



CHAPTER ELEVEN

FINANCIAL SUPPORT FOR STUDENTS // 137-147

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AN OVERVIEW

In 2006, student allowances uptake increased, after several years of decline. Between 2001 and 2005, the number of recipients fell each year – largely because, for most students, eligibility for allowances depends on their parents' incomes. As incomes have risen, the number of students whose parents' income fell below the thresholds has been declining. From the beginning of 2005, the government began a series of increases in parental income thresholds. These thresholds are now indexed – they move each year with inflation. In addition, in 2006, there was an increase in the personal income limit – the amount a student can earn from part-time work while still retaining eligibility for an allowance. These policy changes led to a 4.6 percent increase in the number of allowances recipients in 2006. The total paid out in allowances also rose in 2006 – by 8 percent – again, the first rise after several years of reductions.

The uptake of student loans increased in 2006 – the year in which interest-free student loans were introduced. The number of borrowers rose by 8.4 percent on 2005. Around 5.2 percent of the New Zealand population aged 15 and over borrowed from the loan scheme in 2006. The uptake rate – the proportion of eligible students who choose to use the loan scheme was 56 percent, up from 49 percent in 2005.

Another consequence of interest-free student loans is a change in repayment patterns. Loan repayments for the year to 30 June 2007 were no higher than in the previous year, despite there being a larger number of borrowers. The amount repaid – \$487 million – was about 5 percent below the amount collected in the year to 30 June 2005. While it will take some time for new repayment trends to emerge, the expectation is that repayments will start to increase from 2008 and that they will rise steadily from then on.

THE 2007 YEAR

Early indications are that the increases in loans and allowances uptake observed in 2006 have continued in 2007. In the period 1 January 2007 to 30 June 2007, the number of allowances recipients went up by 6 percent while the number of people borrowing rose by 7 percent. The average amount received in allowances reduced slightly – by 1.6 percent – while the amount borrowed under the loan scheme went up by nearly 2 percent.

MORE STUDENT ALLOWANCES RECIPIENTS

There were 2,625 more student allowances recipients in 2006 than in 2005, an increase of 4.6 percent. The total number of student allowances recipients in 2006 was 59,431 compared to 56,806 in 2005.

The number of student allowances recipients by gender in 2006:

Females	31,831	(up 5.1% on 2005)
Males	27,600	(up 4.1% on 2005)
Total	59,431	(up 4.6% on 2005)

Source: Ministry of Social Development.

Figure 11.1// Student allowances recipients by gender



MOST ALLOWANCES HOLDERS AGED UNDER 25 YEARS

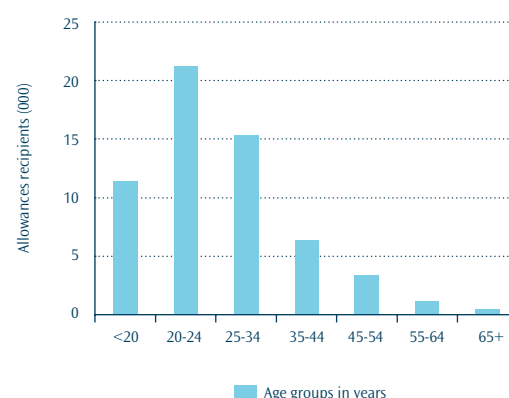
In 2006, there were 32,671 student allowances recipients under 25 years of age, comprising 55 percent of the total. The majority of students under 25 years are subject to parental income testing. The exceptions are those under-25-year-old students who have a dependent child or children or those who are awarded an Independent Circumstances Allowance because of exceptional family circumstances.

The proportion of student allowances recipients by age group in 2006:

Under 20 years	19%	(18% in 2005)
20 to 24 years	36%	(36% in 2005)
25 to 29 years	17%	(27% in 2005)
30 to 39 years	15%	(11% in 2005)
40 to 49 years	8.0%	(5.4% in 2005)
50 to 59 years	3.5%	(1.8% in 2005)
60 years or over	1.5%	(0.7% in 2005)

Source: Ministry of Social Development.

