targeted scheme with income-contingent repayments, it was understood that there would be some people who might not be able to repay because of illness or disability. 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 towards reducing the numbers who never repay.

An analysis of those borrowers who last studied in 1997 showed that those who had made no progress at all in reducing the size of their loans in the nine years to 31 March 2007:

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

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. Without sophisticated statistical modelling, it is hard to draw clear causal associations. As the loan scheme matures and new data is added to the integrated dataset on student loans and allowances and as new research opportunities are explored, the agencies will be able to strengthen their analysis and expect to be able to report on the analysis in future reports.

CHAPTER THREE

Changes to the Student Support System

3.0 Introduction

Government monitors the student support system to ensure it continues to facilitate access to tertiary education, and that it adheres to the principles introduced in the *Student Support in New Zealand* discussion document (see chapter 1.4).

As part of its ongoing monitoring and review the government has announced changes to the Student Loan Scheme, the Student Allowances Scheme and the Bonded Merit Scholarship Scheme in Budget 2008 (see chapter 3.4).

3.1 How the Student Loan Scheme has changed since 1992

Table 3 compares the Student Loan Scheme as it was when introduced in 1992 and as it operated in 2007. The comparison shows that, while there have been some major changes to features of the scheme since 1992, the fundamentals remain much the same.

Table 3 Student Loan Scheme – comparison of features in January 1992 with January 2007

Features	1992	2007
Compulsory fees	Amount charged by provider ***except*** limited to $4,500 for students at private training establishments only.[32] Included students' association fee. Direct-credited to borrower or provider.	Limited to the amount charged by the provider ***or*** the relevant fee maximum under the FCCM,[33] whichever is less. Includes compulsory students' association fees. Direct-credited to provider only.
Course-related costs	Up to $1,000 p.a. – no evidence required.	Up to $1,000 p.a. – evidence/justification required.
Living costs (for full-time students only)	Up to $4,500 less any student allowances – available in three instalments for full-year students.	Up to $150 p.w. less any student allowances – paid weekly.
Interest	8.2 percent.	6.9 percent but all interest written off at the end of the tax year for all New Zealand-based borrowers.
Administration fee	$50 payable once for each loan account.	
Eligibility	New Zealand citizens, permanent residents of New Zealand, refugees.	
Academic requirements	Students must have passed at least half of the work taken in the preceding two years of tertiary study.	None
Parental consent	None required.	Required for borrowers under 18 years of age.
Bankrupts and 'no asset procedure' debtors	Undischarged bankrupts are not entitled to student loans.	Undischarged bankrupts are not entitled to student loans. 'No asset procedure' debtors[34] may have student loans but their existing loans are not written off.
Prisoners	Prison inmates were ineligible.	Prison inmates on approved offender management programmes can borrow tuition fees and course-related costs.
Repayment threshold	$12,670 p.a. to 31/03/93.	$17,160 p.a. to 31/3/07.
Repayment rate	10 cents for every $1 earned above the repayment threshold.	
Repayment for borrowers overseas	$1,000 plus interest or one fifteenth of the loan balance plus interest, whichever is less.	Based on level of loan balance (see Table 28 in Appendix 2).
Repayment holiday	None	Three-year repayment holiday for overseas travel after study.
Interest write-off	Base interest was written off for NZ residents if not currently borrowing and income below $12,760 or, if the compulsory repayment due was less than the base interest incurred, the difference was written off.	Full interest write-off for NZ-based borrowers only.
Minimum repayment to loan accounts manager	$200	$100 to StudyLink (or a lower amount by agreement).
Penalty for overdue repayments	2 percent per month (details in Student Loan Scheme Act 1992).	1.5 percent per month on amounts greater than $333.
Capital write-off	Loans are written off on death of borrower. Loans are written off on bankruptcy.	

3.2 Student support policy changes 1989 to 2003

Table 4 sets out some of the key policy changes in student allowances and student loan policy since 1988. The objectives of the more recent policy changes have been focused more on the affordability of tertiary education than on participation objectives per se. (It is important to appreciate that changes in one scheme will impact on the other scheme (e.g. an expansion of allowances will reduce student loan borrowings and vice versa)).

32 Private training establishment students were not eligible unless their provider was government funded or their course was recognised for student allowances purposes.

33 Fee and course costs maxima policy.

34 This is an insolvent debtor status put in place by the Insolvency Act 2006 as an alternative to bankruptcy.

Table 4 Student support policy changes 1989–2003

	Student Allowances Scheme	Student Loan Scheme
1989	Student Allowances introduced. (Parentally income tested for 16 to 19 year olds) General Fees Grant (maximum $387).	
1990	Parental income adjustment introduced ($2,200) for parents with more than one child aged 16 to 19 undertaking post-compulsory education. Fees Grant abolished.	
1991	Personal income limit increased from $129.16 to $135.13 per week before tax (originally $4,000 per annum before tax). Student allowances extended to full-time students at private training establishments. Student allowances abolished for secondary school students but reinstated for a limited group of students.	
1992	Parental income test extended to students under 25 years of age. The parental income threshold increased from $26,832 to $28,080 per annum before tax. Student allowances reinstated for secondary students aged 18 prior to 1 January in their year of study.	Student Loan Scheme introduced. Only students at private training establishments attracting government funding are eligible to receive student loans for tuition fees (up to $4,500) and course-related costs. Students enrolled in private training establishment qualifications recognised for student allowances purposes can borrow for living costs.
1993	The second chance provision removed. The courses of national importance provision abolished.	Academic requirement abolished.
1994 – 1995	No change	No change
1996	No change	Private training establishment students can borrow for all components of the Student Loan Scheme if their qualification is registered on the qualifications framework and offered by an accredited provider. Changes to interest rate setting. The rate is set using the average of past and prospective 10-year bond rates plus a margin of 0.9 percent.
1997	No change	Full-time students can borrow up to $150 per week for living costs (less any allowances entitlement). Prior to this a borrower who was a full-time, full-year student had a maximum entitlement of $4,500 in each academic year. The limit on fees borrowing for private training establishment students increased from $4,500 to $6,500.
1998	No change	No change
1999	Administration transferred from Ministry of Education to Work and Income. Five year entitlement changed to 200 weeks. Weekly instead of fortnightly payments.	The Student Loan Scheme was tightened as follows: · living costs entitlement paid in fortnightly direct-credited instalments (previously there were three annual instalments throughout the year) · compulsory fees entitlement paid directly to providers (not to students) · maximum course-related costs entitlement reduced from $1,000 to $500 · parental consent required before students under 18 can have access to student loans · payment of student union fees through the compulsory fees component abolished.
2000		Administration transferred from Ministry of Education to Work and Income. Living costs paid weekly in arrears instead of fortnightly. 50 percent of compulsory repayments, less the inflation component, go to repayment of principal. Interest abolished for full-time, full-year students and part-time or part-year students on low incomes. Interest rate frozen at 7 percent for 2000/01. Payment of ***compulsory*** student union fees through the compulsory fees component reinstated. Course-related costs increased to $1,000.
2001		New interest-setting mechanism using average 10-year bond rate over preceding January–December. The margin on the interest rate for administration and death and bankruptcy write-offs revised down from 0.9 to 0.8 percent.
2002		Tuition fee and course-related costs components extended to prison inmates on approved offender management programmes. Integrated dataset established. Actuarial valuation for reporting fair value of scheme and risk to the Crown. Administration costs margin in interest rate revised from 0.4 percent to 0.5 percent to take account of cost increases.
2003	Access to student allowances for 16 and 17 year olds who have completed year 13 or NCEA Level 3.	New simulation model for determining the fair value, the doubtful debt provision and the economic cost of the scheme.

3.3 More recent changes to the Student Loan Scheme 2004 to 2008

Part-time, part-year students

In 2004, part-time, part-year students undertaking a course load of 0.3 equivalent full-time student units or more were given access to the tuition fee component of the Student Loan Scheme. This access did not include the living costs or course-related costs components.

From 1 January 2005, students studying between 0.25 and 0.3 equivalent full-time student units were given access to student loans for tuition fees. The right of these students to borrow was subject to conditions:

- The course had to meet certain requirements, for example, have a job-related element.
- The student had to be in employment or studying for a qualification that will lead to employment.

In 2007, the vocational and employment requirements above for part-time, part-year students undertaking a course load of between 0.25 and 0.30 equivalent full-time student units were removed.

Private training establishment students

In 2005, the $6,500 limit on fee borrowing for private training establishment students was removed as part of decisions made concerning the fee and course costs maxima. Instead, students' tuition fee borrowing entitlement is limited to the amount charged by the provider or the relevant fee and course costs maxima, whichever is less.

No asset procedure debtors

From 2006, no asset procedure debtors were able to access the Student Loan Scheme. (The 'no asset procedure' is an alternative to bankruptcy for people who become insolvent but have few assets.) A no asset procedure debtor cannot have their loan written off.

Interest rate setting

A new methodology for setting interest rates was approved in February 2006. The total interest rate is based on the five-year average of the 10-year bond rate to December in the year preceding the tax year to which the rate will apply (to two decimal places) *plus* a margin of 0.74 percent.

Interest rates

The student loan interest rate was 7 percent per annum from 1 April 1999 to 31 March 2006. The rate was set at 6.9 percent for 2006/07, 6.8 percent for 2007/08 and 6.7 percent for 2008/09. From 1 April 2006, only overseas-based borrowers are liable for interest.

Interest-free loans

From 1 April 2006, the student loan interest-free policy for borrowers living in New Zealand and the offer of an amnesty on student loan penalties for certain borrowers who live overseas came into effect. All other interest write-off provisions were repealed on 1 April 2007.

Borrowers overseas

From 1 April 2007, new repayment provisions were put in place for borrowers overseas. These changes allow these borrowers to take a three-year repayment holiday and simplify the annual compulsory repayment obligation after that holiday. The amnesty on penalties for overseas borrowers was also extended by one year.

From 2007, overseas borrowers who are not eligible for a repayment holiday have had a new repayment obligation based on the size of their loan balance (refer to Table 28 in appendix 2).

Student allowances and student loan eligibility

From 2007, students who undertake qualifications that do not receive student component funding are no longer eligible for student loans and allowances. (Courses funded through other government streams, such as Ministry of Health medical training, are not affected by this policy change.)

Other key student support changes 2004 to 2008

Parental income threshold

There were three adjustments to the parental income threshold over this period, 20 percent in 2005 and 10 percent in both 2007 and 2008. The parental income threshold was also annually adjusted for inflation from 1 April 2005.

In 2006, the parental income threshold adjustment was increased for those with dependent children in post-compulsory education, with an increase for additional dependent children.

A parental income threshold adjustment for separated parents was also introduced in 2006.

Personal income limits

In 2006, the personal income limit was increased from $135.13 to $180 per week before tax and a dollar-for-dollar abatement introduced.

The personal income limit was annually adjusted for inflation from 1 April 2008.

Targeting of student allowances

In 2005, a number of changes were made to student allowances policy to better target support for students and to remove inconsistencies with the Human Rights Act 1993. These included removing the work history criterion of the independent circumstances allowance provision and removing marriage as grounds for independence from parents for under 25 year olds.

Scholarships

In 2004, Step Up Scholarships were introduced to help students from low-income backgrounds enter degree-level study in areas of skill shortage.

In 2006, the first Bonded Merit Scholarships were awarded to recognise high academic achievement in tertiary study.

Both these scholarships pay a substantial proportion of recipients' compulsory fees and include a bonding period on completion of study.

3.4 Student support initiatives in Budget 2008

The following initiatives announced in Budget 2008 will adjust the living costs entitlement of the Student Loan Scheme and widen access to the Student Allowances and Bonded Merit Scholarship Schemes. Increased access to student allowances and Bonded Merit Scholarships will mean that students are expected to borrow less under the loan scheme.

Indexing the student loan living costs component

From 1 April 2009, the student loan living costs component will be indexed to inflation following a one-off increase from $150 per week to $155 per week from 1 January 2009. Approximately 95,000 students a year are expected to benefit from this initiative.

Other student support policies

These policies reduce the need for some students to borrow from the loan scheme.

Student allowances parental income threshold increases

The student allowances parental income threshold will be increased by 10 percent from 1 January 2009. This change means that students whose parents' joint income is less than $50,318.22 per annum will be eligible for a full allowance. The threshold was previously $45,743.88.

This initiative also raises the cut-off point at which students become ineligible for student allowances from $71,280.88 to $82,237.80 per annum for those living away from home and from $71,280.88 to $75,855.32 per annum for those living at home – making more students from low- to middle-income families eligible for full or partial allowances. Some students will be entitled to higher allowances. Approximately 12,000 students will benefit from this initiative each year.

