



CHAPTER THREE

THE STUDENT LOAN SCHEME – LOAN BALANCES AND PEOPLE WITH STUDENT LOANS

Key Statistics – All Borrowers

At 30 June 2005

- The total student loan balance was \$7,499 million, taking into account the provision for doubtful debt, consisting of:
 - \$6,675 million held by Inland Revenue, and
 - \$825 million held by the Ministry of Social Development.
- 445,074 borrowers had loan balances held by Inland Revenue.
- Approximately 680,000 people have used the Student Loan Scheme at some time, since 1992.
- The median cumulative student loan balance was \$10,404.
- Since the Student Loan Scheme began:
 - \$2,827 million has been repaid
 - 173,168 loans have been completely repaid, and
 - \$1,030 million in interest charges has been written off.
- Almost 316,000 borrowers benefited from an interest write-off in the year ending 31 March 2005. \$232 million in interest was written off for that period.

Key Trends – All Borrowers

- By 2016, it is expected that total annual repayments will exceed total annual drawdowns through the Student Loan Scheme.
- Student loan repayments are continuing to increase. By 2000, 19 percent of the total accumulated student loan balance had been repaid. It is expected that 27 percent will be repaid by the end of 2005 and 42 percent by 2015.
- Over time, an increased rate of student loan borrowers are returning from overseas. By 30 June 2005:
 - about 70 percent of borrowers who left in 1996, 1997 and 1998 had returned to New Zealand, and
 - more than 50 percent of borrowers who left in 2000 to 2003 had returned to New Zealand.

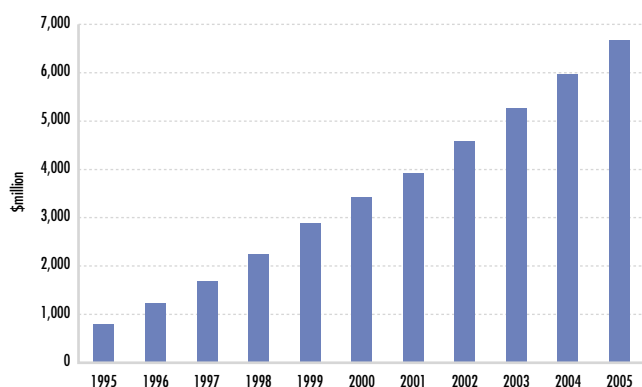
3.0 Introduction

The following information is largely drawn from Inland Revenue sources and focuses on people who have a student loan balance. This includes people who used the scheme in 2004 and those who have left study and still have a student loan.

3.1 The aggregate student loan balance

At 30 June 2005 the total student loan balance was \$7,499 million, which takes into account the provision for doubtful debt (\$1,035 million). The gross sum represents \$6,675 million held by Inland Revenue and \$825 million held by the Ministry of Social Development. The total loan balance held by Inland Revenue increased by \$709 million (12 percent) during the year¹⁷.

Figure 20 (Table 53) Nominal value of student loans held by Inland Revenue at 30 June 1995-2005



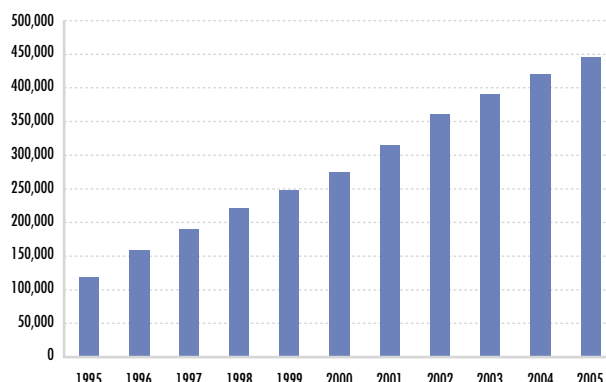
Source: Inland Revenue

3.2 Number of borrowers with Inland Revenue

As the Student Loan Scheme matures, and participation in tertiary education increases, a larger proportion of New Zealand's population can be expected to have student loan balances.

At 30 June 2005, 445,074 people had a student loan with Inland Revenue, an increase of 6 percent on the previous year and up by 38 percent at 30 June 2000. Those with loans at 30 June 2005 represented 14 percent of the population aged 15 and over, compared with 13 percent the previous year and 12 percent at 30 June 2003.

