



1992

Student loan scheme introduced

Ministry of Education

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Student support

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Overall student support changes

What are the student support changes in Budget 2012?

The student support package for Budget 2012 builds on the policy changes introduced through Budgets 2010 and 2011 and aims to improve the value for money of student support.

Initiatives include:

- Increasing the repayment rate for all New Zealand-based borrowers over the repayment threshold from 10 cents in the dollar to 12 cents in the dollar from 1 April 2013.
- Broadening the definition of income for student loan repayment purposes. This will ensure that repayment obligations are determined on a fair and equitable basis for all borrowers who earn different types of income from 1 April 2014.
- Removing the voluntary repayment bonus from 1 April 2013.
- Assisting compliance with debt repayment for borrowers who have lost touch with Inland Revenue by introducing a new data match between Customs and Inland Revenue for borrowers in serious default. The new data match will operate in the same manner and use the same systems as the existing child support data match.
- Setting individual borrowing limits by implementing the manifesto commitment to limit the amount of loan-supported study that a student can undertake in a year to 2.0 EFTS from 1 January 2013.
- Targeting student allowances to those from low-income families and in initial qualifications (eg, the first undergraduate degree) by removing eligibility for student allowances for postgraduate study except Bachelors with Honours, and removing Long Programmes and most other exemptions from the 200-week lifetime limit for allowances from 1 January 2013.
- Maintaining the student allowance parental income threshold without CPI adjustment until 31 March 2016.

Why is the Government making these changes?

The Budget 2012 student support package is underpinned by the principle that students who can afford to should make a greater contribution to their tertiary education, so that the Government can continue to strengthen the quality of that education.

Funds saved by the student support proposals will allow the Government to invest in priority areas:

- strengthening tertiary education provision and research at the upper levels of the system
- improving vocational and foundation education provision
- continuing to contribute to the rebuild needs of Canterbury
- invest more in the quality of private tertiary education providers to increase competition

and innovation in tertiary education provision and put providers on a more level footing.

What are the impacts of the student support package?

The impacts, once the package is fully implemented, are:

- Reduces the write-down of student loan debt from 44.60 cents to 41.90 cents for each dollar lent in 2015/16.
- Increases the repayment obligations of approximately 200,000 New Zealanders to 12 cents in every dollar earned over the repayment threshold of \$19,084 per annum or \$367 per week.
- Removes the voluntary repayment bonus, which is expected to impact on approximately 30,000 borrowers (approximately 5% of all borrowers).
- Removes the eligibility for student allowances of approximately 5,100 postgraduate students in the first year (approximately 5% of all allowance recipients).
- Maintains the parental income threshold at the current level, which will remove allowance eligibility for approximately 380 students from families with incomes between \$55,000 and \$90,000. The majority of affected students will have access to interest-free student loans.

How much money does the package save?

The package generates approximately \$518 million of operating savings and \$387 million of capital savings over five years.

How will students and borrowers learn about the changes?

StudyLink and Inland Revenue will provide further information to existing and prospective students, student associations, student loan borrowers, education providers, and other stakeholders.

Overall student support facts

How many New Zealanders have a student loan?

As at 30 June 2011, 621,000 people had a student loan with Inland Revenue. In addition to these active loans, 306,000 people had repaid a loan.

What can students currently borrow for?

Student loans are intended to make sure that money is not a barrier to students being able to undertake tertiary education. Students are able to borrow for their course fees and, depending on their study load and other factors, can borrow up to \$1,000 to cover course-related costs, and up to \$172.51 per week to contribute to their living costs. Student loans are interest-free and need to be repaid once the borrower is earning above \$367 per week or \$19,084 per year. The Government remains committed to interest-free student loans.

How much is the average amount borrowed?

As at June 2010, the average amount borrowed in the 2010 year was \$7,298. The median amount borrowed was \$6,375.

How large are the loan balances of former students?

As at 30 June 2011, half of all student loan borrowers owed less than \$11,880. The average loan balance held by Inland Revenue was \$17,276.

On average, how long does it take borrowers to repay their student loan?

As at June 2011, the median repayment time for those who finished study in 2006 was expected to be 6.7 years. New Zealand-based borrowers have a median repayment time of 5.2 years.

How many students borrow from the scheme?

Of those students who were eligible to access the loan scheme in 2010, 74% did so. This compares with 71% in 2009. 958,000 students have accessed the scheme since it was introduced in 1992. In 2010, 212,485 students borrowed under the loan scheme.

How much is currently owed by students? What is it worth to the Government?

As at 30 June 2011, the nominal value of loan balances was \$12.070 billion and the carrying value was \$7.459 billion.

What are student allowances?