Figure 11.2// Student allowances recipients by age group



MORE ALLOWANCES RECIPIENTS WITH DEPENDANTS

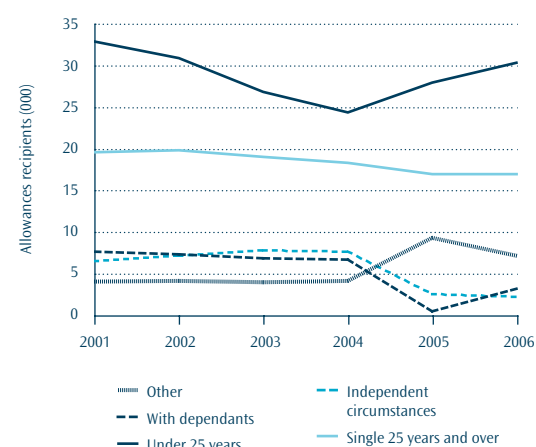
The majority of student allowances recipients are under 25 years of age and receive a parental-income-tested allowance. In 2006, there was a very large increase in the number of students who had dependants and received student allowances (although this increase was from a very low base, following a large dip in 2005, and the numbers receiving this form of allowance is now at around half the 2004 level).

The number of student allowances recipients by allowance type in 2006:

Under 25 years	30,246	(up 8.5% on 2005)
Single – 25 years and over	16,834	(down 0.3% on 2005)
Independent circumstances	2,186	(down 10.3% on 2005)
Students with dependants	3,111	(up 648% on 2005)

Source: Ministry of Social Development.

Figure 11.3// Student allowances recipients by type of allowance



ALLOWANCES RECIPIENTS BY SUB-SECTOR

There were more student allowances recipients in 2006 studying in private training establishments, universities and polytechnics but fewer at colleges of education and wānanga.

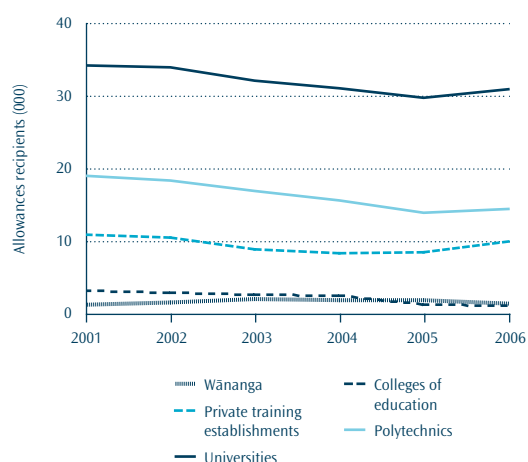
The number of student allowances recipients by sub-sector in 2006.

Universities	30,787	(up 3.8% on 2005)
Polytechnics	14,345	(up 4.2% on 2005)
Wānanga	1,317	(down 19.3% on 2005)
Colleges of education	994	(down 12% on 2005)
Private training establishments	9,713	(up 15% on 2005)

Note: Colleges of education have been progressively merging with the universities since 2004. In 2007 the mergers were completed when the Christchurch College of Education joined with the University of Canterbury and the Dunedin College of Education became part of the University of Otago.

Source: Ministry of Social Development.

Figure 11.4// Student allowances recipients by sub-sector



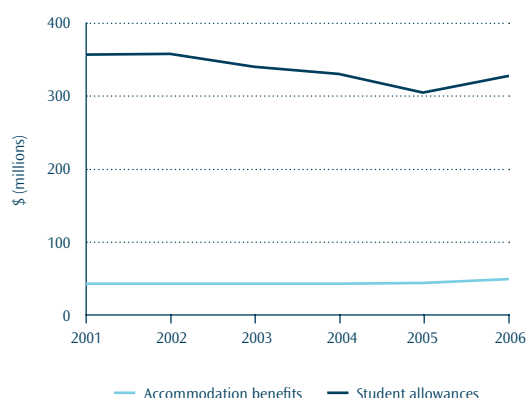
EXPENDITURE ON ALLOWANCES INCREASED

In 2006, the expenditure on student allowances and accommodation benefits increased.

Student allowances expenditure by allowance type in 2006:

Student allowances	\$23 million	(up 7.5% on 2005)
Accommodation benefits	\$5 million	(up 11% on 2005)

Figure 11.5// Expenditure on student allowances and accommodation benefits



MORE STUDENTS BORROWED

More students took up student loans in 2006 – the year in which interest-free student loans were introduced. There were also more first-time borrowers in 2006, but still fewer than in 2002 (62,763) and 2003 (60,131).