Figure 21 (Table 54) Borrowers with Inland Revenue at 30 June 1995-2005

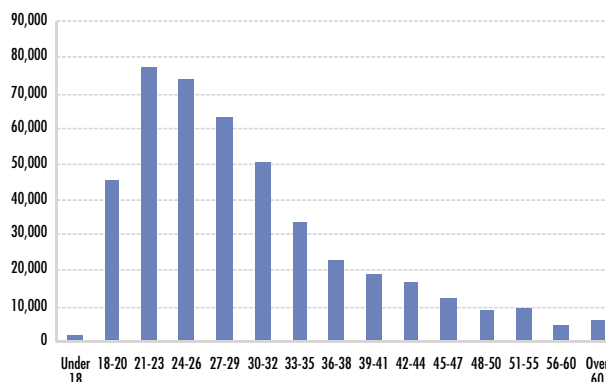


Source: Inland Revenue

Of those who had loan balances, 59 percent were under 30 years of age, with 91 percent being under 45 years and only 4.4 percent over 50 years. These proportions will change over time as the scheme matures and as the group of people who have made no progress in repaying their loans over an extended period get older.

Those under 30 years with student loans represented 31 percent of the population between 15 and 30 years while borrowers over 50 years were less than 2 percent of the whole population in that age range.

Figure 22 (Table 55) Borrowers with Inland Revenue by age at 30 June 2005



Source: Inland Revenue

¹⁷ The increase includes \$1,010.3 million of loan borrowings transferred from MSD to IRD between 1 July 2004 and 30 June 2005.

3.3 Median and average student loan balances with Inland Revenue

At 30 June 2005, the median student loan balance was \$10,404¹⁸, while the average student loan balance was \$14,997, an increase of 5.3 percent over the previous year.

The year-to-year change in the average loan balance depends on the combined effect of a number of factors, including:

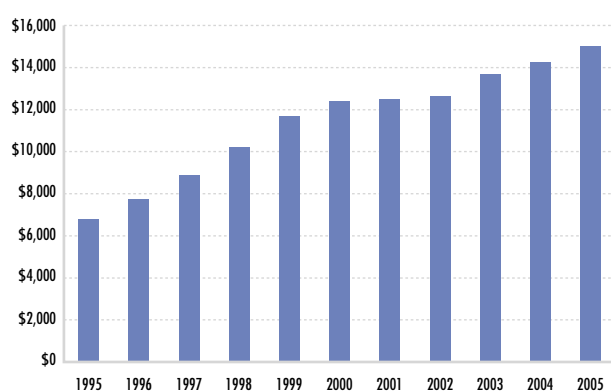
- the value of additional borrowings
- the number of new borrowers
- the value of repayments made, and
- the number of loans repaid or written off.

All four factors are increasing each year. The influence of each factor is different and so the combined effect on the average student loan balance can be unpredictable.

A recent household savings survey¹⁹ gives an idea of the scale of student loan balances in relation to other forms of debt. The survey showed that debt held by New Zealanders consisted of: student loans 5 percent, mortgages 80 percent, bank debt 10 percent and credit card debt 3 percent.

The median student loan balance of those surveyed (\$8,500) was higher than the median bank debt (\$3,000) and median credit card debt (\$1,000).

Figure 23 (Table 56) Average student loan balance with Inland Revenue at 30 June 1995-2005



Source: Inland Revenue

¹⁸ The median loan balance is calculated by ranking all loan balances from lowest to highest and selecting the middle value.

¹⁹ Conducted by Statistics New Zealand in 2001 for the Retirement Commission. Refer to Statistics New Zealand and the Retirement Commission, (2002), *The Net Worth of New Zealanders – a Report on their Assets and Debts*, www.stats.govt.nz.

3.4 Range of student loan balances

There were 445,074 borrowers with a student loan balance held by Inland Revenue as at 30 June 2005, compared with 418,761 in 2004. The total of all loan balances at that date was \$6,675 million, an increase of \$709 million or 12 percent compared with the total at the end of June 2004. The following table shows the number and percentage of borrowers by the level of student loan balance held by Inland Revenue as at 30 June 2005.