Lowering the age limit for student allowances parental income testing by one year

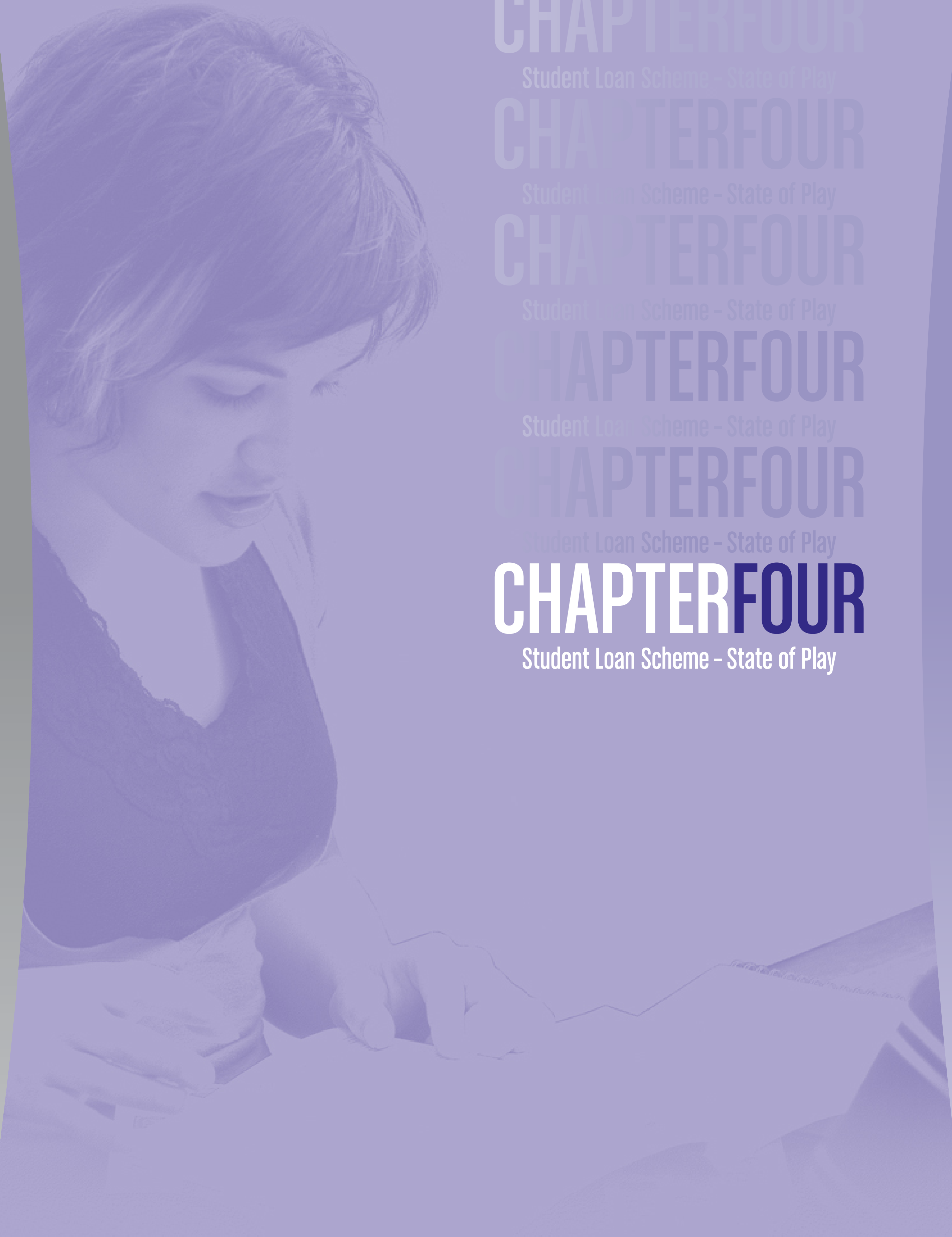
The age at which the student allowances parental income test no longer applies will be lowered by one year. The age limit reduces from 25 to 24 years of age. This change takes effect from 1 January 2009. The maximum rate of student allowances for those aged 24 also increases to that currently available to students aged 25 years and above. This policy will affect other aspects of the student allowances eligibility criteria that are linked to this policy. It is expected that more than 5,000 students will benefit from this policy each year.

Bonded Merit Scholarships

The number of Bonded Merit Scholarships offered to students in 2008 for the 2009 academic year will be increased from 1,000 to 1,500. The scholarship scheme recognises and rewards New Zealand's most academically capable students (from the second year of their first bachelors degree). They fund a maximum of $3,000 per year of course fees for up to four years. Students are bonded to stay in New Zealand after they have graduated for the same time period as the duration of their study. The scheme was introduced in 2006 and there are currently about 2,460 students on the scheme.

CHAPTER FOUR

Student Loan Scheme – State of Play



4.0 Introduction

This chapter has information about:

- the students borrowing through the loan scheme in 2007 and the amounts they borrowed
- borrowers and their loan balances with Inland Revenue on 30 June 2008.

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

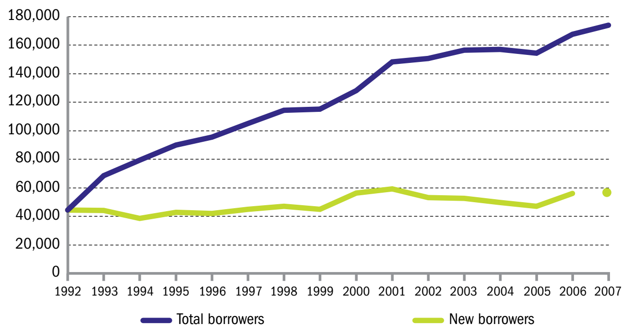
The information on borrowing is largely drawn from the Ministry of Social Development. (Please note that new borrower data for 2007 is provisional.) Information on new borrowers up to 2006 is drawn from the integrated dataset on student loans and allowances maintained by Statistics New Zealand, while Inland Revenue has supplied data on the repayments and loan balances of all borrowers, including those who have left study.

4.1 Students borrowing

In 2007, 174,000 students borrowed under the loan scheme, an increase of 3.8 percent on the 167,000 borrowers in 2006. This increase is likely to be largely due to the impact of interest-free loans introduced in 2006. Student loan borrowers in 2007 represented about 5.2 percent of the estimated New Zealand population aged 15 and over at 31 December 2007.[35] The overall number of people who have taken out a student loan each year since the scheme began is 779,000, representing about 23 percent of New Zealanders aged 15 or over at the end of 2007.

Figure 12 shows the growth in borrower numbers and in the number of new borrowers since 1992.

Figure 12 Student loan borrowers and new borrowers in each academic year



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

Notes:

1. 2007 data on new borrowers was provided by the Ministry of Social Development. A dot is used to distinguish this data from data provided by Statistics New Zealand from the integrated dataset, which does not yet include 2007 data. The two sets of data are derived from different datasets and therefore are not directly comparable.
2. 2007 data on new borrowers is provisional.

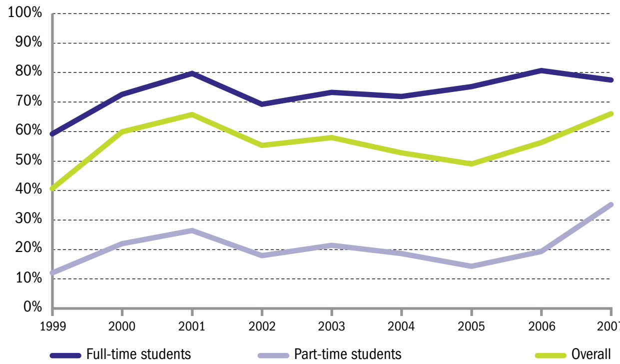
Uptake of student loans in 2007

The student loan uptake rate shown in Figure 13 is the proportion of students eligible to borrow who actually do so. In 2007, the overall uptake rate was 66.0 percent. This compares with 56.0 percent in 2006, 48.9 percent in 2005, 65.7 percent in 2001 and 40.5 percent in 1999.

The changes in uptake rates are most likely to be a consequence of changes to loan policy. There was an increase in uptake between 1999 and 2001 after the introduction of no interest while studying and the 50/50 repayment rules;[36] and there were further increases in 2006 and 2007 after the introduction of the interest-free loan policy.

The increase in uptake rates for part-time students from 19.3 percent in 2006 to 35.2 percent in 2007 is the result of two factors: firstly, it is due to an overall increase in the number of borrowers among part-time students as a result of the interest-free student loan policy; secondly, it is due to a decrease in the number of part-time students eligible to borrow as a result of the alignment of student support with funded qualifications. This means that, since the beginning of 2007, students who enrol in qualifications that do not attract government funding do not qualify for student loans or student allowances. This means that the pool of people who are eligible to borrow has reduced.

Figure 13 Student loan uptake rates



Source: Ministry of Education and Ministry of Social Development.

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

New borrowers

By looking at new borrowers it is possible to learn more about how the characteristics of those entering the loan scheme are changing over time.

The term 'new borrowers' is used for people entering the loan scheme for the first time in the year covered by the report. For example, a new borrower in this report entered the scheme for the first time in 2007, and in last year's report a new borrower entered the scheme in 2006. Figures 14 and 15 present the gender and age composition of new borrowers from 1992 to 2007 and Table 5 contains the average and median ages of new borrowers over the same period.

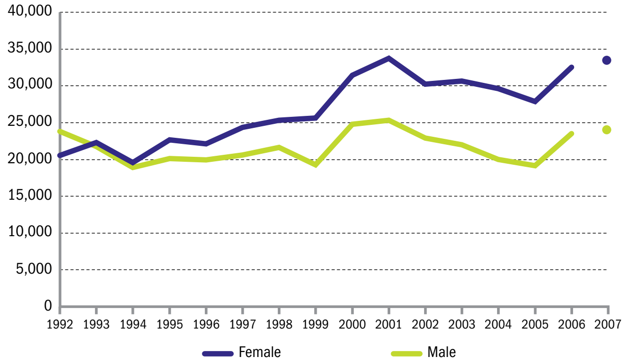
Figure 14 shows that, in 2007, based on provisional data, the number of new borrowers continued to grow. This rise, from 56,000 in 2006 to 58,000 in 2007, shows that the number of new borrowers in the last two years was significantly higher than the apparent trend in new borrowers in 2005 (47,000). This is likely to be due in part to the introduction of the interest-free loan policy that removed the interest charges for borrowers living in New Zealand and introduced new repayment obligations for borrowers overseas.

35 Statistics New Zealand population projections based on the 2006 Census (series 5) suggest that at the end of 2007 the population of New Zealand aged 15 and over was about 3.342 million.

36 See Base interest reduction in the glossary in appendix 5 for an explanation of the 50/50 rule.

The gender composition of new borrowers shows an increasing trend in the number of female borrowers overall. The proportion of female borrowers in 1992, when the scheme was introduced, was 46.3 percent. This proportion increased steadily and reached 58.2 percent of new borrowers in 2007.

Figure 14 New borrowers by gender



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

Note: 2007 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 2007 data. The two sets of data are derived from different datasets and therefore are not directly comparable.

The average and median ages of new borrowers entering the scheme every year has remained stable over the last five years as shown in Table 5. The average age of new borrowers increased from 23 years in 1992, reached 26 in 1999 and has remained at this level since. The median age of new borrowers was 20 in 2003 and remained at this level since then.

Table 5 Average and median ages of new borrowers 1992-2007

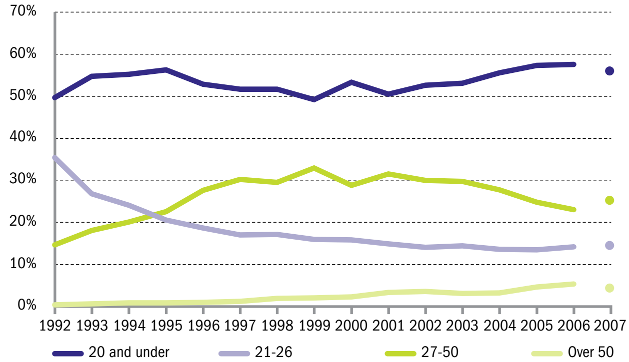
Year	Average	Median	Number of new borrowers
1992	23	21	44,256
1993	23	21	43,965
1994	24	20	38,412
1995	24	20	42,735
1996	25	21	42,012
1997	25	21	44,928
1998	25	21	46,887
1999	26	21	44,841
2000	25	21	56,175
2001	26	21	59,031
2002	26	21	53,049
2003	26	20	52,581
2004	26	20	49,569
2005	26	20	46,923
2006	26	20	56,019
2007	26	20	57,604

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

Note: 2007 data on new borrowers provided by the Ministry of Social Development is provisional.

Figure 15 shows that, between 1992 and 2007, new borrowers aged 20 years and under represented about 50 to 57 percent of all new borrowers. In 2007, the proportion of new borrowers aged 20 and under was about 56 percent of the total population of new borrowers. The proportion of borrowers aged over 50 has been steadily increasing from 0.4 percent in 1992 to 4.3 percent in 2007. However, their proportion of all new borrowers remains small.

Figure 15 Percentage of new borrowers by age



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

Note: 2007 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 2007 data. The two sets of data are derived from different datasets and therefore are not directly comparable.

Borrower characteristics

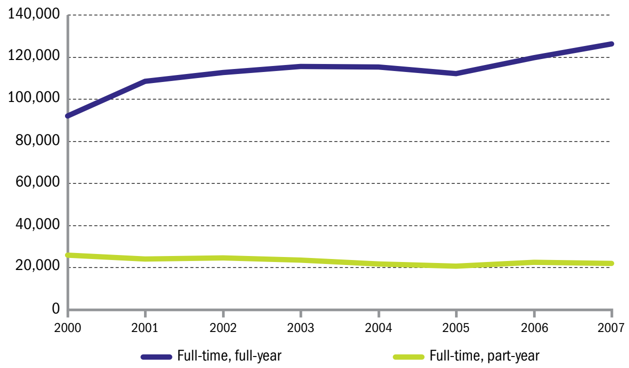
Study status

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

Figures 16a and 16b present the composition of borrowers by study status from 2000 to 2007. The participation of part-time students in tertiary education has remained stable at around 54 to 55 percent between 2004 and 2007. Approximately 54 percent of all domestic students in 2007 were enrolled on a part-time basis, compared with nearly 45 percent in 2000. Approximately 25,500 eligible part-time students (or 35.2 percent of those eligible) borrowed from the loan scheme in 2007. The proportion of eligible full-time students borrowing in 2007 was 77.4 percent.

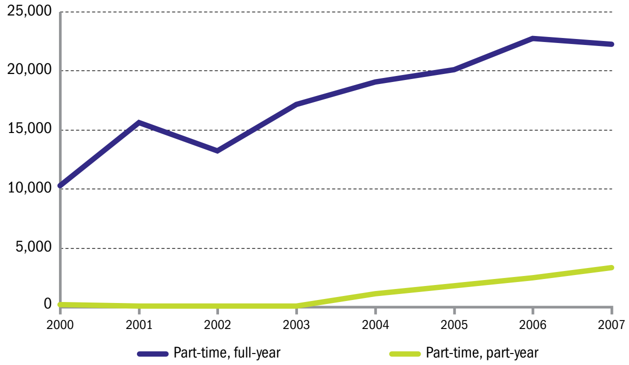
Figure 16b shows that the number of part-time, full-year borrowers increased markedly over the last five years, from 17,000 in 2003 to 22,000 in 2007. The number of part-time, part-year borrowers has also increased significantly since 2004 from 1,100 in 2004 to 3,300 in 2007. This is mainly due to policy changes aimed at increasing access to the Student Loan Scheme for part-time, part-year students.