The number of student loan borrowers in 2006:

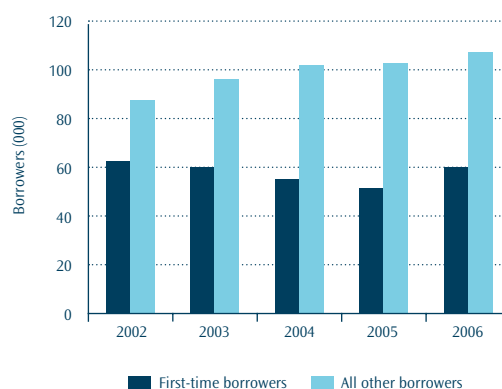
Total	167,420	(up 8.4% on 2005)
First-time borrowers	60,016	(up 17% on 2005)
All other	107,404	(up 4.3% on 2005)

Notes:

1. This data is provisional.
2. First-time borrowers are those who have not borrowed in 2000 or subsequently.

Source: Ministry of Social Development.

Figure 11.6// Student loan uptake



STUDENT LOAN UPTAKE INCREASED

A greater proportion of people eligible to use the loan scheme borrowed in 2006. This applied to full-time and part-time students.

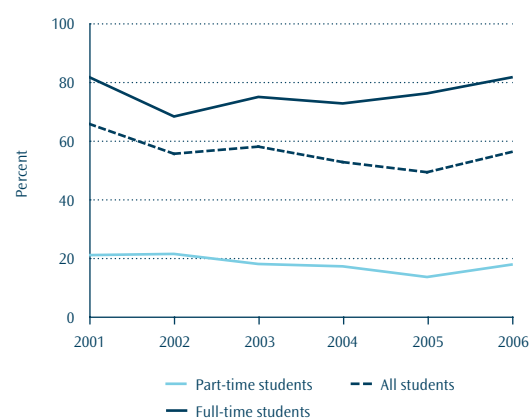
The proportion of eligible students who borrowed in 2006:

Total	56%	(49% in 2005)
Full-time	82%	(76% in 2005)
Part-time	18%	(13% in 2005)

Note: Overall uptake rates depend on the mix of full-time and part-time borrowers. The low uptake of part-time borrowers, compared with the high uptake of full-time borrowers, reduces the overall uptake rate.

Source: Ministry of Social Development.

Figure 11.7// Student loan uptake rates by study status



MORE BORROWED TO PAY THEIR FEES

In 2006, there was a significant increase in the number of students borrowing to cover the cost of their tuition. Most of the increase was generated by university and private training establishment students.

The number of students borrowing their fees by sub-sector in 2006:

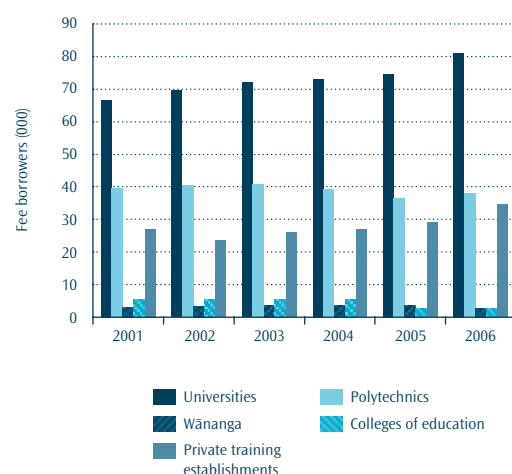
All tertiary education providers	158,940	(up 8.8% on 2005)
Universities	81,035	(up 8.6% on 2005)
Polytechnics	38,077	(up 4.6% on 2005)
Wānanga	2,826	(down 18% on 2005)
Colleges of education	2,517	(down 0.4% on 2005)
Private training establishments	34,485	(up 18% on 2005)

Notes:

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

Source: Ministry of Social Development.

Figure 11.8// Student fee borrowers by sub-sector



MOST BORROWERS AGED UNDER 29 YEARS

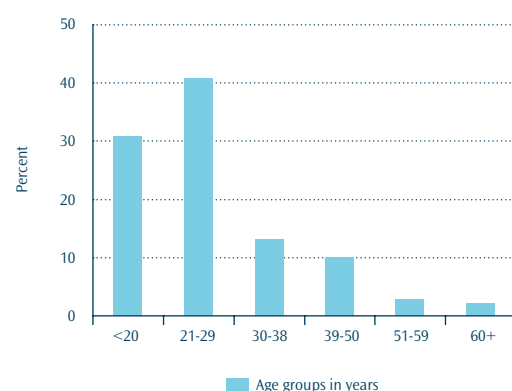
Over a third of borrowers were aged 21 to 29 years in 2006 and just under another third of them were aged under 20 years.