Table 11 Range of loan balances held by Inland Revenue at 30 June 2005

Range of loan balances	Borrowers	Percentage	Cumulative percentage
\$1-\$1,999	44,942	10.1%	10.1%
\$2,000-\$3,999	43,532	9.8%	19.9%
\$4,000-\$5,999	48,483	10.9%	30.8%
\$6,000-\$7,999	43,416	9.8%	40.5%
\$8,000-\$9,999	37,441	8.4%	48.9%
\$10,000-\$14,999	70,002	15.7%	64.7%
\$15,000-\$19,999	43,475	9.8%	74.4%
\$20,000-\$24,999	32,811	7.4%	81.8%
\$25,000-\$29,999	22,328	5.0%	86.8%
\$30,000-\$34,999	17,370	3.9%	90.7%
\$35,000-\$39,999	11,999	2.7%	93.4%
\$40,000-\$44,999	8,816	2.0%	95.4%
\$45,000-\$49,999	6,008	1.3%	96.8%
\$50,000-\$54,999	4,128	0.9%	97.7%
\$55,000-\$59,999	2,926	0.7%	98.3%
\$60,000-\$79,999	5,380	1.2%	99.5%
\$80,000-\$99,999	1,436	0.3%	99.9%
over \$99,999	581	0.1%	100.0%
Total	445,074	100%	100%

Source: Inland Revenue

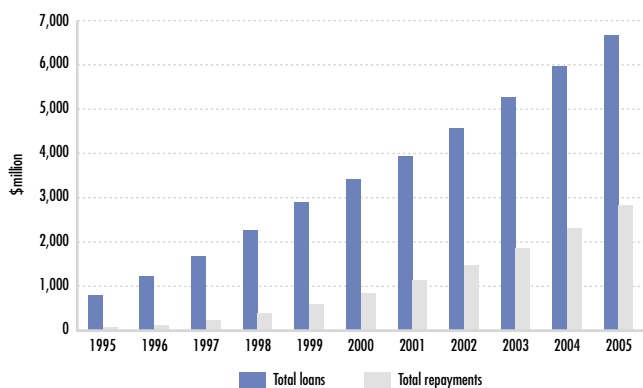
Forty-nine percent of all student loan balances are less than \$10,000. Balances of \$40,000 or more make up 6.5 percent of all loan balances.

Of the population aged 15 and over, 3.5 percent had a student loan balance of greater than \$20,000. This compares with 3.2 percent on 30 June 2004 and 2.5 percent on 30 June 2002.

3.5 Loan repayments made to Inland Revenue

The total value of loan repayments collected by Inland Revenue since the scheme began is \$2,827 million. \$1,503 million has been collected via employers through the PAYE system, while the balance (\$1,324 million) was received directly from borrowers. Repayments made directly include compulsory repayments made by self-employed borrowers and borrowers living overseas, as well as some voluntary repayments. The majority of repayments have been made under the compulsory repayment regime while the remainder comprise repayments made on a voluntary basis²⁰.

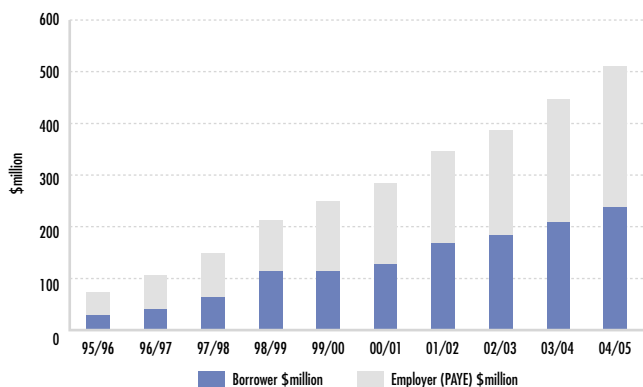
Figure 24 (Table 57) Cumulative student loan repayments received by Inland Revenue compared with aggregate loan balances 1995-2005



Source: Inland Revenue

Figure 25 shows the value of loan repayments received by Inland Revenue, split by borrower payments made directly and employer deductions, in each fiscal year.