Figure 16a Full-time borrowers



Source: Ministry of Social Development.

Figure 16b Part-time borrowers



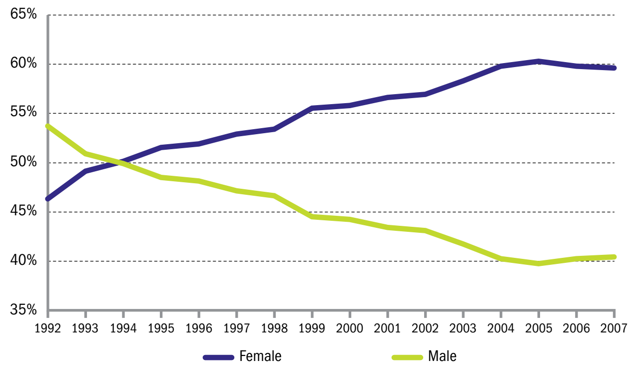
Source: Ministry of Social Development.

Gender

Figure 17 shows the trend in the gender composition of borrowers since the scheme started. Between 1994 and 2005, the proportion of female borrowers increased from 50.1 percent to 60.3 percent. However, since 2005 there has been a decrease in the proportion of female borrowers.

In 2007, the proportion of female borrowers dropped to 59.6, which is a 0.2 percentage point change from the previous year. The declining trend in the proportion of female borrowers corresponds with the declining trend in the participation of female students in tertiary education. The proportion of female enrolments in the tertiary education sector dropped from 54.6 percent in 2006 to 54.3 percent in 2007.

Figure 17 Percentage of borrowers by gender



Source: Ministry of Social Development.

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

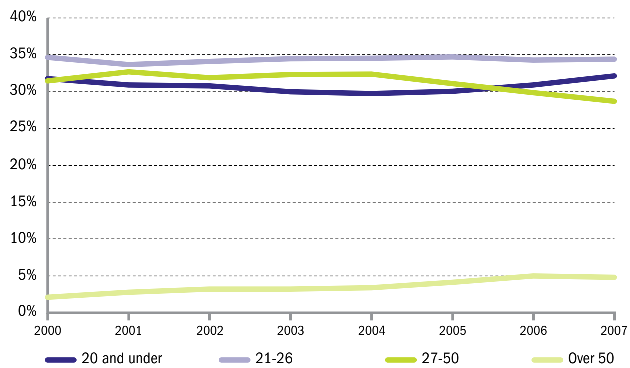
Age

The age composition of borrowers follows trends in tertiary enrolments. From 2000 up until 2005, there was an increasing trend in enrolments by older people, especially people aged 50 and over. Since 2005, the demographic composition of tertiary enrolments has been changing, with growth in enrolments by younger people, especially among those aged 20 and under. This has been offset by a decline in enrolments by people aged 27 to 50. The increase in enrolments by younger people was due to an increase in the number of university-entrance-qualified school leavers as a result of changes to the secondary school assessment system.

Figure 18 shows the composition of all student loan borrowers by age group for each year of borrowing since 2000. In 2007, the number of borrowers increased in all age groups, with the exception of people aged 27 to 50. The largest increase (over 8 percent) occurred among those aged 20 and under.

In 2007, about 66.5 percent (116,000) of all student loan borrowers were under 27 years of age. Those borrowers aged 27 to 50 represented 28.7 percent (50,000) of all borrowers in 2007. The number of borrowers aged 20 and under increased from 52,000 in 2006 to 56,000 in 2007.

Figure 18 Percentage of borrowers by age while studying



Source: Ministry of Social Development.

Ethnicity

Figure 19 illustrates the ethnic composition of borrowers and changes in composition since 2000.

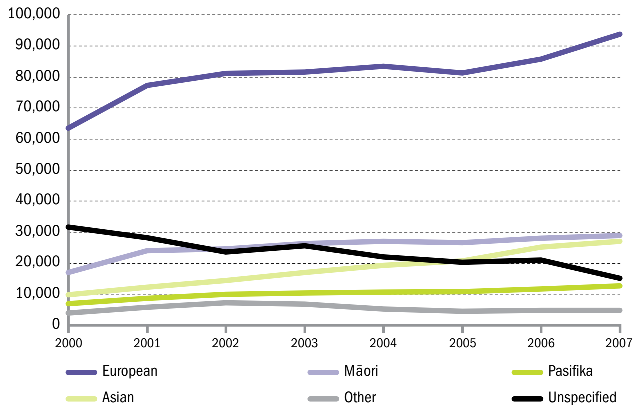
Of 2007 borrowers:

- 53.9 percent (94,000) identified themselves as European
- 16.6 percent (29,000) identified themselves as Māori
- 15.5 percent (27,000) identified themselves as Asian
- 7.3 percent (2,700) identified themselves as Pasifika.

The proportion of borrowers who self-identified as European increased by 2.8 percentage points to 54 percent in 2007. This compares with the 66 percent of all domestic students who identified themselves as European in 2007.

More borrowers are choosing to declare their ethnicity. This is evident from the decrease in the number of borrowers whose ethnicity is unspecified as shown in Figure 19.

Figure 19 Borrowers by ethnic group



Source: Ministry of Social Development.

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

4.2 Amounts borrowed

Total borrowings

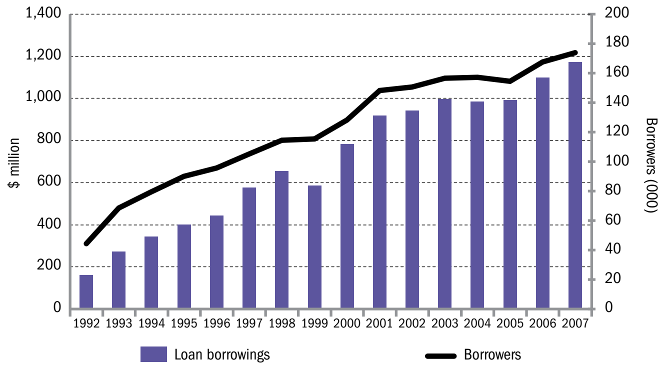
Figure 20 shows the total amount borrowed and the number of borrowers each year since the scheme began. In 2007, 174,000 students borrowed $1,172.6 million from the loan scheme. The total amount borrowed each year grew significantly during the 1990s as the loan scheme developed and enrolments increased. The 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 reduction in that entitlement was reversed a year later and contributed to total borrowing, which rose 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.
- There was an increase in enrolments by part-time students, who have smaller entitlements and are more likely to finance their studies privately.

In 2006, the introduction of interest-free student loans for New Zealand-resident borrowers and some changes to the conditions for borrowers overseas contributed to an increase in the number of borrowers. The increase in borrower numbers was 8.4 percent between 2005 and 2006 and 3.8 percent between 2006 and 2007. The increase in the amount borrowed was 11.9 percent between 2005 and 2006 and 6.6 percent between 2006 and 2007.

Figure 20 Total loan borrowing by year



Source: Ministry of Social Development and Ministry of Education.

Average and median borrowing in a year

Figure 21 illustrates the average amount borrowed from 1992 to 2007 and the median amount borrowed from 2000 to 2007. The average amount borrowed increased by $182 (2.8 percent) between 2006 and 2007 to reach $6,747 in 2007. This compared with an increase of $203, or 3.2 percent, in 2006. The median amount borrowed in 2007 was $5,868, an increase of $205 (3.6 percent) from 2006.

The average amount borrowed[37] showed a steady increase between 1992 and 1998, in part reflecting increases in student fees. As shown in Figure 21, the decrease in average borrowing in 1999 was due to the decrease in the maximum course-related costs entitlement from $1,000 in 1998 to $500 in 1999[38] and to other changes that restricted the purposes for which finance from the loan scheme could be used.[39]

Average borrowing increased again in 2000, when some of the changes 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).

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

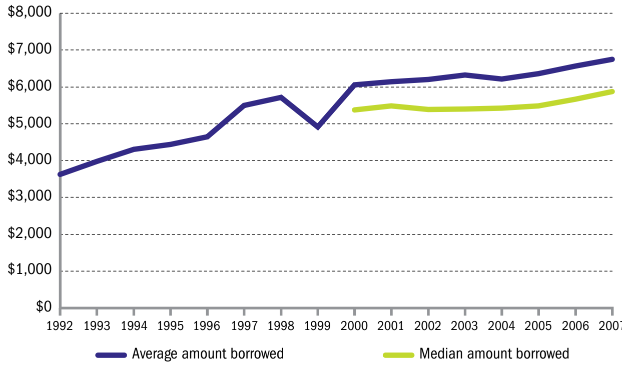
38 The entitlement was changed back to $1,000 in 2000.

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

The fee stabilisation policy[40] implemented in 2001 meant that tuition fees charged by most tertiary education providers have remained stable since 2001.

From 2004, fees have been regulated by the fee and course costs maxima policy.[41] Under this policy, providers are permitted to increase fees, but only within strict limits.

Figure 21 Average amount borrowed 1992-2007 and median amount borrowed 2000-2007



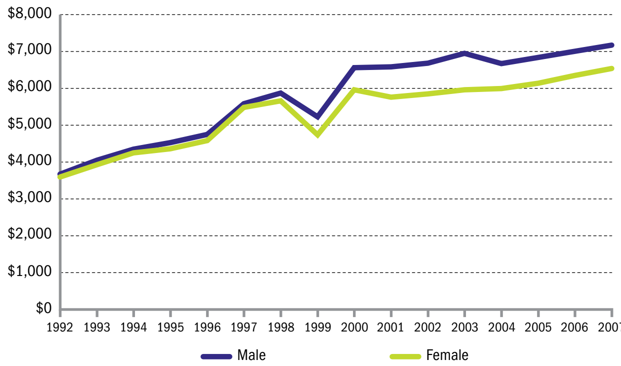
Source: Ministry of Social Development and Ministry of Education.

Note: Median loan balances were not calculated until 2000.

Gender differences

Figure 22 shows the historical trend in the average amount borrowed by gender from 1992 to 2007. There are more women than men in tertiary education. In 2007, there were 241,000 women and 203,000 men enrolled in tertiary studies. While men and women are equally likely to borrow through the loan scheme, women tend to borrow slightly less.

Figure 22 Average amount borrowed by gender and year

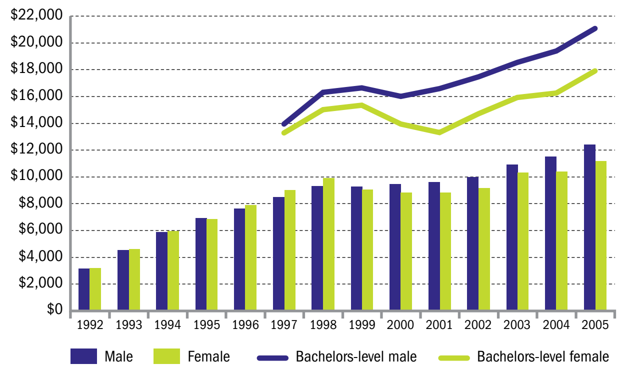


Source: Ministry of Social Development and Ministry of Education.

Figure 23, 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 2005. In some years, women have left study with higher median loans than men despite the fact that women tend to borrow less on an annual basis.

The greatest volume of borrowing has tended to be by students at bachelors-degree level.[42] Figure 23 tracks the loan balances of those who studied at this level and left between 1997 and 2005. According to Figure 23, male borrowers who studied bachelors-degree-level qualifications leave study with higher leaving loan balances than female borrowers who studied at bachelors-degree level. The level of the loan balance depends on many factors such as the field of study enrolled in, the provider attended and the individual's pass rate. One of the explanations for this difference in leaving loan balance across gender groups can be explained by the higher pass rate of female students in bachelors-degree-level studies. Higher pass rates mean that students complete their studies more quickly and borrow less.

Figure 23 Median leaving loan balance for 1992-2005 leaving cohorts by gender – all borrowers and those who studied at bachelors level 1997-2005



Source: Statistics New Zealand, integrated dataset.

Note: 2005 is the latest leaving cohort available.

Loans by component

Most borrowers use the loan scheme to pay the compulsory fees charged by the tertiary education provider. In 2007:

- 96.1 percent borrowed to pay fees
- 59.6 percent borrowed to help meet course-related costs
- 50.3 percent borrowed towards meeting their living costs
- 25 percent borrowed for fees only
- 62.8 percent of those eligible to borrow fees did so.

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

- The amount drawn from student loans that was used to pay fees was about 61.3 percent of all money drawn from the loan scheme between 2000 and 2007.
- The amount drawn for course-related costs varied between 8.4 percent of all drawings in 2000 and 2007 and 9.7 percent of all drawings in 2001 and 2002.
- The amount drawn for living costs varied between 28.4 and 31.2 percent of the total amount drawn between 2000 and 2007.

Table 6 shows the average, median and total amounts drawn by loan components for the period 2000 to 2007. The average amount borrowed to pay fees increased by almost 20 percent between 2000 and 2007 (from $3,817 in 2000 to $4,576 in 2007). The increase in the total amount borrowed for fees reflects the increase in the number of borrowers.

40 See the glossary in appendix 5 for details of the fee stabilisation policy.
41 See the glossary in appendix 5 for details of the fee and course costs maxima policy.
42 This includes certificates and diplomas at level 7 on the National Qualifications Framework.