The proportion of borrowers by age group in 2006:

Under 20 years	31%	(30% in 2005)
21 to 29 years	41%	(42% in 2005)
30 to 38 years	13%	(14% in 2005)
39 to 50 years	10%	(10% in 2005)
51 to 59 years	2.8%	(2.6% in 2005)
60 years or over	2.1%	(1.5% in 2005)

Source: Ministry of Social Development.

Figure 11.9// Borrowers by age group



MORE FEMALE THAN MALE BORROWERS

Figure 11.10//Average amount borrowed and the proportion of borrowers by gender

Almost 60 percent of loan scheme borrowers were women in 2006 – consistent with the high proportion of women enrolled in tertiary education. However, in 2006 male students borrowed \$660 more, on average, than female students.

The average amount borrowed by gender in 2006:

Male students	\$7,005	(up 2.5% on 2005)
Female students	\$6,345	(up 3.5% on 2005)

Males accounted for 40.2 percent of student loan borrowers in 2006, compared to 44.2 percent in the year 2000. The proportion for females was 59.8 percent in 2006, down on 55.8 percent in 2000.

Source: Ministry of Social Development.



TOTAL AMOUNT BORROWED INCREASED

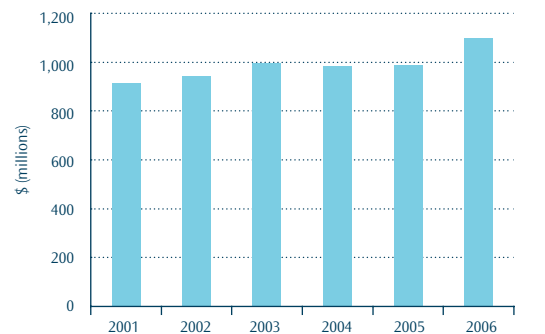
Figure 11.11//Annual amount borrowed

At just over \$1 billion, the amount borrowed under the Student Loan Scheme in 2006 was \$109.7 million higher than in 2005. The latest increase followed three years in which the amount borrowed has remained similar. The 2006 increase is the largest since 2001, when an increase in borrowers' entitlements was followed by a 17 percent increase on the previous year.

The total amount borrowed in 2006:

	\$1,099.8 million	(up 11% on 2005)
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Source: Ministry of Social Development.



MEDIAN AMOUNT BORROWED RISES

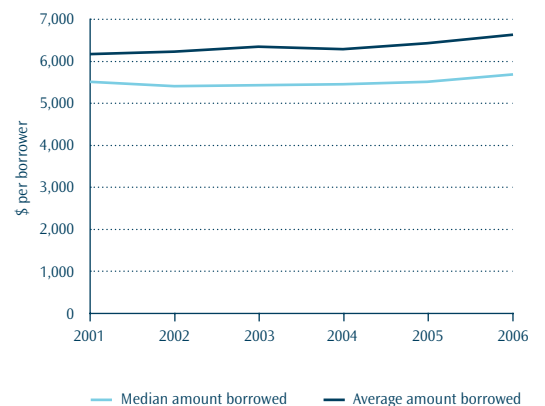
Figure 11.12//Average and median amount borrowed

From 2005 to 2006, the average amount borrowed increased by \$202, while the median amount increased by \$178.

The average and median amounts borrowed in 2006:

Average	\$6,610	(up 3.2% on 2005)
Median	\$5,663	(up 3.2% on 2005)

Source: Ministry of Social Development.



INCREASE IN AMOUNT BORROWED FOR COURSE FEES

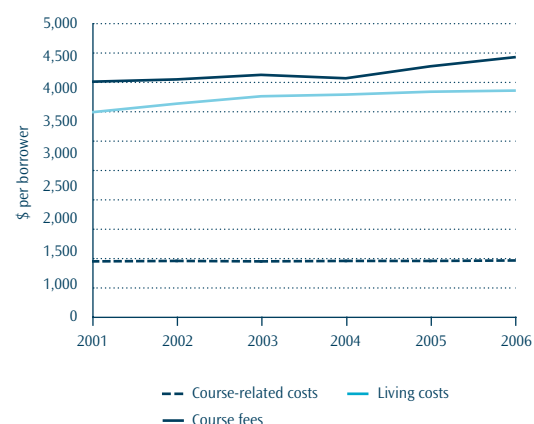
The average amount drawn in 2006 increased for each of the three loan components – course fees, course-related costs and living costs.