Figure 25 (Table 58) Value of student loan repayments received by Inland Revenue: borrower/employer split 1995-2005

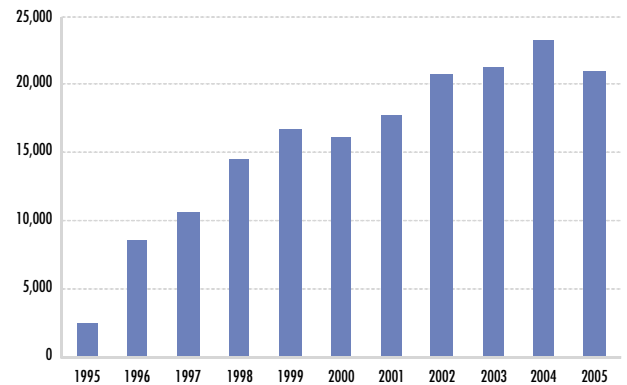


Source: Inland Revenue

By 2016, it is expected that total annual repayments will exceed annual drawdowns through the scheme.

The number of loans fully repaid in the 2004/05 financial year was 21,079. Since the scheme began, 173,168 loans have been repaid in full, which is more than 28 percent of all loans drawn down.

Figure 26 (Table 59) Number of loans repaid to Inland Revenue updated at 30 June 1995-2005



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

Source: Inland Revenue

3.6 Repayments and write-offs as a percentage of accumulated aggregate loan value

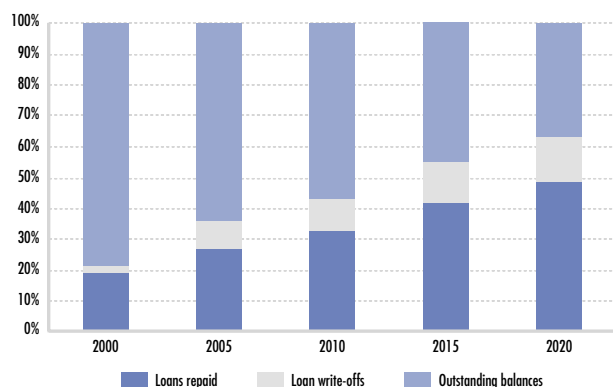
By 2000, 19 percent of all loan balances accumulated since 1992 (through drawdowns, interest and penalties) had been repaid and less than 2 percent had been written off. Seventy-nine percent of the aggregate accumulated loan balance remained as outstanding. As the scheme matures, these proportions will change:

- At the end of 2005, we expect that 27 percent will have been repaid and 9 percent written off. Sixty-four percent of the loan balance will remain outstanding.
- By 2015, it is forecast that 42 percent will have been repaid, more than 13 percent written off and less than 45 percent of the loan balance will be outstanding.
- By 2020, almost half is expected to have been repaid.

²⁰ It is not currently possible to calculate the amount of voluntary repayments made in a year.

Figures 27 and 28 show the trend in the value of the aggregate accumulated loan balance against the trend in repayment.

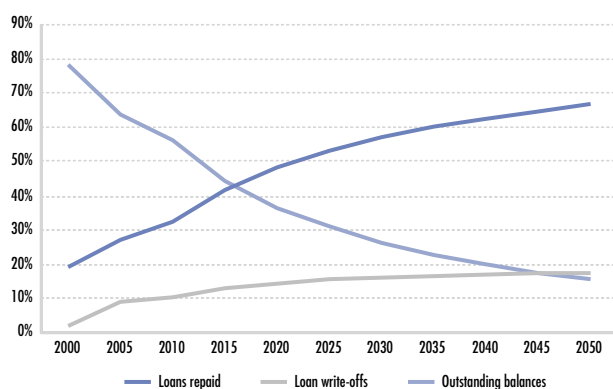
Figure 27 Proportion of loan repayments made, write-offs and outstanding loan balances 2000, 2005, 2010, 2015 and 2020



Source: Ministry of Education and Inland Revenue

Long-term projections suggest that by 2050 around 67 percent of the aggregate accumulated loan balance, including interest, penalties and drawings, will have been repaid, with 17 percent written off, and around 16 percent still outstanding

Figure 28 Proportion of loan repayments made, write-offs and outstanding loan balances 2000-2050



Source: Ministry of Education and Inland Revenue

3.7 Overdue loan repayments

If a borrower does not meet an annual repayment obligation by the due date, the amount becomes overdue. A penalty of 2 percent per month is charged on the overdue amount, including any outstanding penalties, until the overdue amount is fully repaid. Once penalties begin to apply, interest is no longer charged on the overdue repayment.