Table 6 Average and median amounts borrowed by loan component 2000-2007

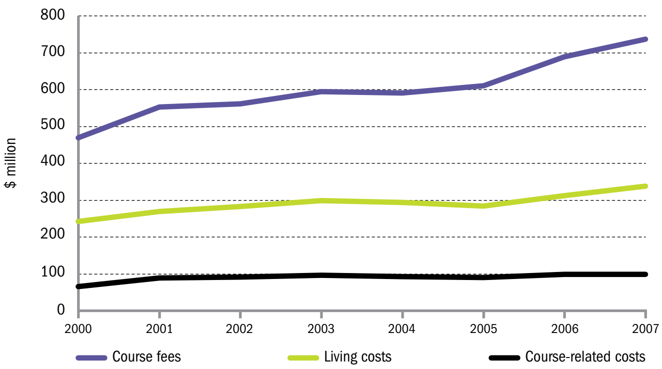
	2000	2001	2002	2003	2004	2005	2006	2007
Course fees								
Average	$3,817	$3,986	$4,025	$4,107	$4,051	$4,253	$4,408	$4,576
Median	$3,690	$3,807	$3,787	$3,792	$3,906	$4,068	$4,230	$4,455
Living costs								
Average	$3,410	$3,472	$3,617	$3,745	$3,770	$3,824	$3,839	$3,866
Median	$3,150	$3,300	$3,580	$3,800	$3,907	$4,050	$4,129	$4,256
Course-related costs								
Average	$896	$935	$940	$936	$938	$943	$950	$948
Median	$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 and up to $150 per week for living costs less any student allowances they receive.

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

Figure 24 Total amount drawn by loan component



Source: Ministry of Social Development.

Provider type

Table 7 presents the fees borrowed by provider type and their proportion of the total fees borrowed for the last five years.

Over half of all those who borrowed fees under the compulsory fees component of the loan scheme in 2007 were enrolled at universities. This proportion has remained relatively stable over recent years up until 2007. Between 2006 and 2007, there was a 7 percent increase in the number of compulsory fee borrowers at universities.

Table 7 Students who borrowed fees by provider type 2003-2007

	2003		2004		2005		2006		2007	
	Borrowers	%	Borrowers	%	Borrowers	%	Borrowers	%	Borrowers	%
Universities	77,538	52.5	78,617	52.9	77,114	52.8	83,552	52.6	89,394	54.8
Institutes of technology & polytechnics	40,767	27.6	39,196	26.4	36,400	24.9	38,077	24.0	39,281	24.1
Private training establishments	25,924	17.5	26,973	18.2	29,136	19.9	34,485	21.7	31,834	19.5
Wānanga	3,564	2.4	3,783	2.5	3,465	2.4	2,826	1.8	2,712	1.7
Total	**147,793**	**100.0**	**148,569**	**100.0**	**146,115**	**100.0**	**158,940**	**100.0**	**163,221**	**100.0**

Source: Ministry of Social Development.

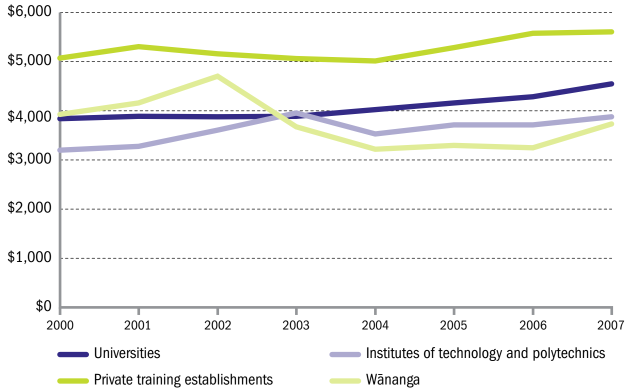
Notes:

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

Between 2006 and 2007, there was a 7.6 percent decrease in the number of private training establishment students borrowing fees. However, the average amount borrowed for course fees by private training establishment students increased slightly from $5,575 in 2006 to $5,606 in 2007. It is possible that the decrease in the number of borrowers at private training establishments is a result of the change in tertiary education sector funding policy that limited student support to government-funded qualifications.

Figure 25 illustrates the average course fees borrowed by tertiary provider type. Between 2006 and 2007, the average course fees borrowed by university students increased by 6.1 percent ($263). This represents an almost 3 percent increase over inflation. Between 2006 and 2007, the highest increase in average course fees was at wānanga. It is important to note that the average course fee depends largely on the composition of the programmes offered by tertiary providers as well as the number of borrowers.

Figure 25 Average course fees borrowed by provider type



Source: Ministry of Education and Ministry of Social Development.

Note: Colleges of education are now included with universities.

Qualification level

Table 8 contains the breakdown of borrowers by level of qualification enrolled in and gender, and average borrowing by qualification level and gender for 2005, 2006 and 2007. In 2007, the number of borrowers enrolled in bachelors-degree-level and above qualifications, such as doctorates, masters, honours, bachelors degrees, postgraduate and graduate certificates and diplomas, increased by 4.8 percent from 2006. This is equivalent to a twofold increase in the total number of borrowers enrolled in diploma, certificate and other non-degree programmes. In 2007, there were marked differences between the borrowing levels of males and females at most qualification levels and these are shown in Table 8.

Table 8 Student loan borrowers by level of qualification, gender and average amounts borrowed 2005–2007

Qualification level	Gender	2005		2006		2007	
		Number of borrowers	Average amount borrowed	Number of borrowers	Average amount borrowed	Number of borrowers	Average amount borrowed
Doctorate	Female	461	$5,294	573	$5,390	645	$5,628
	Male	512	$5,341	581	$5,433	604	$6,083
	Total	**973**	**$5,319**	**1,154**	**$5,411**	**1,249**	**$5,850**
Masters, honours, postgraduate certificates and postgraduate diplomas	Female	5,490	$5,541	6,088	$5,657	6,347	$5,930
	Male	4,063	$6,116	4,287	$6,201	4,453	$7,011
	Total	**9,553**	**$5,786**	**10,375**	**$5,882**	**10,800**	**$6,450**
Bachelors degrees, graduate certificates and diplomas	Female	46,397	$6,562	48,729	$6,764	50,999	$7,017
	Male	31,951	$6,999	33,583	$7,181	35,332	$7,408
	Total	**78,349**	**$6,740**	**82,312**	**$6,934**	**86,332**	**$7,172**
Diplomas	Female	12,987	$5,362	12,959	$5,368	12,433	$5,735
	Male	7,879	$7,727	8,177	$7,943	8,057	$7,724
	Total	**20,866**	**$6,255**	**21,136**	**$6,364**	**20,490**	**$6,527**
Certificates	Female	30,047	$5,289	30,621	$5,477	27,471	$5,537
	Male	18,214	$5,655	19,591	$5,745	18,839	$5,742
	Total	**48,261**	**$5,427**	**50,212**	**$5,581**	**46,310**	**$5,618**
Other	Female	774	$5,923	4,642	$6,683	9,078	$6,256
	Male	532	$7,243	3,101	$7,395	5,074	$8,312
	Total	**1,306**	**$6,461**	**7,743**	**$6,968**	**14,152**	**$7,161**
Total		**154,411**	**$6,408**	**167,420**	**$6,610**	**179,333**	**$6,586**

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

Notes:

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

Loans and student allowances

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

In 2007:

- 12.7 percent of all borrowers borrowed living costs under the loan scheme and also received student allowances. This is a 10.9 percent increase from 2006
- 35.4 percent of people receiving student allowances used the loan scheme to supplement their living costs, compared with 33.6 percent in 2006.

Table 9 presents the number of living costs borrowers and recipients of student allowances and the average living costs and allowances received in 2007.

Table 9 Student allowances compared with student loan living costs borrowings in 2007

	Number of students	Average allowances	Average living costs loan	Average allowances and living costs loan
Student allowances only	40,363	$6,954		$6,954
Student allowances and living costs loan	22,116	$5,775	$1,748	$7,523
Living costs loan only	65,059		$4,593	$4,593

Source: Ministry of Social Development.

On average, in 2007:

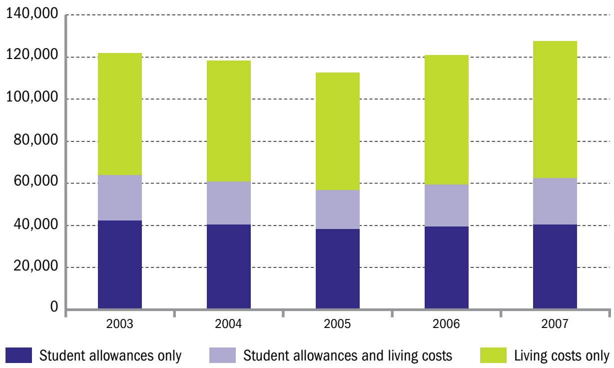
- those who received only student allowances received $6,954
- those who received student allowances *and* used the living costs entitlement under the loan scheme borrowed $1,748 from the loan scheme and received $5,775 in student allowances – meaning they were paid a combined total of $7,523 from both schemes
- those who relied solely on the living costs entitlement under the loan scheme received $4,593.

Figure 26 illustrates the number of students borrowing living costs and/or receiving student allowances. From 2003 to 2005, the number of student loan living costs borrowers and student allowances recipients decreased by 7.7 percent (9,435), reaching 112,000 in 2005. From 2005, there has been an increasing trend in the number of living costs borrowers and/or student allowances recipients. By 2007, the number of students benefiting from student allowances and/or living costs borrowing had increased by 13.5 percent (15,000) from the 2005 level.

In 2007:

- in total 128,000 students either borrowed the student loan living costs component or received student allowances or both. This is a 5.6 percent (7,000) increase over the 2006 level
- 40,000 students received student allowances only, an increase of 2.2 percent or 900 allowances only recipients over 2006
- 22,000 students received student allowances and also borrowed living costs, an increase of 10.9 percent or 2,000 students over the 2006 level
- 65,000 students borrowed living costs, an increase of 6.1 percent or 4,000 borrowers over 2006.

Figure 26 Students borrowing living costs loans and receiving student allowances



Source: Ministry of Education and Ministry of Social Development.

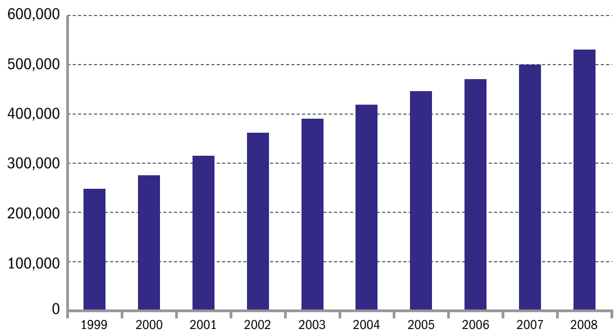
4.3 People repaying loans

Loans with Inland Revenue

Inland Revenue is responsible for the collection of student loan repayments. StudyLink makes the loans to students and once a year transfers loan balances to Inland Revenue. Most repayments are made through the PAYE (pay as you earn) system, with the remainder coming directly from self-employed people and those overseas.

Figure 27 shows loans with Inland Revenue. At the end of June 2008, there were 530,000 borrowers who had loans for collection – a 6.2 percent increase over the previous year and 309,000 borrowers more than in 1998. Those with loans at 30 June 2008 represent 15.9 percent of the population aged 15 and over at the end of 2007, compared with 15.2 percent the previous year.

Figure 27 Borrowers with Inland Revenue at 30 June

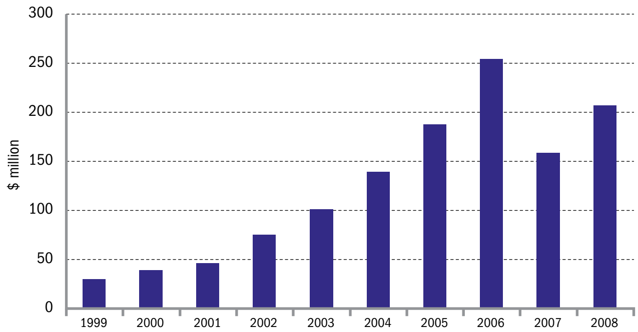


Source: Inland Revenue.

Overdue repayments

At the end of June 2008, $207.1 million in student loan repayments were overdue, an increase of $48.8 million over the previous year. This represents 2.4 percent of the nominal value of outstanding loans – $8.6 billion at year-end. There were 105,000 borrowers with overdue repayments, 19.9 percent of all borrowers. Of borrowers with overdue repayments, 33,000 were 'overseas' under the new definition of overseas-based borrower. They had $64.4 million in overdue repayments, 31.1 percent of the total overdue. As information on who is and isn't overseas has improved, there has been an increase in the number of borrowers assessed as having overdue repayments.

Figure 28 Overdue student loan repayments at 30 June



Source: Inland Revenue.

The overdue amount fell in 2007, mainly as a result of the amnesty. Borrowers who were eligible for the amnesty either had their late payment penalties reversed or were not charged penalties up to 1 April 2007. The amnesty is discussed further in this section of the report.

Characteristics of people with loans

Of those with loan balances, 53.9 percent were aged under 30, 88.1 percent were under 45 and 6.1 percent over 50. These proportions have been increasing each year as the loan scheme matures and the group of people who have made no progress in repaying their loans over an extended period gets older. Those aged under 30 with student loans represent 32 percent of the population between 15 and 30 years, whereas borrowers over 50 years are less than 2.6 percent of the population in that age range.

The number of people over the age of 60 with loan balances rose from 4,000 to 10,000 between 2004 and 2008. To some extent, this reflects the increase in enrolments amongst older people since 2000, with a consequent rise in borrowing amongst older age groups. It also reflects the ageing of the population of those with loans. However, at 1.9 percent, those aged 60 years or over are still a small proportion of all borrowers.

Information from the integrated dataset on student loans and allowances indicates that, of those who borrowed under the loan scheme after 1997 and had a student loan at 31 March 2007:

Ethnicity

- 54 percent were European
- 23 percent were Māori
- 11 percent were Asian
- 8 percent were Pasifika peoples.

Gender

- 56 percent were female.