The average amount drawn from loan accounts by loan component in 2006:

Course fees	\$4,408	(up 3.7% on 2005)
Course-related costs	\$950	(up 0.4% on 2005)
Living costs	\$3,839	(up 0.7% on 2005)

Source: Ministry of Social Development and Ministry of Education.

Figure 11.13//Average amount borrowed by loan component



MORE PEOPLE WITH LOANS THAN ALLOWANCES

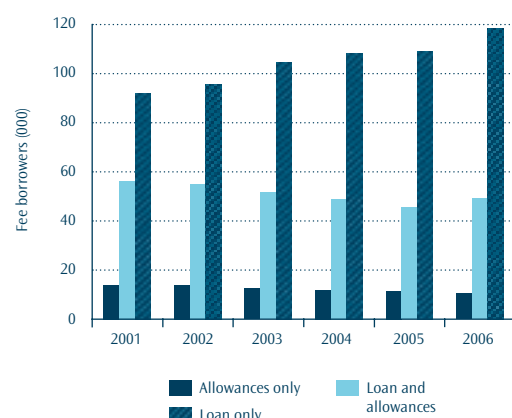
In 2006, there were twice as many student support recipients with only a student loan than there were students with a loan and a student allowance. In 2006, there were 10 times as many students with a student loan than there were students who received a student allowance.

The number of student loan borrowers and student allowances recipients in 2006:

Allowances only	10,340	(down 9.1% on 2005)
Loan and allowances	49,091	(up 8.1% on 2005)
Loan only	118,329	(up 8.6% on 2005)

Source: Ministry of Social Development.

Figure 11.14//Student allowances recipients and student loan borrowers



FULL-TIME STUDENTS WITH LOANS AND ALLOWANCES

In 2006, approximately one-third of student allowances recipients also borrowed for their living costs. Less than one-quarter of students who borrowed the living costs component of the student loan also had a student allowance.

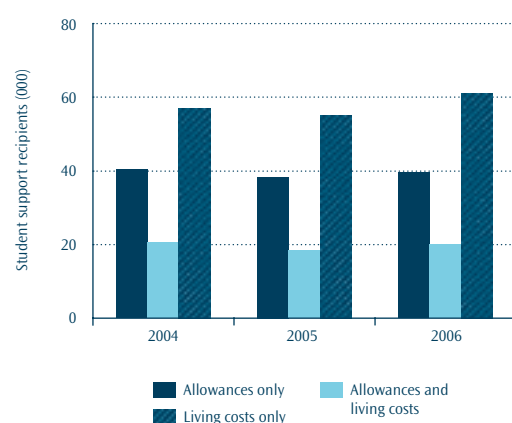
Student allowances recipients and students who borrowed for living costs in 2006:

Student allowances only	39,487	(up 3.0% on 2005)
Student allowances and living costs loans	19,944	(up 8.1% on 2005)
Living costs loans only	60,977	(up 10% on 2005)

Only full-time students are eligible for the living costs entitlement of up to \$150 per week for each week of the course, less any student allowances received.

Source: Ministry of Social Development.

Figure 11.15//Recipients of student allowances and living costs loans



MORE PEOPLE WITH STUDENT LOANS

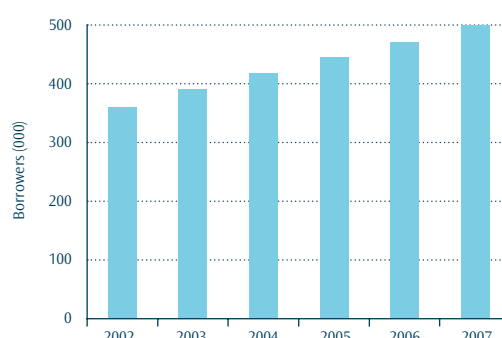
The number of people with a student loan balance with Inland Revenue increased at 30 June 2007 compared with the previous year. This reflects new borrowers entering the scheme in greater numbers than those who completely repaid in the period.

The number of borrowers with Inland Revenue:

2002	361,000	(up 15% on 2001)
2003	390,000	(up 8.2% on 2002)
2004	419,000	(up 7.4% on 2003)
2005	445,000	(up 6.3% on 2004)
2006	470,500	(up 5.7% on 2005)
2007	499,000	(up 6.1% on 2006)

Source: Inland Revenue.