Table 12 Overdue loan repayments at 30 June 2002-2005

Borrowers with overdue loan repayments				
		Number	Total number	%
2002	In NZ	35,015	42,872	81.7%
	Overseas	7,857		18.3%
2003	In NZ	35,086	45,977	76.3%
	Overseas	10,891		23.7%
2004	In NZ	41,638	53,075	78.5%
	Overseas	11,437		21.5%
2005	In NZ	49,974	62,133	80.4%
	Overseas	12,159		19.6%
Overdue loan repayments				
		\$million	Total \$million	%
2002	In NZ	40.7	75.2	54.1%
	Overseas	34.5		45.9%
2003	In NZ	43.1	101.2	42.6%
	Overseas	58.1		57.4%
2004	In NZ	58.0	139.1	41.7%
	Overseas	81.1		58.3%
2005	In NZ	77.5	187.5	41.3%
	Overseas	110.0		58.7%

Source: Inland Revenue

The total amount overdue has increased from \$139.1 million in June 2004 to \$187.5 million in June 2005. This is an increase of 35 percent, a similar increase to previous years. The biggest contributor to this increase is overdue repayments owed by borrowers with non-resident tax status. The average overdue amount owed by non-resident borrowers at 30 June 2005 was \$9,047, which compares with \$1,551 owed by New Zealand borrowers.

The nature of the repayment obligations for non-resident borrowers is such that many repayment obligations are higher than those of borrowers still living in New Zealand. If the obligation remains unpaid, the penalties are calculated on a higher overdue amount, thereby accelerating the increase in overall amounts overdue.

Of the 25,091 borrowers with non-resident status on 30 June 2005, 12,159 (48 percent) had overdue repayment obligations. Non-resident borrowers owe 59 percent of the total overdue amount, yet they make up only about 20 percent of all borrowers with overdue repayments.

One of the contributing factors for the rising non-resident borrower overdue amount is the difficulty in maintaining contact with borrowers who are overseas. Other factors, such as working overseas for short periods to fund travel, can impede some borrowers' ability to pay.

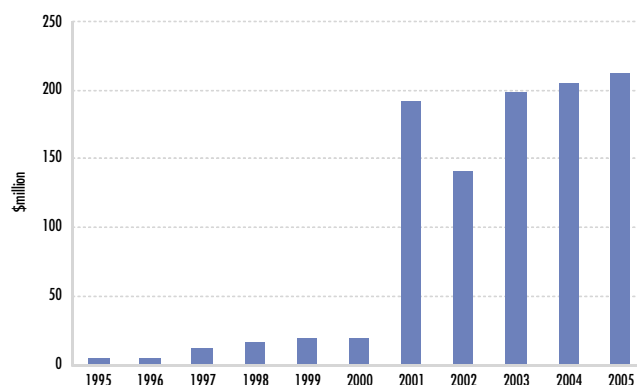
In May 2004, Inland Revenue launched an online credit card repayment service for student loan borrowers. While the service is available to all student loan borrowers, it is of most benefit to overseas-based student loan borrowers. Using a credit card is convenient and cost-effective, especially when compared with other repayment options available for those living overseas, such as telegraphic transfer. Since July 2004, over 4,000 payments have been made using credit cards, with a total value of more than \$4 million. The average amount per payment is just over \$1,000.

3.8 Interest write-offs

Since the beginning of the scheme, a total of \$1,029.9 million in interest charged has been written off. The number of borrowers entitled to an interest write-off has increased dramatically since the introduction in 2000/01 of full interest write-offs for full-time students and part-time students on low incomes. The income threshold for the full interest write-off for part-time students increased from \$26,140 in 2004/05 to \$26,799 for 2005/06. In 2000, the government also implemented the base interest reduction scheme or 50/50 rule (explained in Appendix 1) which also increased the number of write-offs.