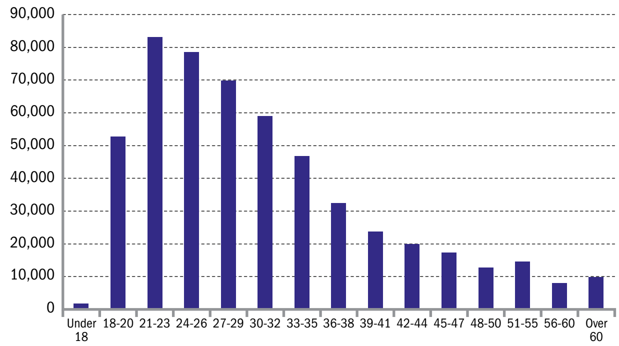
Provider/sub-sector type

- 42 percent studied at a university or college of education
- 32 percent studied at a polytechnic
- 22 percent studied at a private training establishment.
- 3 percent studied at a wānanga.

Qualification

- 41 percent studied at bachelors level
- 36 percent studied at certificate level
- 16 percent studied at diploma level
- 8 percent studied at postgraduate level.

Figure 29 Borrowers with Inland Revenue at 30 June 2008 by age



Source: Inland Revenue.

Borrowers overseas

Number of borrowers

'Overseas-based borrowers' are borrowers who have been absent from New Zealand for a period of 184 consecutive days or more. Interest is charged to their loan.[43]

There were about 77,000 overseas-based borrowers on 30 June 2008, 14.5 percent of all borrowers having loans with Inland Revenue for collection. The loan balances held by this group are about 20 percent of total nominal balances (excluding accrued interest). Because of the change to the definition, effective 1 April 2007, statistics for overseas borrowers are not comparable with figures from previous years, when their status was related to residency for tax purposes.

A data-matching programme now operates to administer interest-free student loan status. The data match enables Inland Revenue to identify borrowers who have left New Zealand, by matching personal details against Customs arrival and departure information.

Amnesty

The amnesty, which ran from 1 April 2006 to 31 March 2008, was available to student loan borrowers who had been living overseas and had fallen behind in their repayments, or had left New Zealand but had not informed Inland Revenue of their departure.

The aim of the amnesty was to remove one of the perceived barriers to borrowers wanting to return to New Zealand and encourage borrowers who had fallen behind in their repayments to start making regular repayments. All eligible borrowers had their late payment penalties either reversed or not established if they had not informed Inland Revenue that they had left New Zealand. To avoid a one-off amnesty penalty being added to their loan balance, they had to apply for the amnesty by 31 March 2008. A total of 44,000 borrowers were eligible for the amnesty and had their late payment penalties reversed or not established.

More than 13,000 borrowers, or 30 percent of eligible borrowers, applied for the amnesty by the deadline of 31 March 2008 and agreed to begin making repayments on their student loans. Borrowers whose amnesty applications were accepted are required to make four equal repayments over two years towards their student loan. For most borrowers the two-year term will end in the 2010 tax year. If a borrower does not meet their amnesty repayment obligations, a penalty will be added to their loan balance based on the number of repayments they made.

There were about 31,000 borrowers who did not apply for the amnesty and received a one-off amnesty penalty. The penalty is the lesser of 5 percent of the total loan balance as at 31 March 2008, or the sum of the late payment penalties that were reversed or not established.

4.4 Loan balances with Inland Revenue

Total balances

The year-end nominal balance for borrowings with Inland Revenue is the total value of all obligations that borrowers have, including loan principal, interest and penalties. The change in the balance from year to year reflects the net growth of the portfolio through new loans transferred to Inland Revenue in the current year, less repayments and other adjustments such as loans written off due to death or bankruptcy. The nominal value is the basis for other calculations such as the carrying value and average and median balances. For details of the valuation of the portfolio, refer to the financial statements for the scheme in chapter 6.

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 will be excluded (see Note 1 of the financial statements in chapter 6). This means that total nominal balances from 2008 onwards cannot be compared with historical data. The impact of the changed calculation method for 2007 and 2008 is shown in Table 10.

Table 10 Total nominal balances at 30 June

Total nominal balances	2007 $ million	2008 $ million
Including accrued interest	8,403	8,998
Excluding accrued interest	7,911	8,553
Difference	492	445

Source: Inland Revenue.

Average and median balances

As noted above, the change to the calculation method for total balances has an impact on the calculation of average and median balances. Table 11 shows the average loan balances including and excluding accrued interest to enable a comparison between 2007 and 2008.

Table 11 Average loan balance at 30 June

Average loan balances	2007	2008
Including accrued interest	$16,833	$16,966
Excluding accrued interest	$15,845	$16,129

Source: Inland Revenue.

The median loan balance was $10,883 on 30 June 2008. The average loan balance is higher than the median because there is a relatively small number of large loans that influence the average.

Table 12 Median loan balance at 30 June

Median loan balances	2007	2008
Including accrued interest	$11,087	$11,384
Excluding accrued interest	Not available	$10,883

Source: Inland Revenue.

Note: It is not possible to calculate median loan balances retrospectively.

43 Exemptions exist for borrowers who are, for example, studying overseas, or doing volunteer work. There were 237 exemptions in the year to 30 June 2008. These borrowers are eligible for interest-free loans. For further details on exemption rules see www.ird.govt.nz/studentloans/.

Table 13 Range of loan balances held by Inland Revenue at 30 June 2008

Range of loan balances	Borrowers	Percentage	Cumulative percentage
$1 – $1,999	46,619	8.8%	8.8%
$2,000 – $3,999	48,655	9.2%	18.0%
$4,000 – $5,999	56,090	10.6%	28.5%
$6,000 – $7,999	50,283	9.5%	38.0%
$8,000 – $9,999	42,540	8.0%	46.0%
$10,000 – $14,999	82,916	15.6%	61.7%
$15,000 – $19,999	53,767	10.1%	71.8%
$20,000 – $24,999	40,688	7.7%	79.5%
$25,000 – $29,999	28,249	5.3%	84.8%
$30,000 – $34,999	21,997	4.1%	89.0%
$35,000 – $39,999	15,716	3.0%	91.9%
$40,000 – $44,999	11,688	2.2%	94.1%
$45,000 – $49,999	8,517	1.6%	95.7%
$50,000 – $54,999	6,076	1.1%	96.9%
$55,000 – $59,999	4,307	0.8%	97.7%
$60,000 – $79,999	8,298	1.6%	99.3%
$80,000 – $99,999	2,510	0.5%	99.7%
Over $99,999	1,373	0.3%	100.0%
Total	**530,289**	**100.0%**	

Source: Inland Revenue.

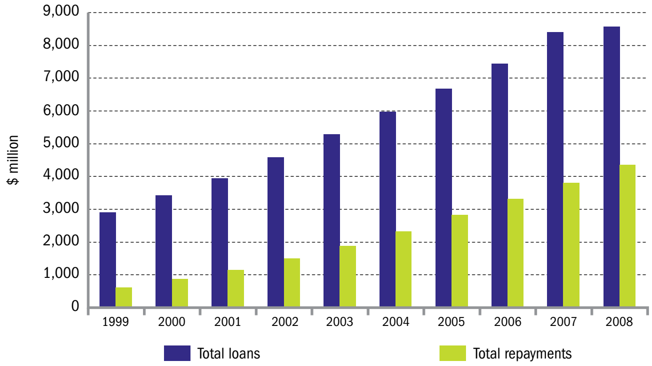
Repayments

Repayments collected

This year Inland Revenue received $550 million in loan repayments, $63.6 million more than last year. The increase in payments through the pay as you earn (PAYE) system is consistent with the high level of employment in the economy in 2007/08 and the continuation of the trend from previous years, as progressively more borrowers complete their studies and enter the workforce.

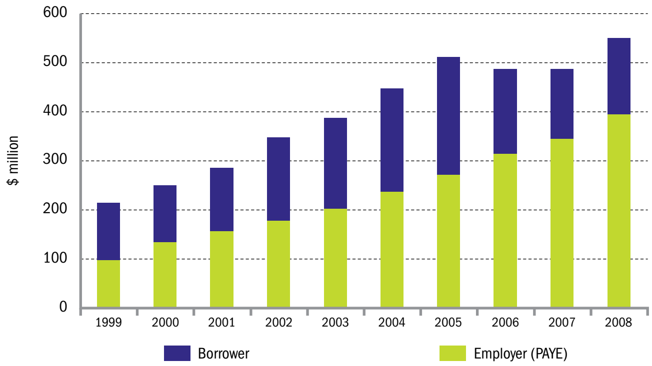
Since the loan scheme began in 1992, Inland Revenue has collected $4,350 million in loan repayments. Of this, $2,556 million has been collected by employers through the PAYE system. The balance ($1,794 million) has been paid directly by self-employed borrowers, overseas borrowers, and borrowers who have made additional repayments. Figure 30 shows the size of the total loan portfolio and the cumulative loan repayments received by Inland Revenue in each fiscal year.

Figure 30 Cumulative loan repayments received by Inland Revenue compared to aggregate loan balances



Source: Inland Revenue.

Figure 31 Value of gross loan repayments received by Inland Revenue – borrower/employer split

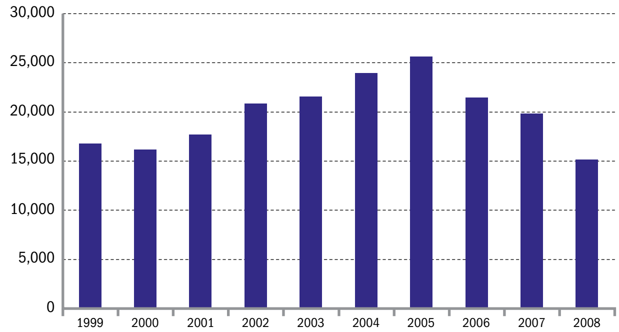


Source: Inland Revenue.

Loans fully repaid

In 2007/08, 15,000 people repaid their loans in full. Since the loan scheme began, 237,000 loans have been repaid in full. This represents more than 30 percent of all loans drawn down.

Figure 32 Loans fully repaid to Inland Revenue at 30 June



Source: Inland Revenue.

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

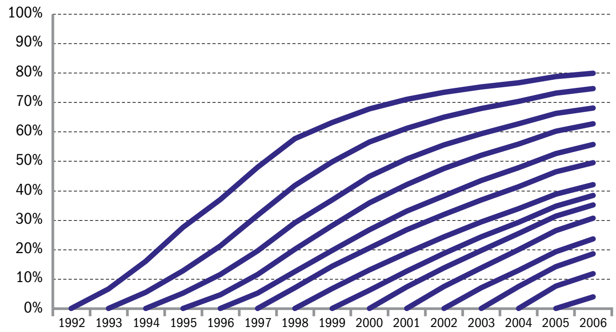
Repayments increased by 14 percent in 2008. It may appear from Figure 32 that there has been a fall in the number of people who have paid off their loans in full. However, because a loan account can be finalised after the end of the year, the graph does not show the full year's figure for 2008. On 30 June 2007, the number of complete repayments recorded for 2007 was the same as the figure for 2008 shown in Figure 32.

Repayment rates

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

The proportion of those who have repaid their loans year by year for each cohort of leaving borrowers is shown in Figure 33.

Figure 33 Proportion of borrowers who have fully repaid each year for each cohort of leaving borrowers



Source: Ministry of Education.

Looking at the group of people who left study at the end of 1997, we see that by 31 March 2007 – just over nine years later:

- half had repaid in full, with men and women equally likely to have repaid
- those who had been successful in completing a qualification were more likely to have repaid in full – 58 percent, compared with 44 percent of those who hadn't completed
- borrowers of European ethnicity were more likely to have repaid in full than Māori or Pasifika (56 percent, compared with 37 percent and 32 percent respectively)
- those who studied at degree level or higher were more likely to have repaid in full than those whose study had been for a certificate or diploma – 56 percent, as opposed to 47 percent.

Interest write-off under the interest-free policy

Under the interest-free loan policy most borrowers do not pay interest because they are New Zealand-based. In the tax year from April 2006 to March 2007, interest was charged to accounts and then written off after the end of the tax year. From 1 April 2007, the interest write-off has been concurrent with the interest charge. For the financial year ending 30 June 2008, $445 million was written off under the policy.

Fewer borrowers received interest write-offs in 2007/08 as a result of data matching with the Customs Service and the amnesty, which identified a large number of overseas-based borrowers who were not previously recorded by Inland Revenue as being overseas (see also **Amnesty** on page 37).

Loan balance write-off due to death or bankruptcy

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

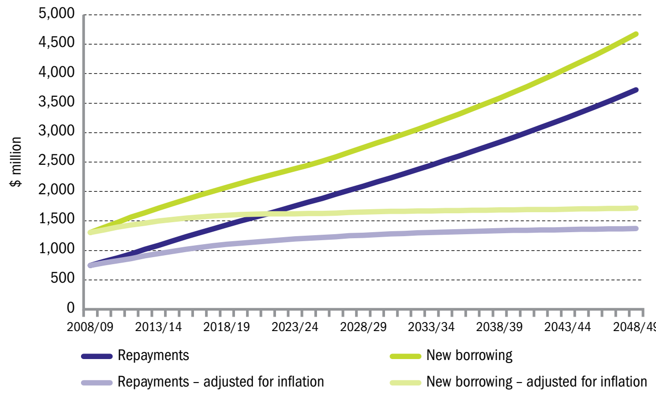
The total value of loans written off due to death was $9.5 million.

The student loans of borrowers adjudicated bankrupt are written off under the Insolvency Act 1967. In 2007/08, $15.7 million was written off due to bankruptcy.

Projected repayment

Repayments are expected to increase in the future – by an average of nearly 11 percent a year over the next four years. Over the longer term, as borrowing grows, so will repayments. Figure 34 shows the expected growth in borrowing and in repayments over the next 40 years. The figures are presented in nominal terms and are also adjusted for forecast inflation to give an idea of the expansion of the scheme in 2008 dollar terms.

Figure 34 Long-term projection of new lending and repayments in millions of dollars, nominal and adjusted for inflation



Source: Ministry of Education, Student Loans Integrated Model.

Further information on forecasts can be found in chapter 5.

CHAPTER FIVE

Valuing and Forecasting Student Loans

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5.0 Introduction

This chapter looks at the current valuation of the scheme including the movement in value over 2007/08. It also looks at valuations from earlier years and examines historical forecasts of lending and repayment. This chapter 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 of all obligations that borrowers have at a point in time, including loan principal, interest and penalties. The change in the value from year to year reflects the net growth of the portfolio in terms of what is owed.