Figure 11.16//Borrowers with Inland Revenue at 30 June



STUDENT LOAN BALANCE CONTINUED TO INCREASE

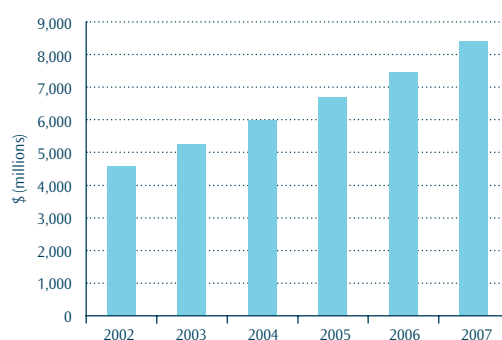
The student loan debt held by Inland Revenue at 30 June 2007 was 13 percent higher than the previous year.

Nominal student loan debt with Inland Revenue at 30 June:

	\$ (millions)	% change from previous year
2002	4,570	16
2003	5,270	15
2004	5,970	13
2005	6,680	12
2006	7,470	12
2007	8,400	13

Source: Inland Revenue.

Figure 11.17//Nominal value of student loans at 30 June



AVERAGE LOAN BALANCE INCREASED

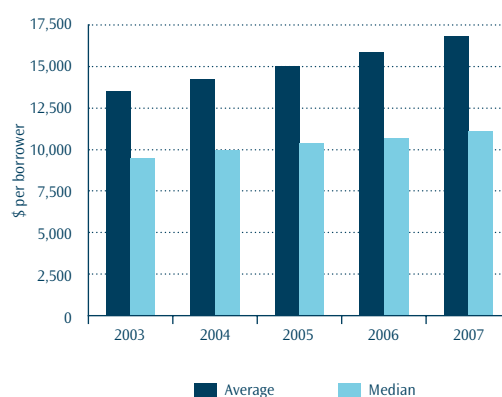
At 30 June 2007, the average and median loan balances held by Inland Revenue were higher than a year earlier.

The average and median loan balances, from 2002 to 2007:

	Average \$	% change from previous year	Median \$	% change from previous year
2002	12,700	1.4	—	—
2003	13,500	6.5	9,500	—
2004	14,200	5.4	9,980	5.4
2005	15,000	5.3	10,400	4.3
2006	15,900	6.0	10,700	2.4
2007	16,800	6.0	11,100	4.1

Source: Inland Revenue.

Figure 11.18//Average and median student loan balances at 30 June



MOST BORROWERS OWE LESS THAN \$15,000

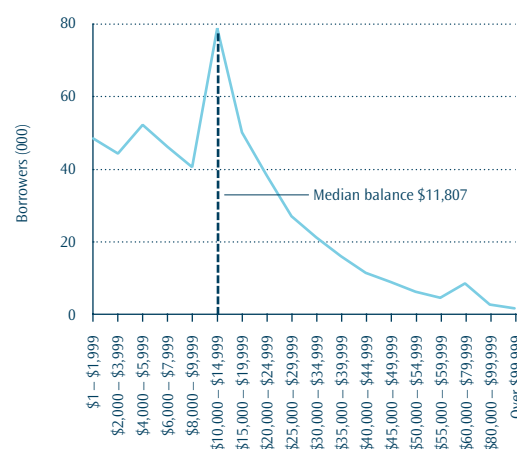
More than 60 percent of borrowers owed less than \$15,000 at 30 June 2007.

The proportion of borrowers by loan balance at 30 June 2007:

Value of loan	Proportion	Value of Loan	Proportion
Under \$10,000	45.9%	\$10,000–\$14,999	15.7%
\$15,000–\$19,999	9.9%	\$20,000–\$24,999	7.6%
\$25,000–\$29,999	5.3%	\$30,000–\$34,999	4.1%
\$35,000–\$39,999	3.1%	\$40,000–\$59,999	6.0%
\$60,000–\$79,999	1.6%	Over \$79,999	0.7%

Source: Inland Revenue.

Figure 11.19//Borrowers at 30 June 2007 by range of loan balance



FEWER LOANS REPAID IN FULL

Inland Revenue has collected \$3.8 billion in loan repayments since the loan scheme began. In 2007, \$486.5 million was collected in repayments, a similar amount to 2006 but less than the \$510.3 million collected in 2005. There has been a shift in the split of repayments collected between those from the PAYE system and those paid directly by borrowers. The proportion collected through the PAYE system rose by 15.8 percent in 2006, compared to 9.7 percent in 2007. The number of loans repaid in full decreased in 2007 for the second year in a row.