The following graph shows total interest write-offs by fiscal year:

Figure 29 (Table 60) Value of interest write-offs at 30 June 1995-2005



Notes:

1. The data in this graph relates to fiscal years (ie years ending 30 June). The data in Figures 30 & 31 relates to tax years (ie years ending 31 March). Therefore there is an overlap between the fiscal year 2005 and the tax year 2006. Caution needs to be exercised in comparing the data in this graph with that in Figures 30 & 31.
2. The decrease in the total amount written off for the fiscal year to June 2002 occurred because some write-off rules apply only to the base interest. During the fiscal year to June 2002, the base interest was set at 3.1 percent for nine months of the period (to 31 March 2002) and 5.1 percent for the last three months. The lower base interest rate in the tax year to 31 March 2002 meant that amounts written off were lower.
3. The majority of interest write-offs for the 1999/2000 income year were credited to borrowers' loan accounts in October 2000. This means the values in the above table are understated for 1999/2000 and overstated for 2000/01.

Source: Inland Revenue

3.9 Interest write-offs by type

Interest write-offs are calculated on a tax year basis (ie to 31 March of each year). Therefore, the majority of interest write-offs in each tax year relate to the situation of the borrower in the previous calendar year.

Except for the interest write-off given to full-time students, write-offs of interest depend on the borrower's income. The timing of when an interest write-off is applied to a borrower's loan account is dependent on when the borrower supplies income details to Inland Revenue. Interest write-offs can therefore be applied retrospectively. For instance, a write-off for the 2002 income year may be applied to a borrower's Inland Revenue account in 2004, if the 2002 return of income is filed late. One of the consequences of this rule is that the amount of interest written off for a particular year will change over the following few years, as late returns are processed. As a result, the amount shown as written off in the most recent year is likely to understate the final total amount written off.

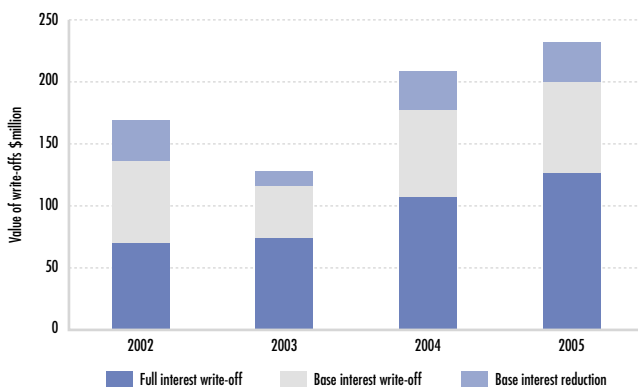
There are three different types of interest write-offs²¹ available to resident borrowers:

- full interest write-offs
- base interest write-offs, and
- base interest reduction.

Almost 316,000 borrowers had interest written off during the income year ending 31 March 2005, totalling \$231.7 million. Of this total, \$126.7 million related to the full interest write-off for those in full-time study and for low-income, part-time students.

Borrowers whose income was less than the repayment threshold were credited with \$73.3 million in base interest write-offs. Borrowers earning over the repayment threshold were credited with \$31.6 million in base interest reductions.

Figure 30 (Table 61) Student loan interest write-offs by type and value at 31 March 2002-2005

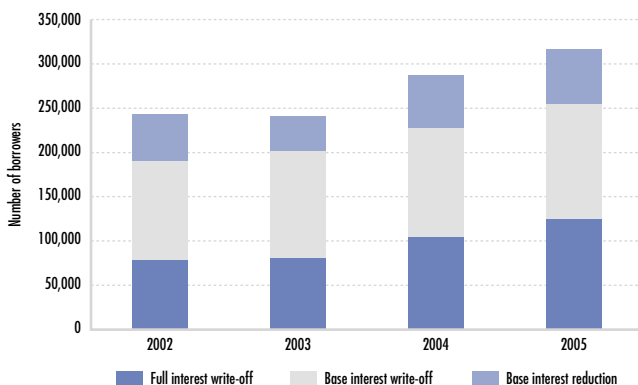


Notes:

1. This graph differs from Figure 29, which shows total write-offs by fiscal year, ie by year to 30 June.
2. The write-offs for the year ending 31 March 2001 (which relate to the 2000 academic year) are included in the figures for the year ending 31 March 2002. This is the reason for the difference between 2002 and 2003 figures.