The nominal value is the basis for other calculations such as the carrying value and average and median balances.

The **nominal value** as at 30 June 2008 was **$9,573 million**.

Carrying value

The carrying value is the value of the Student Loan Scheme asset shown in the scheme's accounts. Since 1 July 2005, this has been calculated in accordance with the New Zealand equivalents to the International Financial Reporting Standards (NZ IFRS).

Under IFRS the cost to the government of new lending is recognised at the time it is loaned, so that all things being equal, there is no further cost associated with that lending in the future. An annual, IFRS-compliant valuation is undertaken and any adverse difference between the carrying value and the result of this valuation is recorded as an expense.[44]

The **carrying value** as at 30 June 2008 was **$6,741 million**.

Fair value

The fair value is a calculation of the amount for which the Student Loan Scheme could be exchanged between knowledgeable, willing parties in an arm's-length transaction. In a sense, it is an appraisal of the value of the portfolio should it be offered for sale on an open market.

The fair value is determined by discounting the estimated cash flows at market interest rates with a risk margin added that is appropriate for the portfolio.

Reporting fair value in the accounts is part of the current accounting standard and has been a requirement of the generally accepted accounting practices in recent years. The fair value has been reported in the accounts since 2003.

The **fair value** as at 30 June 2008 was **$5,521 million**.[45]

5.1 Valuation

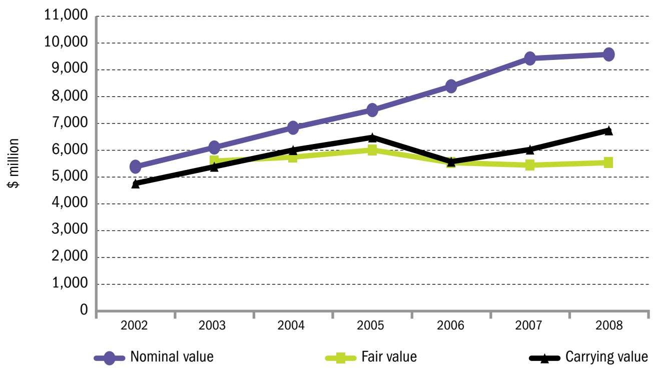
Each year a valuation is undertaken to determine the carrying value of the scheme, which is disclosed in the annual financial statements. The difference between the carrying value and the IFRS valuation is known as an *impairment*.[46] At 30 June 2008, the carrying value before revaluation was $6,510 million but the valuation resulted in a figure of $6,741 million. So a negative impairment (or a reversal of previous impairment) of $231 million occurred, leading to a 3.5 percent revaluation.

The fair valuation puts the value of the scheme lower at $5,521 million. The difference between this measure and the carrying value relates to how the discount rates are used in the two valuations. For the carrying value, the discount rates are locked in at the time of lending, while the fair valuation uses current (market) discount rates which include a risk margin appropriate for student loans.

For a more detailed explanation of the method used to determine the impairment, carrying value and fair value please refer to chapter 6.

Figure 35 and Table 14 show the nominal value of the scheme, the carrying value and the fair value over the last seven years.

Figure 35 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.

44 For a fuller description see the Statement of accounting policies on page 52 of this report.

45 See also Student loan fair value on page 54.

46 Each year the value of the student loan portfolio is assessed according to IFRS. Should the IFRS-compliant value be less than the current carrying value, an impairment is recognised; that is, the carrying value of the loans is reduced to the IFRS value. Should the IFRS value be greater than the carrying value, the carrying value can be increased through a reversal of a previous impairment.

Table 14 The loan scheme's nominal value, carrying value and fair value at 30 June

		2002 $ million	2003 $ million	2004 $ million	2005 $ million	2006 $ million	2007 $ million	2008 $ million
Values	Nominal value	5,386	6,094	6,821	7,499	8,370	9,413	9,573
	Carrying value	4,750	5,370	5,995	6,465	5,569	6,011	6,741
	Fair value		5,592	5,734	5,994	5,537	5,443	5,521
		Cents per dollar of nominal value						
Ratios	Carrying value to nominal value	88.2	88.1	87.9	86.2	66.5	63.9	70.4
	Fair value to nominal value		91.8	84.1	79.9	66.2	57.8	57.7

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.

The trends in the different valuations show a divergence occurring between the nominal value and carrying value since 2005. This reflects the introduction of the interest-free policy in 2006 and the different discount rates that were applied after the interest-free policy took effect.

The trends in the different valuations over the recent year are discussed below.

Nominal value change over the year

The nominal value has increased steadily from $5,386 million in 2002 to $9,573 million in 2008. Between 2007 and 2008, however, the growth was slight compared with previous years – there is a distinct flattening in the track of the nominal loan balance.[47] This does not indicate any major change in the dynamics of the loan scheme. Instead, it represents a change made to improve the statement of the nominal value to better reflect the amount owed at the balance date. In the absence of that change, the total would have been $493 million lower. Chapter 4.4 discusses this in more detail.

Table 15 Movement in the nominal value 1 July 2007-30 June 2008

	$ million
Opening	9,413
Adjustment for interest	-493
Adjusted opening	8,920
New lending	1,201
Repayments	-629
Subtotal	9,492
Interest less write-offs	82
Closing	9,573

Source: Student Loan Scheme Financial Statements.

Fair value change over the year

As a result of last year's fair valuation, each dollar loaned contributed on average 57.8 cents to the fair value. This year, the valuation is virtually unchanged at 57.7 cents. Offsetting changes have served to give this result. The discount rates used in this year's valuation are on average higher, and this is offset by more favourable projections of repayments.

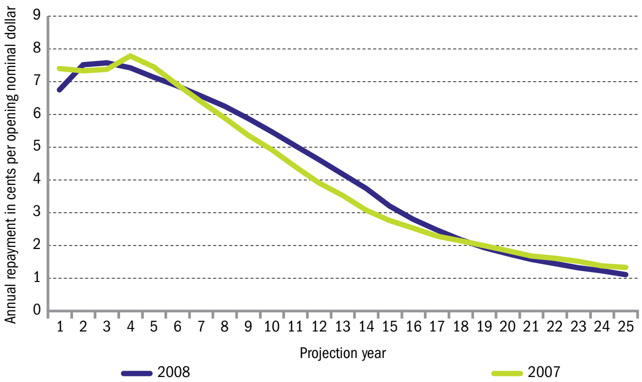
Had this year's valuation used last year's discount rates, the value would be 1.6 percent higher at 58.6 cents. The risk-free margin has increased this year, which has more than offset a decrease in the risk-free rates. The change in the risk-free rates alone would put the valuation at 60.4 cents. The effect of the new higher risk margin (which has increased from 2.00 percent in 2007 to 2.73 percent in 2008) means that the valuation falls to 57.7 cents per dollar on loan.

Carrying value change over the year

The more positive forecast of repayment is behind the increase in the IFRS carrying value. Last year, each dollar on loan was worth on average 63.9 cents. Restating this for the change in the definition of the nominal value gives 67.4 cents. Through amortisation this value rose to 68.0 cents, and then, through the IFRS revaluation (the 3.5 percent increase), the carrying value rose to 70.4 cents per nominal dollar on loan.

As the IFRS valuation is not subject to movements in discount rates or risk margins, the improved outlook flows through to a higher carrying valuation. This is suggested in Figure 36 below, which shows how projected repayments have changed between the valuations. This figure shows repayments generated by the current loans, expressed as cents per year per opening nominal dollar. Compared with last year, higher repayments are expected from the sixth year until around the 18th year of projection.

Figure 36 Comparison of projected repayments



Source: Student Loan Scheme Financial Statements.

Note: Shown is annual repayments in cents per nominal dollar of loan, 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.

47 This movement in nominal value is discussed in chapter 6, under Note 1 on page 53.

5.2 Historical forecasts of lending and repayment

Every year, forecasts of new lending and repayments are made for the *Budget Economic and Fiscal Update* (BEFU). The forecasts are finalised in April, so that the first forecast number is for the current financial year, of which around nine months have already passed.

Table 16 presents the last five years' forecasts of new lending and compares these with what actually happened. Forecasts tend to be more accurate at shorter time horizons and become less accurate at longer horizons.

Table 16 Historical forecasts of new lending against actual lending for the year ending 30 June

New Lending	2003 $ million	2004 $ million	2005 $ million	2006 $ million	2007 $ million	2008 $ million	2009 $ million	2010 $ million	2011 $ million	2012 $ million
Actual										
	952	999	969	1,046	1,176	1,201				
Forecasts										
BEFU04		1,021	1,100	1,147	1,204	1,261				
BEFU05			979	1,040	1,087	1,137	1,189			
BEFU06				1,042	1,157	1,237	1,304	1,368		
BEFU07					1,206	1,278	1,334	1,389	1,444	
BEFU08						1,210	1,305	1,399	1,483	1,568
Difference (Actual – Forecast)										
BEFU04		-22	-131	-101	-28	-60				
BEFU05			-10	6	89	63				
BEFU06				4	19	-36				
BEFU07					-30	-77				
BEFU08						-9				
Percent Difference (Actual – Forecast)/Forecast										
BEFU04		-2%	-12%	-9%	-2%	-5%				
BEFU05			-1%	1%	8%	6%				
BEFU06				0%	2%	-3%				
BEFU07					-2%	-6%				
BEFU08						-1%				

Source: The five BEFU forecasts are from the *Budget Economic and Fiscal Updates* 2004 to 2008.

Notes:

1. In the comparison of forecast to actual lending, a positive number indicates an under-forecast.
2. The forecast for the first year in every BEFU round covers only the last three months of the year.

Table 16 shows us that the 2004 forecast (BEFU04) overestimated new lending. The first full-year forecast at that time was for $1,100 million for 2004/05. The slight fall in lending between 2003/04 and 2004/05 from $999 million to $969 million was not predicted – instead an increase of $79 million was forecast. As a result, the forecast for 2004/05 was 12 percent higher than expected.

The 2005 forecast was within 1 percent of the actual result for the 2004/05 and 2005/06 years. However, that forecast was made before the decision to move to the interest-free student loans policy. Consequently, for the years after the policy change took effect, the projections of lending made in 2005 were less accurate – understating actual lending by 8 percent and 6 percent in 2006/07 and 2007/08 respectively.

The 2006 new lending forecast appears to be accurate at this stage, but the 2007 forecast overestimated the 2007/08 lending by $77 million or 6 percent.

Table 17 presents forecasts and results for repayments. As with lending forecasts, repayment forecasts are close for the current year but the accuracy decreases with longer forecast horizons.

Table 17 Historical forecasts of repayments against actual repayments for the year ending 30 June

Repayments	2003 $ million	2004 $ million	2005 $ million	2006 $ million	2007 $ million	2008 $ million	2009 $ million	2010 $ million	2011 $ million	2012 $ million
Actual										
	438	510	572	550	555	629				
Forecasts										
BEFU04		492	538	590	640	695				
BEFU05			566	655	735	819				
BEFU06				574	634	717	824	948		
BEFU07					559	621	705	763	839	
BEFU08						611	675	758	838	924
Difference (Actual – Forecast)										
BEFU04		18	34	-40	-85	-66				
BEFU05			6	-105	-180	-190				
BEFU06				-24	-79	-88				
BEFU07					-4	8				
BEFU08						18				
Percent Difference (Actual – Forecast)/Forecast										
BEFU04		4%	6%	-7%	-13%	-9%				
BEFU05			1%	-16%	-24%	-23%				
BEFU06				-4%	-12%	-12%				
BEFU07					-1%	1%				
BEFU08						3%				

Source: The five BEFU forecasts are from the *Budget Economic and Fiscal Updates* 2004 to 2008.

Notes:

1. In the comparison of forecast to actual repayments, a positive number indicates an under-forecast.
2. The forecast for the first year in every BEFU round covers only the last three months of the year.

The impact of the interest-free policy on repayments is reflected in the table. The 2004 and 2005 forecasts did not incorporate the implications of this policy change. These forecasts were accurate up until mid-2005 with receipts being slightly under-forecast up to this point. After this point, actual receipts fell well below the forecast. Using the 2005 forecast as a baseline, the receipts in 2005/06 were lower by $105 million, those in 2006/07 were lower by $180 million, and those in 2007/08 were lower by $190 million.

The BEFU 2006 forecast took into account decreased expectations but only around half of that estimate was needed. The 2007 forecast was more accurate predicting receipts of $621 million for the year of this report (2007/08), while the outturn was $629 million.

5.3 Cost of the scheme

The cost of the scheme is measured as a financial cost in the annual accounts set out in chapter 6. An alternative view of the cost can be gained by looking at an annual net cash requirement.

Table 18 shows these two views of scheme costs over the last three years.

Table 18 Scheme costs for the year ending 30 June

		2006 $ million	2007 $ million	2008 $ million
Cash view	New lending	1,046	1,176	1,201
	Repayments	-550	-555	-629
	Net cash	496	621	572
Accounting view	Fair value write-down on new borrowing	328	488	487
	Impairment and other write-down	1,428	151	-231
	Interest unwind income	-358	-360	-407
	Net cost	1,398	279	-151

Source: Student Loan Scheme Financial Statements.

Note: The upfront costs of new lending include the write-down on the administration fee.

This table indicates that in the year of this report (2007/08), $1,201 million was lent out and the expense associated with this lending was $487 million. Repayments amounted to $629 million, meaning that the net cash lent out was $572 million. As mentioned in this chapter, 2007/08 was unusual in that the IFRS revaluation led to a negative impairment of the asset and $231 million was added to its value. Under this 'cost view' of the scheme, 2007/08 had negative costs of $151 million.[48]

The impairment expense seen in 2005/06 is associated with the introduction of the interest-free policy in April 2006.

Table 19 Forecast of scheme costs for the year ending 30 June

		2009 $ million	2010 $ million	2011 $ million	2012 $ million
Cash view	New lending	1,305	1,399	1,483	1,568
	Repayments	-675	-758	-838	-924
	Net cash	630	641	645	644
Accounting view	Fair value write-down on new borrowing	511	548	581	614
	Interest unwind income	-445	-475	-506	-536
	Net cost	66	73	75	78

Source: *Budget and Economic Fiscal Update 2008* and Ministry of Education.

