CHAPTER THREE

Recent Changes to the Student Support System

3.0 Introduction

Government monitors the student support system to ensure it continues to enhance access to tertiary education, and that it remains true to the principles introduced in the Student Support in New Zealand discussion document (see chapter 1.2).

As part of its ongoing monitoring and review, government has made the following changes affecting the student support system:

- From 1 April 2007, the Student Loan Scheme Amendment Act 2007:
  - introduced new rules for borrowers overseas to help ensure that repayments remain manageable and do not discourage borrowers from returning home
  - improved administration of the loan scheme.
- During Budget 2007, government announced a number of refinements to the student support system.
- A new approach to planning, funding and monitoring the tertiary education system is being phased in from 1 January 2008.
- The Fee and Course Costs Maxima (FCCM) policy was reviewed in early 2007.

3.1 New rules for borrowers overseas

Until 1 April 2007, borrowers who went overseas before their loans were repaid were expected to work towards repayment of the full loan balance within 15 years. Each year, the borrower was required to pay one-fifteenth of the outstanding principal and all the interest accruing on the loan. Many borrowers – especially those with larger loans and those who had low earnings while overseas – found repayments very difficult and many ended up in arrears.

The recent changes for borrowers overseas acknowledge the tradition of young people undertaking an overseas experience following study and they recognise its value to New Zealanders and our economy as New Zealanders return enriched with new experiences, ideas and insights. They aim to help ensure that repayments remain manageable and do not discourage borrowers from returning home.

A repayment holiday

Borrowers will be able to take a three-year repayment holiday if they are going overseas. While borrowers will not have to make repayments during this time, their loans will still attract interest.

Entitlement to a three-year repayment holiday will be automatic for those who:

- went overseas after 1 April 2007
- were overseas as at 1 April 2007 and kept up to date with their repayment obligations
- were overseas as at 1 April 2007 and had been overseas for less than a year.

New repayment obligations

Overseas borrowers not eligible for a repayment holiday will have a new repayment obligation based on the size of their loan balance, which is easier to understand. The repayment obligation is set out in Table 2.

Table 2 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.

For many overseas borrowers, these new rules mean their annual repayment requirements will be lower, and their repayment obligations will be easier to understand – both factors are expected to help encourage regular repayments.

Borrowers will still be able to make additional repayments to pay off their loan faster, or to pay off their loan in full at any time.

Interest-free loans extended

The exemption to the 183-day rule,[12] which applies to interest-free loans for borrowers studying full-time at postgraduate level overseas, has been extended to include undergraduates studying full-time at bachelors-degree level. This change will apply to loans taken out before leaving New Zealand.

Amnesty extended

The amnesty on penalties declared last year for non-resident borrowers in arrears with their payments has been extended by one year to 31 March 2008. The amnesty offers borrowers overseas a 'fresh start' if they have fallen behind in their repayments. The extension allows borrowers identified by data-matching between Inland Revenue and the New Zealand Customs Service[13] to come within the amnesty.

To be eligible for the amnesty, borrowers must be:

- non-resident for tax purposes on 31 March 2006, and have had late payment penalties as at 1 April 2007, or
- overseas as at 31 March 2006 but have not advised Inland Revenue that they had left New Zealand.

Eligible borrowers must apply to Inland Revenue by 31 March 2008 to avoid a one-off penalty being charged on their loan balance at the end of the amnesty period. The penalty will be the lesser of:

- 5 percent of the borrower's total loan balance as at 31 March 2008, or
- the sum of their late payment penalties.

Borrowers accepted into the amnesty must meet the amnesty repayment obligations for two years. If not, a penalty that is inversely proportional to the payments made so far will be charged to their loan balance.

12 Student loans for borrowers living in New Zealand for 183 or more consecutive days (about six months) are interest free. This is the 183-day requirement.

13 Data-matching of borrowers with Customs data to identify borrowers who have gone overseas without telling Inland Revenue began in 2007.

3.2 Improved administration of the Student Loan Scheme

Late payment penalty rate reduced

The late payment penalty for all borrowers – living overseas and in New Zealand – will reduce from 2 percent a month to 1.5 percent a month.

Information-matching

Inland Revenue and the New Zealand Customs Service will match information to help determine whether a borrower is eligible for an interest-free loan, is based in New Zealand or overseas, and is resident or non-resident. Border-crossing information will be matched with information supplied for student loan purposes.

Borrowers who are going overseas for more than six months are still legally required to let Inland Revenue know that they will be out of the country.