Government provides a grant, in the form of a student allowance, with an aim to addressing the financial barriers to study for low-income groups. Allowances assist people to enter tertiary education who have very little upfront cash or family resources, and who heavily discount the future benefits of qualifications. Student allowances also provide additional living costs support for students with higher financial needs, for example those with dependents.

How many students receive a student allowance?

In 2011, a total of 99,271 students received a student allowance (including accommodation benefit payments). 55,384 of these recipients were parentally income tested (55%) and 11,144 had a dependent partner and/or children (11%).

The number of students receiving an allowance has risen from 59,431 in 2006 to 99,271 in 2011, mainly due to policy changes and the effects of the recession, including higher tertiary enrolments due to increased unemployment.

The parental income threshold was increased by 20% on 1 April 2004, and by 10% on 1 January 2007, 2008 and 2009 resulting in the threshold increasing well ahead of wage growth.

The 2008 Budget reduced the age at which students are parentally-income tested for an allowance, from 24 to 23 years old.

How much does the Government spend on allowances?

In 2011, the Government spent \$640 million on student allowances.

Expenditure on student allowances has increased significantly in recent years – from \$386 million in 2007 to \$640 million in 2011 (a 66% increase).

What is the average allowance received?

In 2011, allowance recipients received an average annual allowance of \$6,450.

Who can get an allowance?

To receive a student allowance, students generally need to be 18 years or older, a New Zealand citizen or resident, and studying full time at a secondary school or on a tertiary course approved by the Tertiary Education Commission. Exceptions allow some 16-17 year olds to get an allowance, as well as some people not studying full time.

Students aged 18 to 23 years old who have no children are parentally income tested to determine their eligibility for an allowance. To qualify, a student's parents' combined annual income (from 1 April 2012) must be less than \$83,449.01 for students living at home, and \$90,554.74 for students living away from home.

Can students get a loan and an allowance?

Allowances provide living cost support only, so most allowance recipients also borrow for fees and course related costs. If a student is eligible for a partial allowance, they may 'top up' their

allowance using the loan scheme. For example, if a student receives an allowance of \$100 per week, they can borrow an additional \$72.51 to reach the student loan weekly living cost limit of \$172.51.

How much has been borrowed and repaid since the loan scheme began?

From 1992, when the loan scheme was introduced, to 30 June 2011, approximately \$15.486 billion has been borrowed and approximately \$7.098 billion has been repaid.

How has overall participation in tertiary education increased since the loan scheme was introduced?

The number of domestic students enrolled in tertiary education has increased by 71% since 1994 (from 245,000 to 420,000 students). 48% of 18-19 year olds and 34% of 20-24 year olds participated in tertiary education in 2010.

How much does the Government write-down for every dollar it lends?

In 2011, the Government wrote down 44.60 cents for every dollar borrowed. This has improved from 2009 when the Government wrote down 47 cents per dollar lent. The 2012 student support package is expected to reduce the write-down to 41.92 cents in the dollar by 2015/16.

This write-down reflects that Government doesn't expect to receive the full value of the lending in repayments, due to reasons such as New Zealand-based borrowers' loans being interest-free, some borrowers not reaching the repayment threshold and some borrowers not meeting repayment obligations.

How many student loan borrowers are now overseas and how much do they owe?

As at 31 March 2012, there were 99,783 borrowers living overseas (15% of all borrowers). Overseas borrowers owe a total of \$2.6 billion (22% of the total loan balance).

What are you doing to collect student loans from overseas borrowers? How successful has it been?

The Government has a range of activities and actions for collecting student loans from overseas-based borrowers. These initiatives include:

- emailing, writing to, and, in some cases, texting borrowers about approaching repayment dates
- advertising both in print and online about keeping loans on track
- a dedicated initiative based on commercial debt recovery practices. The initiative is focused on defaulters in Australia and the United Kingdom and includes using private sector debt collectors to track borrowers and collect debt, and online media campaigns.

How does Government compel overseas-based borrowers to repay? Is there a penalty if they don't pay?

The Government has several mechanisms including:

- All borrowers going overseas must inform Inland Revenue, and must provide a contact person in New Zealand if they apply for a repayment holiday.
- Current penalties for non-payment are 0.843% per month on the amount overdue.
- Inland Revenue has an initiative involving defaulters now based in Australia and the United Kingdom. The results of this initiative will be used to determine what further overseas debt activities it will undertake. Two areas in particular are:
 - using debt collection agencies to track down debtors and discuss payment options with them
 - taking legal action in the most serious cases.
- The Government also now has the power to recall loans (that is, to require immediate

payment in full). Non-payment will result in legal action.

What student loan and allowance changes did Government make in Budgets 2010 and 2011?