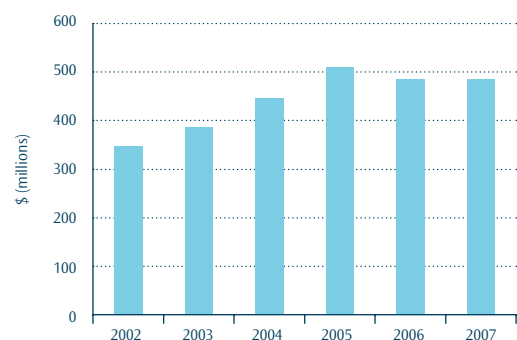
The annual gross value of student loan repayments:

2002	\$346.9 million	(up 21.8% on 2001)
2003	\$386.4 million	(up 11.4% on 2002)
2004	\$447.2 million	(up 15.7% on 2003)
2005	\$510.3 million	(up 14.1% on 2004)
2006	\$486.4 million	(down 4.7% on 2005)
2007	\$486.5 million	(up 0.02% on 2006)

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

Source: Inland Revenue.

Figure 11.20//Gross annual student loan repayments at 30 June



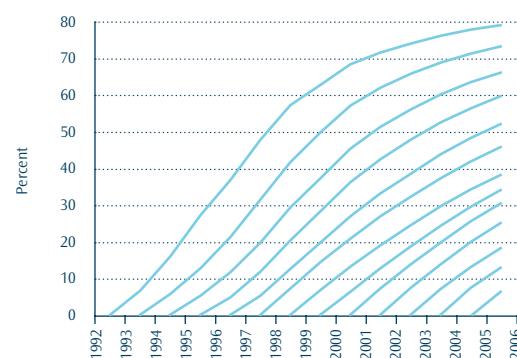
PROPORTION OF BORROWERS REPAID IN FULL

Figure 11.21//Proportion of borrowers who have fully repaid for each cohort leaving-year

Nearly 80 percent of people who took out a student loan in 1992 had fully repaid their loan by 2005.

Using the integrated Student Loan Scheme Borrowers dataset, the progress towards loan repayments is able to be charted. The main determinants of repayment rates of those who have left study are employment and income. As people's incomes rise, their repayment obligations increase. For this reason, repayment rates tend to start slowly and increase as people gain experience in the workforce.

Source: Statistics New Zealand, Student Loan Scheme Borrowers dataset.



LOAN REPAYMENTS AND COMPLETING A QUALIFICATION

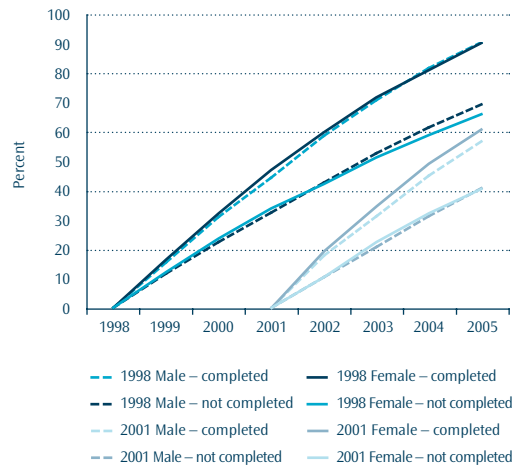
Figure 11.22//Borrowers who repaid their loans by gender and completion status

As time goes on, the number of borrowers repaying in full increases each year, but at a decreasing rate. The probability of a borrower repaying a loan depends on whether or not they have completed a qualification. Figure 11.22 illustrates that those with a qualification paid back more quickly than those who did not complete a qualification.

While women repaid slightly more quickly in the first few years after leaving study, over time gender had little effect on the rates of repayment.

Note: The leaving cohorts graphed here are those who last studied in 1998 and 2001, had borrowed from the loan scheme, and had a student loan balance of \$10 or more at 31 March in the following year. Excluded are 3.4 percent who had repaid their student loan before 31 March in the year after leaving study.

Source: Statistics New Zealand, *Student Loan Scheme Borrowers* dataset.