Over 2008/09, the upfront cost of new lending will be 39.15 cents for every dollar lent. The table above assumes this remains the same over the following three years, and that no impairment occurs in any of these years.

Over the next four years, the average annual increase in total borrowing is forecast to be 6.6 percent per annum. Over the same period, the average annual increase in total repayments is forecast to be 10.9 percent per annum.

48 Part of this cost view equation is the interest unwind. This is part of the operation of the amortisation in the book where interest is recognised in proportion to the value of the book using the effective interest rate method. The interest unwind is the return on the investment that the lender is recognising in their schedule of revenue and expenditure. See also Statement of accounting policies and Schedule of revenue and expenditure in chapter 6.

5.4 Modelling and the structure of debt into the future

Looking at the 38,000 borrowers who left study at the end of 1999 can give a view of the pattern of future repayment of student loans.

In total:

- that cohort left with $508 million of outstanding student loans
- 39 percent had repaid their loan in the first seven years following study.

By the end of 2008:

- half of the cohort will have repaid in full
- the amount still owed by that cohort will have reduced from the original $508 million to $340 million
- about $370 million will have been made in repayments
- as this cohort did not have the benefit of the interest-free policy for the first six years after they left, approximately $200 million will have been charged in interest
- of those who hadn't completely repaid at that time, it is estimated that around 30 percent would be overseas.

Those who stay in New Zealand throughout the remainder of their time with a loan will make faster progress in repaying their loans.

- By 2010, three-quarters will have repaid in full.
- By 2013, 90 percent will have repaid in full.

Those overseas for an extended period make much slower progress to repayment. In fact:

- over the years 2009 to 2013, the repayments made by borrowers who were overseas during that period are forecast to be only around half of the interest they are expected to incur over that time – in part because some of those overseas during that time will be taking advantage of the three-year repayment holiday
- as borrowers who don't leave New Zealand repay and those away for only a short period repay, overseas borrowers will become a larger proportion of those with loans – overseas borrowers will reach 40 percent of those in the 1999 leavers who still have not repaid by 2012.

The interest accrued by those overseas and their relatively low repayments mean that the aggregate balance owed by the 1999 cohort as a whole will reduce at a decreasing rate, and:

- by 2017, the aggregate balance will have fallen to $241 million
- with the proportion of overseas borrowers continuing to grow and with the interest and any penalties accrued by them outweighing total repayments, the aggregate balance will start to increase again from that point.

The tables below set out expected repayment times for two groups:

- those who last studied in 1999 and did not study again at least until they had repaid their loan. Repayments for this group have been prepared using seven years of actual experience combined with modelling of their future.
- those who last studied in 2005, a group chosen to represent recent leavers. This group has one year of actual data and the rest modelled.

Table 20 Percentiles of the post-study repayment time for those who last studied in 1999

Percentile	Projected repayment time in years
25th	4.1
50th	9.0
75th	16.9

Source: Ministry of Education Student Loans Integrated Model.

Table 21 Percentiles of the post-study repayment time for those who last studied in 2005

Percentile	Projected repayment time in years
25th	3.5
50th	7.1
75th	15.2

Source: Ministry of Education Student Loans Integrated Model.

Note: This table shows percentiles of projected repayment times married with actual repayment data for one year.

Tables 20 and 21 illustrate the effects of the interest-free policy on repayment times. The overall median repayment time – nine years for the 1999 cohort – falls to a little over seven years for the 2005 leavers. Borrowers in the 2005 cohort who remain in New Zealand benefit from the interest-free policy throughout their repayment time. Their median time till full repayment is forecast to be significantly lower than for those who left in 1999 and hence accrued interest over several years.

Borrowers who spend some time overseas after 31 March 2006 will incur interest and some will suspend their repayments for up to three years as part of the repayment holiday provision. The time till full repayment for that group is expected to be much higher and is forecast to increase in the future. The reason is that, over time, the group is forecast to be increasingly dominated by people who are spending an extended time overseas or who have emigrated permanently. Those people are expected to have poorer repayment records.

CHAPTER SIX

Student Loan Scheme Financial Statements for the Year Ended 30 June 2008

6.0 Financial statements for the year ended 30 June 2008

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 as at 30 June 2008 of $6,741 million ($6,011 million at 30 June 2007).

6.1 Schedule of revenue and expenditure for the year ended 30 June 2008

Table 22 Schedule of revenue and expenditure for the year ended 30 June 2008

Actual 2007 $ million		Actual 2008 $ million	Main Estimates 2008 $ million	Supp. Estimates 2008 $ million
	Revenue			
359.5	Interest unwind	407.3	400.9	414.2
91.3	Interest income	-	-	-
8.7	Administration fees – MSD	8.6	9.4	8.7
459.5	**Total revenue**	**415.9**	**410.3**	**422.9**
	Expenditure			
151.1	Impairment	(230.6)	19.6	260.0
487.5	Fair value write-down on new borrowings	486.7	495.4	486.7
638.6	**Total expenditure**	**256.1**	**515.0**	**746.7**
(179.1)	**Net surplus/(deficit)**	**159.8**	**(104.7)**	**(323.8)**

– The accompanying accounting policies and notes on pages 52 to 54 form part of these financial statements.
– Budget figures represent the combined total for the applicable agencies.
– For a full understanding of the Crown's financial position and the results of its operations for the year, reference should be made to the consolidated audited Financial Statements of the Government, for the year ended 30 June 2008.
– Details of the consolidated movements schedule for the year ended June 2008 are shown in Note 1 on page 53.

6.2 Schedule of assets as at 30 June 2008

Table 23 Schedule of assets as at 30 June 2008

Actual 2007 $ million		Actual 2008 $ million	Main Estimates 2008 $ million	Supp. Estimates 2008 $ million
	Current assets			
1,129	Student loans	630	871	1,109
1,129	**Total current assets**	**630**	**871**	**1,109**
	Non-current assets			
4,882	Student loans	6,111	5,381	5,169
4,882	**Total non-current assets**	**6,111**	**5,381**	**5,169**
6,011	**Total assets**	**6,741**	**6,252**	**6,278**

- The accompanying accounting policies and notes on pages 52 to 54 form part of these financial statements.
- Budget figures represent the combined total for the applicable agencies.
- For a full understanding of the Crown's financial position and the results of its operations for the year, reference should be made to the consolidated audited Financial Statements of the Government, for the year ended 30 June 2008.
- Details of the consolidated movements schedule for the year ended June 2008 are shown in Note 1 on page 53.

6.3 Schedule of cash flows for the year ended 30 June 2008

Table 24 Schedule of cash flows for the year ended 30 June 2008

Actual 2007 $ million		Actual 2008 $ million	Main Estimates 2008 $ million	Supp. Estimates 2008 $ million
	Cash flows – operating activities			
	Cash was provided from:			
37.5	Interest repayments received	-	-	-
37.5	**Net cash inflow from operating activities**	**-**	**-**	**-**
	Cash flows – investing activities			
	Cash was provided from:			
517.9	Capital repayments received	628.9	621.3	610.9
	Cash disbursed for:			
(1,175.9)	New borrowings	(1,200.5)	(1,268.4)	(1,216.2)
(658.0)	**Net cash outflow from investing activities**	**(571.6)**	**(647.1)**	**(605.3)**
(620.5)	**Net cash outflow**	**(571.6)**	**(647.1)**	**(605.3)**

- The accompanying accounting policies and notes on pages 52 to 54 form part of these financial statements.
- Budget figures represent the combined total for the applicable agencies.
- For a full understanding of the Crown's financial position and the results of its operations for the year, reference should be made to the consolidated audited Financial Statements of the Government, for the year ended 30 June 2008.
- Details of the consolidated movements schedule for the year ended June 2008 are shown in Note 1 on page 53.

6.4 Statement of accounting policies for the year ended 30 June 2008

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, Inland Revenue 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 book that can be reliably measured.

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

Interest

Interest is calculated on the nominal student loan account balances on a daily basis at a rate determined by the government, currently 6.7 percent per annum. Interest is charged to both New Zealand-based borrowers and overseas-based borrowers, however, there is a concurrent write-off by Inland Revenue for New Zealand-based borrowers under the interest-free policy.

Credit risk

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

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

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

Interest rate risk

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

Changes in accounting policies

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

6.5 Notes to the financial schedules for the year ended 30 June 2008

Note 1: Consolidated movements schedule for the year ended 30 June 2008

Table 25 Consolidated movements schedule for the year ended 30 June 2008

Consolidated Actual 2007 $ million		Consolidated Actual 2008 $ million	Inland Revenue 2008 $ million	Ministry of Social Development 2008 $ million
9,412.7	Nominal loan balance[49]	9,573.2	8,552.6	1,020.6
(3,401.7)	Adjustment due to initial fair value recognition and impairment	(2,831.9)	(2,512.3)	(319.6)
6,011.0	**Total student loans**	**6,741.3**	**6,040.3**	**701.0**
5,569.2	**Student loans opening balance**	**6,011.0**	**5,429.2**	**581.8**
-	Borrowings transferred from Ministry of Social Development to Inland Revenue	-	1,118.6	(1,118.6)
-	Fair value write-down on borrowings transferred	-	(454.6)	454.6
1,175.9	Amount borrowed in current year	1,200.5	-	1,200.5
(487.5)	Fair value write-down on new borrowings	(486.7)	-	(486.7)
8.7	Administration fees on loans made in current year	8.6	-	8.6
(555.4)	Repayments made in current year	(628.9)	(550.0)	(78.9)
450.8	Interest on impaired student loans	407.3	361.2	46.1
0.4	Small balance write-offs	(1.1)	(1.1)	-
-	Impairment losses reversed	230.6	137.0	93.6
(151.1)	Impairment	-	-	-
6,011.0	**Student loans closing balance**	**6,741.3**	**6,040.3**	**701.0**

49 The nominal loan balance for 2008 excludes accrued interest whereas in the prior year the nominal balance included accrued interest of $493 million. Accrued interest is written off each year when certain criteria are met.

Note 2: Recognition

Student loan nominal value

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

In the current year there has been a change to the way the nominal balance has been stated. Previously, accrued interest (some due to be written off under the interest-free policy) has been included in the total. From 2008 onwards this accrued interest is excluded.

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.

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

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

Table 26 Significant assumptions at 30 June

	2008	2007
Carrying value		
Effective interest rate[50]	8.44%	7.12%
Interest rate applied to loans for overseas borrowers	6.7%-6.8%	6.7%-7.2%
Consumers price index	2.5%-4.0%	2.4%-2.6%
Future salary inflation	3.5%-4.7%	3.4%-3.6%
Fair value		
Fair value ($000)	5,521	5,443
Discount rate	9.19%	8.17%
Impact on fair value of a 1% increase in discount rate ($000)	(321,000)	(232,000)
Impact on fair value of a 1% decrease in discount rate ($000)	366,000	258,000

Source: Inland Revenue.

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 2007 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 2008. 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 2008 has been determined to be $5,521 million ($5,443 million at 30 June 2007).

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 2008. At that date, the fair value was calculated on a discount rate of 9.19 percent, whereas, a weighted average discount rate of 6.56 percent was used for the carrying value. The difference between fair value and carrying value does not represent an impairment of the asset.

Note 3: Reconciliation of impairment allowance account

Table 27 Reconciliation of impairment allowance account at 30 June

Impairment allowance account	2008 $ million	2007 $ million
Balance at beginning of year	533	382
Impairment losses recognised on receivables	-	151
Impairment losses reversed	(230)	-
Balance at end of year	303	533

Source: Inland Revenue.

50 This is the weighted average of effective interest rates that apply to the cohorts of borrowers who borrow for the first time in each financial year.

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 2008

The Auditor-General is the auditor of the financial statements of the Student Loan Scheme. The Auditor-General has appointed me, H C Lim, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Student Loan Scheme, on his behalf, for the year ended 30 June 2008.

Unqualified Opinion

In our opinion the financial statements of the Student Loan Scheme on pages 48 to 54:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  - the Student Loan Scheme's financial position as at 30 June 2008; and
  - the results of its revenue, expenditure and cash flows for the year ended on that date.

The audit was completed on 17 October 2008, 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 2008 and the results of its revenue, expenditure and cash flows for the year ended on that date.

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

Independence

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

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

H C Lim
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the Student Loan Scheme for the year ended 30 June 2008 included on the Ministry of Education's EducationCounts 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 17 October 2008 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: Structure of the Tertiary Education Strategy 2007/12

GOVERNMENT'S GOALS FOR NEW ZEALAND

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

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

Distinctive Contributions

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

Priority Outcomes for Tertiary Education:

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

Strategy achieved through:

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

Appendix 2: Elements of the Student Loan Scheme

The legal structure and authority of the Student Loan Scheme

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

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

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

Eligibility

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

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

Undischarged bankrupts are not eligible to apply for a student loan. An insolvent debtor status, the 'no asset procedure', was put in place by the Insolvency Act 2006 as an alternative to bankruptcy. This procedure lasts for 12 months instead of the normal three-year term for bankruptcy. 'No asset procedure' debtors are able to access the loan scheme.[51]

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

To be eligible a student must:

- be a New Zealand citizen or have been granted permanent residence in New Zealand, and
- be enrolled in an approved qualification[52] 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 documents justifying their expenses. This can be either a statement from their provider listing the items needed for their course and an estimate of the cost, or receipts for 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 of up to $150 per week[53] for each week of the course, less any student allowances.[54] The living costs entitlement is paid in weekly instalments in arrears.

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

Administration fee

When a new loan account is established, an administration fee of $50 is charged. This is added to the student's loan balance when the student first draws from the loan account, or when fees are transferred to the provider (on the student's instructions). The administration fee is charged only once in each 12-month period.

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

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

52 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.

53 This component will be indexed to inflation from 1 April 2009, following a one-off increase from $150 per week to $155 per week from 1 January 2009.