Source: Inland Revenue

Figure 31 (Table 61) Student loan interest write-offs by type and number of recipients at 31 March 2002-2005



Notes:

1. This graph differs from Figure 29, which shows total write-offs by fiscal year, ie by year to 30 June.
2. The write-offs for the year ending 31 March 2001 (which relate to the 2000 academic year) are included in the figures for the year ending 31 March 2002. This is the reason for the difference between 2002 and 2003 figures.

Source: Inland Revenue

3.10 Deceased and bankruptcy write-offs

The loan balances of deceased borrowers are written off under section 60 of the Student Loan Scheme Act 1992. As at 30 June 2005, 236 borrowers were recorded as having died during the 2004/05 year. \$3.6 million was written off in the 2004/05 year.

The student loans of borrowers adjudicated bankrupt are written off under the Insolvency Act 1967. During the 2004/05 year, 712 borrowers were registered as bankrupt. \$9.5 million was written off in the 2004/05 year.

Since the Student Loan Scheme was introduced:

- 3,660 borrowers have had a loan balance written off due to bankruptcy²².
- \$54.5 million has been written off for deceased and bankrupt borrowers.

The following tables (Tables 13 and 14) detail the amounts and numbers of write-offs for deceased and bankrupt borrowers.

Table 13 Value of deceased and bankruptcy write-offs at 30 June 1998-2005

Year	Deceased \$million	Bankruptcy \$million
1998	1.2	1.1
1999	2.3	2.3
2000	1.6	2.8
2001	2.3	2.8
2002	2.6	3.5
2003	2.3	3.5
2004	4.4	8.5
2005	3.6	9.5

Source: Inland Revenue

²¹ See Appendix 1 for details on how these provisions work.

²² Inland Revenue does not bankrupt student loan borrowers solely on the basis of student loan borrowings or overdue repayment obligations.

Table 14 Number of deceased and bankruptcy write-offs at 30 June 1998-2005

Year	Deceased	Bankruptcy
1998	180	208
1999	212	297
2000	238	263
2001	262	327
2002	302	407
2003	334	471
2004	268	585
2005	236	712

Notes:

1. Because a student loan account can be finalised after the end of the fiscal year, the number of deceased and bankrupt borrowers for an earlier year may change.
2. The number of borrowers in this table does not necessarily directly relate to the amounts written off for the corresponding year.

Source: Inland Revenue

Write-offs do not necessarily occur in the same year as the death or bankruptcy. The amount written off (Table 13) relates to the year the write-off occurred, whereas the number (Table 14) relates to the year they either passed away or were adjudicated bankrupt. It can take some time for a bankruptcy to be settled and for the actual write-off to occur. Finalisation of the bankrupt's account and the writing-off of the loan balance cannot happen until the Official Assignee produces a final report on the case. In some cases, for various technical reasons, this is up to three years after the filing for bankruptcy. Hence, care should be taken when comparing Table 13 with Table 14.

3.11 Borrowers who go overseas

At 30 June 2005, Inland Revenue held student loans for 445,074 New Zealanders. Of that total, 25,091 borrowers resided overseas and had non-resident tax status²³, compared with 25,379 at 30 June 2004 and 24,714 a year earlier.

The proportion overseas doesn't vary much from year to year. At 30 June 2005, those with non-resident status represented 6.0 percent of all those with student loans, compared with 6.0 percent as at 30 June 2004 and 6.3 percent a year before that. In 1999, the figure was 3.1 percent.

There has been much comment about the number of student loan borrowers who leave New Zealand before fully repaying their loans. It is sometimes suggested that the burden of a student loan may encourage young people to go overseas. However, there is a long tradition of New Zealanders travelling and living overseas in the years following completion of tertiary study²⁴.