Simpler rules for determining the repayment system

The rules that determine the repayment system for student loan borrowers have been simplified:

- Overseas-based borrowers are not eligible for an interest-free student loan and are subject to the new overseas repayment provisions. Borrowers are classified as overseas-based if they have been overseas for 184 or more consecutive days (about six months).
- New Zealand-based borrowers are eligible for an interest-free student loan. They need to make loan repayments based on their income.

3.3 Student support initiatives

The following initiatives announced in Budget 2007 will increase access to the Student Allowances Scheme and to Step Up Scholarships. These changes mean that more than 12,000 students will receive extra financial assistance and, as a consequence, are expected to borrow less under the loan scheme.

Parental income threshold increases

The student allowances parental income threshold will be increased by 10 percent from $40,303.12 per year to $44,333.64 per year from 1 January 2008. This raises the cut-off point at which students become ineligible for student allowances to $75,269.48 per year for those living away from home and $69,081.48 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.

Student allowances personal income threshold – annual adjustment

The student allowances personal income threshold will be adjusted annually for inflation, on an ongoing basis. This will be implemented through the Annual General Adjustment process, effective from 1 April 2008 and will also include corresponding increases to the lower and upper couple income thresholds.

The student allowances personal income threshold was increased from $135.13 gross per week to $180 gross per week in the 2005 Budget. At that time, the government also introduced a dollar-for-dollar abatement of the allowance amount once a recipient's earnings exceeded the threshold. Before this change, a student's entire entitlement to an allowance was removed for any week in which income over the income threshold was earned.

Step Up Scholarships

The Step Up Scholarship pilot will be altered to increase the number of scholarships available and to improve the access and equity opportunities for students from low-income backgrounds. This is likely to have implications for young Māori and Pasifika people, who are over-represented amongst those from low-income backgrounds and traditionally under-represented in degree-level study.

Currently, the scholarships are limited to students who are eligible for student allowances and studying approved qualifications in either human or animal health, or science and technology. From 1 January 2008, these streams will be replaced by two new streams:

- first-time tertiary students starting a degree in any subject area (with preference for students studying in areas of skill shortage)
- students with a tertiary qualification below degree level who are starting degree-level study in targeted subject areas.

Applicants must be aged between 16 and 24, and all recipients have to pay a flat rate student contribution of $1,000 towards their tuition fees each year. Intermediate years of study[14] will be included as part of the scholarship tenure. The requirement for fees to be more than $3,000 per year will no longer exist.

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

Government has made changes to the wider tertiary education funding system so 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.

14 The first year of study before beginning the professional years of some degrees – such as medicine, engineering, and dentistry.

From 1 January 2008, the government will progressively introduce 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 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 will introduce a control on funding and will follow a three-year funding path, which will be managed as a rolling triennium. The government will set this control and determine how much is allocated to each sub-sector (universities, institutes of technology and polytechnics, etc). The funding path will take account 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 system, 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 qualifications 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 borrowing:

- The stabilisation of tuition fees will continue and this will keep student loan borrowing down.
- The successful implementation of the STEP[15] (see chapter 1.0) is expected 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 are likely to increase over time.

The success of the STEP will mean that students and the government will get 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, especially the technical areas, will give students better returns. Thus the factors associated with high borrowings are associated with higher incomes and with quicker repayment. Analysis of information from the student loan integrated dataset supports these conclusions.[16]

3.5 Review of the Fee and Course Costs Maxima policy

Since 2001, the government has stabilised fees as part of its commitment to help keep tertiary education affordable for students. The original fee stabilisation policy was replaced from 2004 with a Fee and Course Costs Maxima (FCCM) policy. The FCCM was introduced to provide certainty for students as to future costs while also giving some flexibility to providers in their fee setting.

The current FCCM policy has three main features:

- It has a set of fee maxima, at course level and based on funding categories, for non-degree and undergraduate courses.
- There is a percentage limit on annual fee rises for courses below the maxima (the annual fee movement limit).
- There is a $500 limit on annual increases for postgraduate courses (the postgraduate fee increase limit).

There was a review of the FCCM policy in 2007. The Ministry of Education released a discussion document, *Aligning fee policy with the tertiary education reforms*, on the shape of future fee policy within the reformed tertiary education sector[17] in May 2007. While the FCCM policy is not a student support policy, it does have the effect of limiting the reliance of students on the loan scheme. This policy, therefore, has an impact on the modelling and forecasting of loan balances.

15 Statement of Tertiary Education Priorities.

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

17 Ministry of Education (2007) *Aligning fee policy with the tertiary education reforms* discussion document, Wellington: Ministry of Education. Available from http://www.minedu.govt.nz/index.cfm?layout=document&documentid=11980&data=l (May 2007).