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

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 2007 to March 2008, the threshold was $17,784. Compulsory repayments are made at the rate of 10 cents for every dollar of income over the repayment threshold.

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

Self-employed borrowers

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

Overseas-based borrowers

Overseas borrowers have a different repayment obligation from those based in New Zealand, where repayment obligations are based on income. The repayment obligations are calculated as shown in Table 28.

Table 28 Overseas borrowers' repayment obligation from 1 April 2007

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

Source: Inland Revenue.

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

Voluntary repayments

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

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

Borrowers who are overseas can also make voluntary repayments at any time. For these borrowers, making voluntary repayments may reduce the amount of interest they are charged and enable them to repay their loan faster. Repayments from overseas can be made by telegraphic transfer, MasterCard or Visa.

Overdue repayments

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

Interest is not charged on overdue repayments. However, from 1 April 2007, borrowers are charged a penalty of 1.5 percent (previously 2 percent) per month on outstanding amounts greater than $333 (previously $250). Penalties continue to be charged on the total outstanding (including penalties) until the amount is repaid in full.

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

Interest

Most borrowers no longer pay interest on student loans because they are New Zealand-based. To be eligible, student loan borrowers must be living in New Zealand for 183 consecutive days or more, or qualify for an exemption from being overseas-based borrowers.[55] In the tax year from April 2006 to March 2007 the interest was written off after the end of the tax year. After 1 April 2007, the interest write-off has been concurrent with the interest charge.

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

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

Small balance write-offs

Small balance write-offs[56] occur where a borrower has repaid most of the loan and only a minor balance (a few dollars and/or cents) is outstanding. These amounts are written off in accordance with sections 51 and 60 of the Student Loan Scheme Act 1992.

55 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/.

56 If a borrower has a loan balance of less than $10 as at the last day of any income year, the loan balance is written off.

Appendix 3: Forecasting and costing

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

Student Loans Integrated Model (SLIM)

SLIM is built on the integrated dataset on student loans and allowances, so it draws on data about the actual behaviour of individual borrowers (including former loan borrowers). Actuaries engaged by the Ministry of Education have rebuilt the model each year, using the most up-to-date information. The experience of past borrowers forms the core of the model, and is used to predict what present and future borrowers will do in the future.

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

The administrative data upon which SLIM 2008 was built runs from the beginning of the loan scheme in 1992 to the end of March 2007, that is, after the first full year of the interest-free policy and immediately prior to the implementation of a new classification of overseas-based borrowers. Between that date and the valuation date there is a 'lag' of 15 months. To allow for changes during that period the data-based models are adjusted by the most recent administrative data, in particular, data related to the levels of voluntary repayments and the number of borrowers classified as overseas.

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 regression tree models developed from the integrated dataset. The 2008 version of SLIM has 44 sub-models comprising 27,000 lines of decision-tree code. Together, these sub-models encapsulate former borrowers' borrowing, repaying, income growth, travelling overseas and other characteristics. A number of borrower features, including residency, income, study duration, borrowing amounts and voluntary repayments, are modelled and projected into the future.

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

Table 29 Summary of SLIM model assumptions

Area	Assumption
Enrolment and student loan uptake assumptions	As forecast for the *Budget Economic and Fiscal Update 2008*, using the most up-to-date enrolment and borrowing data available at that time.
Economic assumptions	For valuation purposes, economic assumptions are set by the consulting actuaries in consultation with The Treasury, Inland Revenue, the Ministry of Social Development and the Ministry of Education. For example, annual CPI growth is assumed to be 4.0 percent in 2008 reducing to 2.5 percent from 2011 onwards, and the long-term Average Weekly Earnings growth is 4.0 percent in 2008 and 3.5 percent from 2012 onwards.
Discount rates	The carrying value of student loans is based on discount rates that are set for each cohort of new borrowers at the time they first borrow, as explained in chapter 6. The fair value is based on discount rates that incorporate risk-free rates, derived for each year from the government bond market, plus a risk margin. These are equivalent to a single annual discount rate, which for this year's valuation is estimated to be 9.19 percent.
Income of borrowers	Personal income growth from 'career advancement' is modelled from the experience of the loan scheme and from Census data for longer durations. Salary inflation is imposed on top of this 'career advancement' analysis as an economic assumption.
Transitions between being a student, employment and overseas	Modelled from the experience of the loan scheme's participants.
Voluntary repayments	The probability and amount of voluntary repayments are modelled from the integrated data relating to the first year following the introduction of the interest-free policy. It is assumed that the pattern from that year is representative of future years.
Threshold increases	Assumed to follow CPI growth.
Resident under-payments	The probability and amount of under-payment by residents has been modelled from the last year of integrated data and adjusted for the expected effect of new measures being put in place by Inland Revenue to improve compliance.
Repayment holiday	Based on the experience of the loan scheme, 46 percent of those currently overseas take advantage of the overseas repayment holiday plus all those going overseas in future.
Overseas amnesty	Based on the experience of the loan scheme, 30 percent of those overseas at 31 March 2006 and who have arrears apply for the amnesty.
Bankruptcy	Based on the experience of the loan scheme, age-specific, graduated rates were constructed. For example, the rate of bankruptcy at age 40 is 2.28 per 1,000 borrowers each year.
Mortality	Based on the experience of the loan scheme: males 57 percent and females 68 percent of the New Zealand Life Tables 2000-2002.

Source: Ministry of Education.

Appendix 4: Estimated administration cost

The cost of administering the loan scheme varies from year to year, depending on the number of borrowers, the number of transactions, and any system changes required to implement new policies. Borrowers contribute to the cost of administering the loan scheme through an administration fee which is charged to the borrower's account when it is first used.

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

Table 30 Estimated administration cost 2002/03-2007/08

	2002/03 $ million	2003/04 $ million	2004/05 $ million	2005/06 $ million	2006/07 $ million	2007/08 $ million
Ministry of Social Development	12.5	11.4	11.8	13.3	17.5	17.0
Inland Revenue	8.9	9.2	9.6	18.3	22.7	26.4
Gross administration cost	**21.4**	**20.6**	**21.4**	**31.6**	**40.2**	**43.4**
Less loan administration fees	7.6	7.8	7.5	8.0	8.7	8.6
Net administration cost	**13.8**	**12.8**	**13.9**	**23.6**	**31.5**	**34.8**

Source: Ministry of Social Development and Inland Revenue.

Notes:

1. All amounts exclude GST.
2. All figures are cost estimates.

Appendix 5: Glossary

Academic year

The academic year is from 1 January to 31 December.

Approved qualification

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

Base interest rate

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

Base interest reduction

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

Borrower

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

Borrowers overseas

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

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

Cohort

A group of people with a common statistical factor. For example, a cohort could be a group of students for whom 2007 is their first year of tertiary education.

Compulsory fees or tuition fees

Fees charged for tuition by public and private tertiary education providers.

Compulsory repayments

Compulsory repayments are when a borrower has to start repaying his/her loan because his/her income has crossed the repayment threshold. When this happens, loan repayments must be made to Inland Revenue, even if the borrower is still studying. The repayments are 10 cents in every dollar earned over the repayment threshold.

Course (also called a paper, module or unit standard)

A component of education. A course or collection of courses forms a programme of study which, if completed successfully, results in the award of a qualification.

Course-related costs

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

Equivalent full-time student

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

Fair value

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

Fee and course costs maxima policy (FCCM)

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

Fee stabilisation policy

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

Fiscal year

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

Formal education/study

Learning opportunities within the New Zealand tertiary education system can be categorised as formal (that is, contributing towards a recognised qualification) and non-formal (that is, not contributing towards a recognised qualification).

Full interest write-off

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

Full-time

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

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

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

Impairment

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

Income year or tax year

From 1 April to 31 March.

Industry training organisations (ITOs)

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

Institutes of technology

'Institutes of technology' is an alternative name for polytechnics. Institutes of technology and polytechnics are public tertiary education institutions characterised by diverse vocational and professional programmes.

Integrated dataset

The integrated dataset on student loans and allowances is managed by Statistics New Zealand. It combines:

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

Interest adjustment rate

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

Interest-free student loans

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

Interest rate setting

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

Interest write-offs

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

New borrowers

Borrowers who entered the loan scheme for the first time in 2007. A small number of new borrowers may have borrowed during the 1990s.

New Zealand-based borrowers

All borrowers who qualify for an interest-free student loan.

Non-degree

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

Non-resident borrower

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

Other tertiary education providers (OTEPs)

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

Overseas-based borrowers

All borrowers who are not eligible for an interest-free student loan.

Part-time

A programme of study that is less than 0.8 equivalent full-time student units over 32 weeks or the equivalent on a pro rata basis.

Pasifika

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

Private training establishments (PTEs)

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

Programme of study

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

Qualification

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

Repayment deductions

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

Repayment obligation

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

Repayment threshold

The amount a person can earn in a year before they have to start paying back their loan ($17,784 before tax from 1 April 2007 to 31 March 2008 and $18,148 for 2008/09). Once a person earns more than the threshold, they will have to pay 10 cents for every dollar earned over the threshold.

Resident borrower

Until 31 March 2007, this referred to a person who is resident in New Zealand in terms of section OE 1 of the Income Tax Act 1994. From 1 April 2007, we refer to New Zealand-based borrowers – this term includes all borrowers who qualify for an interest-free student loan.

Student allowances

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

Student loan borrower

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

Student Loans Integrated Model (SLIM)

See chapter 5 and appendix 3 for more information.

Study status

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

StudyLink

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

Tax year

From 1 April to 31 March.

Tertiary education

Tertiary education comprises all involvement in post-school learning activities, including industry training and community education.

Tertiary education institutions (TEIs)

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

Tertiary education organisations (TEOs)

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

Tertiary education providers (TEPs)

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

Tertiary Education Strategy (TES)

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

Total interest rate

This is the interest charged on loans. It is made up of the base interest rate and the interest adjustment rate and is adjusted annually from 1 April. The total interest rate was 6.9 percent for 2006/07, 6.8 percent for 2007/08 and is 6.7 percent for 2008/09. From 1 April 2006, only overseas-based borrowers are liable for interest.

Tuition fees or compulsory fees

Fees charged for tuition by public and private tertiary education providers.

Voluntary repayments

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

Wānanga

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

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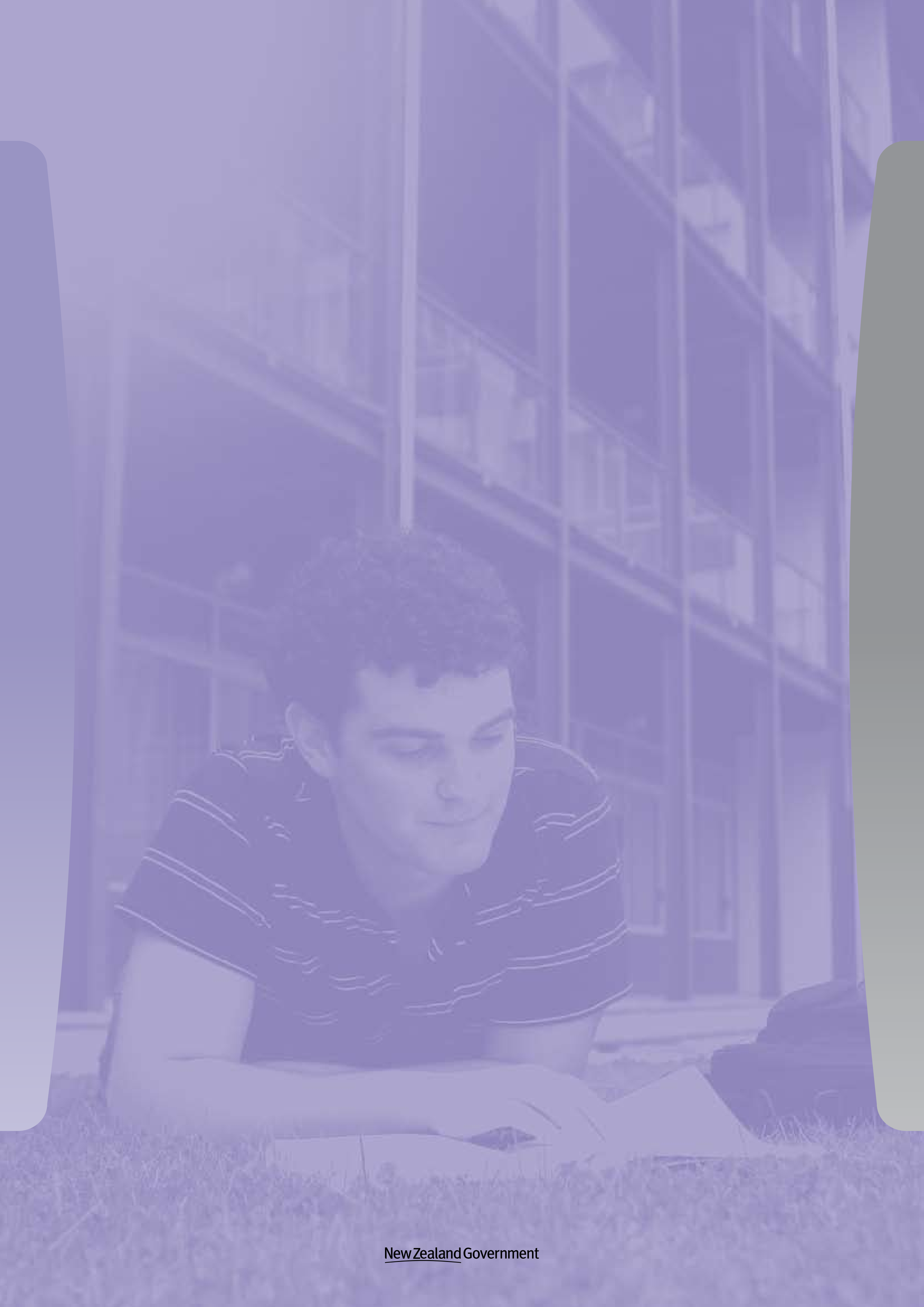

New Zealand Government