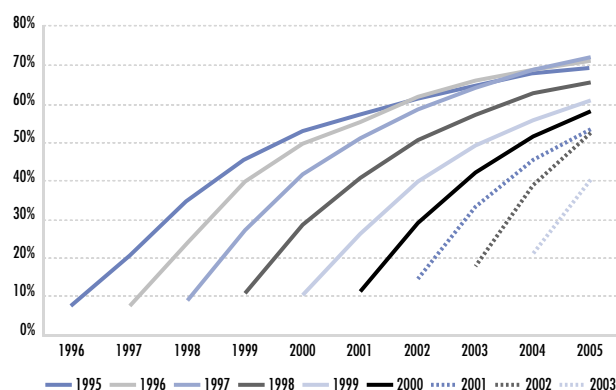
New Zealanders living overseas pick up skills, insights and perspectives that enhance their contribution to New Zealand on their return. This was the finding of research by Massey University on New Zealanders, which concludes "...the expatriate population are gaining a number of valuable strengths in a variety of individual, social and work contexts. Overall, the human capital gained from overseas experiences may be valuable to New Zealand..."²⁵.

Data on the time spent away from New Zealand by those with student loan balances confirms that the majority of student loan borrowers do eventually return to New Zealand. By June 2005:

- more than 70 percent of the borrowers who left the country in 1996 and 1997 had returned to New Zealand
- more than 60 percent of those who left in 1998, 1999 and 2000 had returned, and
- more than half of all those who left in 2001, 2002 and 2003 had returned.

Figure 32 shows that, over time, the rate of return is increasing. Of those who left in 1998, 10 percent had returned by the end of June in the following year and 30 percent within two years. Of those who left in 2002, nearly 20 percent had returned by June of the following year and just under 40 percent after another year.

Figure 32 Percentage of borrowers who left New Zealand in the years 1 July 1995-2003 to 30 June 1996-2004 and who have returned to New Zealand



Note: Each line represents Student Loan Scheme borrowers who left New Zealand and became tax non-resident in a given June year. Percentages represent the proportion who have returned by 30 June of the year shown on the x-axis.

Source: Inland Revenue

²³ It is recognised that some people leave New Zealand without informing Inland Revenue. Therefore, there is an unquantified undercount of those overseas in this analysis.

²⁴ The proportion of people born in New Zealand who live overseas is high by international standards. Treasury research, Bryant J and D Law (2004) *New Zealand's Diaspora and Overseas-born Population*, www.treasury.govt.nz reveals that of nine countries analysed, New Zealand was second only to Ireland in the proportion of people resident overseas.

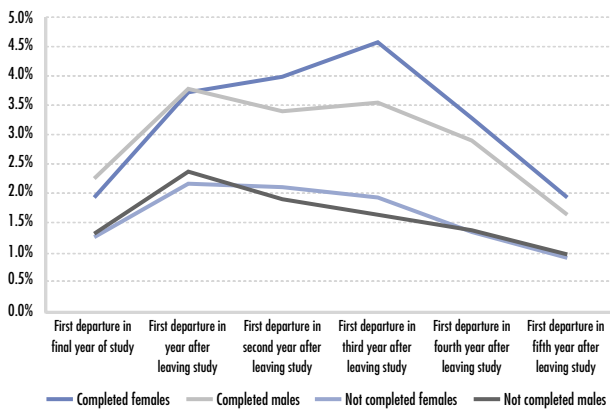
²⁵ Inkson et al (2004) *New Zealand Talent Flow Programme: Preliminary Results*.

Analysis of the integrated dataset on Student Loan Scheme borrowers shows that:

- the proportion of borrowers leaving New Zealand is at its highest in the first year following study
- the proportion that leave each year is much higher among those who complete a qualification than among those who leave study without successful completion
- those who study at a university are more likely to leave than those who study at an ITP, and
- the pattern of departure for women and men is similar. However, women who complete a qualification have a higher probability of leaving New Zealand than men who complete.

The data is summarised in the following graph.

Figure 33 (Table 66) Probability of becoming non-resident for the first time by years after last study by gender and completion status



Note: The graph has been prepared using data from five cohorts of tertiary leavers (those who last studied in the years between 1997 and 2001) and their tax residency status from 1997/98 to 2002/03.

Source: Statistics New Zealand, Integrated Dataset on Student Loan Scheme Borrowers

The Ministry of Education is conducting more research, over time, on the characteristics of borrowers who travel overseas.