In Budget 2010 and 2011 the Government:

- Introduced a lifetime limit on student allowances for secondary school study of 92 weeks from 1 January 2011.
- Introduced a 7 EFTS lifetime limit on student loans from 1 January 2011.
- Established a performance element for student loan eligibility from 1 January 2011.
- Introduced a two year stand-down for Australian citizens and permanent residents from 1 January 2011, bringing student loan eligibility in line with student allowances (refugees exempt from the stand-down).
- Restricted student loan eligibility for borrowers with overdue repayment obligations of \$500 or more that have been overdue for a year or more from February 2012, affecting study from 7 February 2013.
- Shortened the repayment holiday for overseas-based borrowers to one year and required borrowers to apply for a repayment holiday and provide a New Zealand-based contact person from 1 April 2012.
- Required students to provide a New Zealand-based contact person for all new loan applications relating to study commencing on or after 1 January 2013.
- Restricted borrowing for people aged 55 and over to cover tuition fees only from 1 January 2013.
- Removed the entitlement for part-time full-year students to borrow for course-related costs from 1 January 2012.
- Held the student loan repayment threshold at \$19,084 until 31 March 2015.
- Denied the ability for borrowers to off-set business and investment losses from income, in order to reduce their repayment obligation, from 1 April 2012.
- Extended the exemption from the two-year stand-down period to include sponsored family members of "protected persons".

What were the savings from Budget 2011 student loan and allowance changes?

The Budget 2011 changes led to a four-year operating saving of \$276.6 million and \$169.9 million of capital savings.

The Budget 2011 changes were expected to reduce the upfront cost of new lending through the scheme from 45.25 cents for every dollar lent to 43.74 cents by 2015 for every dollar lent.

How much do we collect in repayments each year? How much from overseas borrowers and how much from NZ borrowers?

In the 2010/11 tax year, Inland Revenue collected \$690 million, of which \$89 million was from overseas-based borrowers.

How does New Zealand's student support compare to other countries?

New Zealand's student support system is among the most generous in the world when compared to other OECD countries¹.

- OECD countries spend, on average, 19.5% of their public budgets for tertiary education on financial aid to students. New Zealand spends double this proportion.
- New Zealand's direct subsidies were 0.66% of GDP compared to the OECD average of 0.27%².

[Note: OECD statistics count lending for fees as financial aid to students. Some stakeholders consider that lending for fees should be excluded from financial aid to students, which would bring New Zealand's spending on financial aid to just above the OECD average.]

There are a number of design features of the New Zealand student support system that lead it to be viewed as one of the most generous in the world. These include:

- **No interest on student loans:** New Zealand is the only country in the OECD that charges no interest, including no CPI adjustment.
- **Income-contingent repayment regime** which means lower-income earners are not required to repay – eg, for the 2009 tax year 52% of borrowers had no repayment obligation (in Canada, Japan, Portugal and Finland, loan repayments are fixed-term).
- **Loans available for post-graduate study** (in the UK student loans are not available for those undertaking postgraduate study).
- **Available for a wide range of tertiary study (higher and further education)** - students attending polytechnics, wananga, PTEs and universities are able to access student loans (in the UK, loans are only available for higher education providers i.e. universities).
- **Available for living costs** (in Australia there is no loan scheme to cover living costs).
- **Available to part-time students** (excluding course-related costs) (in Japan, Korea and Finland loans are only available for full-time study).

How do New Zealand tertiary fees compare to other countries?

New Zealand tertiary education institutions, on average, charge less for their tuition fees than many countries within the OECD³. Tuition fees are controlled by the Government through the Annual Maximum Fee Movement policy, which permits tertiary education providers to increase their fees by only up to four per cent each year.

The annual average tuition fee New Zealand tertiary education institutions charge full-time students is about 67% of the average fee charged by Australian tertiary education institutions.

The New Zealand average fee is approximately 74% of the average Canadian fee⁴.

¹ The Ministry's analysis of OECD Education at a Glance 2010 is: New Zealand's high level of public expenditure on tertiary education needs to be qualified by recognition of the treatment of student loan borrowings which are recorded in full in this expenditure measure. They amount to almost 30% of the recorded tertiary public expenditure. An outcome of this is that a relatively high proportion of New Zealand's public tertiary education expenditure, measured according to this broader measure, is channelled via students rather than institutions.

² Base data: Table B5.3, Education at a Glance, 2010

³ When adjusted for purchasing power parity.

⁴ Source – OECD Education at a Glance 2010, Table B5.1., pages 254-255. Note that there will be variation within subject areas.

Need more information?

More information on Budget 2012 changes to tertiary education and student support is available on the following websites:

- [Changes to Student Loans and Allowances - StudyLink website](#)
- [Budget 2012 announcements - Inland Revenue website](#)
- [Budget 2012 - Tertiary Education Commission website](#)