REPAYMENT FORECASTS

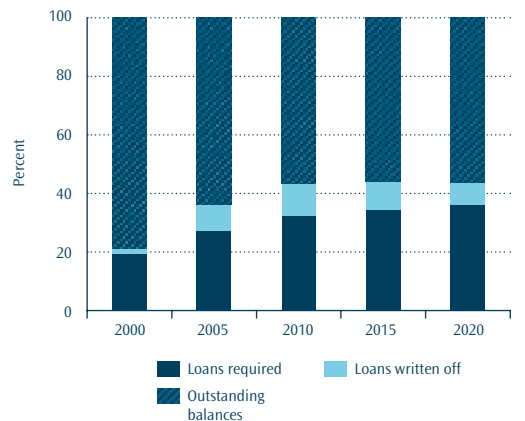
Figure 11.23//Projected proportions of loan repayments made, loans written off and outstanding balances

At the end of 2006, around 28 percent of the total accumulated loan scheme balance had been repaid and about 12 percent written off. This compares to 19 percent repaid and 1.75 percent written off in the year 2000.

The accumulated loan balance outstanding at the end of 2006 was 60 percent; however, as the loan scheme matures this proportion will change:

Accumulated loan balance repaid	Written off	Loan balance outstanding
By 2010 ~32%	11%	57%
By 2015 ~34%	10%	56%
By 2020 ~36%	8%	56%

Source: Ministry of Education and Inland Revenue.



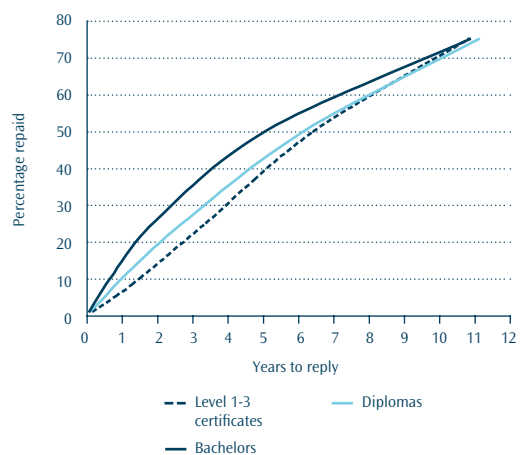
PREDICTED REPAYMENT TIMES

Figure 11.24//Projected full repayment for recent leavers for selected levels of study (NZ based)

The Ministry of Education's model of the loan scheme calculates the changes in repayment rates that affect individual borrowers. Figure 11.24 looks at repayment times for recent leavers grouped according to the level of their studies. It combines three cohorts of leavers – those who last studied in 2001, 2002 and 2003. It models the distribution of the expected repayment times in years up to the 75th percentile.

The median repayment time for those who studied at bachelors level was about 5 years. Figure 11.24 also shows that three-quarters of borrowers took less than 11 years to repay in full. However, people who studied at the diploma level took a little longer – for them the median repayment time was about 6 years. For those who studied level 1 to 3 certificates the median repayment time was about 6 and a half years.

Source: Statistics New Zealand, *Student Loan Scheme Borrowers* dataset.



VALUE OF THE LOAN SCHEME

Figure 11.25//Student Loan Scheme's nominal value, book value and fair value at 30 June

Over recent years, the valuation of the loan scheme has changed due to new international accounting standards and methodologies, an improved student loans simulation model and the new interest-free student loan policy introduced in 2006.

Student Loan Scheme's nominal value, book value and fair value at 30 June:

	Nominal value	Change	Fair value	Change	Book value	Change
	\$ (millions)	%	\$ (millions)	%	\$ (millions)	%
2004	6,821	–	5,734	–	5,995	–
2005	7,499	9.9	5,994	+4.5	6,465	+7.8
2006	8,370	11.6	5,537	-7.6	5,569	-13.8
2007	9,413	12.5	5,443	-1.7	6,011	+7.9

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



LONG-TERM FORECAST OF NOMINAL LOAN BALANCES

Figure 11.26//Nominal loan balance projections at June 2006

The number of loan borrowers is forecast to increase by 2 percent per annum, on average, for the years from 2007 to 2012. This increase in the forecast rate of growth in the number of borrowers reflects the impact of the recently introduced interest-free policy. The forecast increase also reflects the changes in the size and structure of the New Zealand population, the estimated participation rate in tertiary education and other forecasts relating to economic conditions.

The increase in the total amount borrowed is expected to be 4.2 percent per annum, on average, for the years from 2007 to 2012. Again, this projected increase reflects the recent introduction of the interest-free policy.

Source: Statistics New Zealand, Student Loan Scheme Borrowers dataset.

