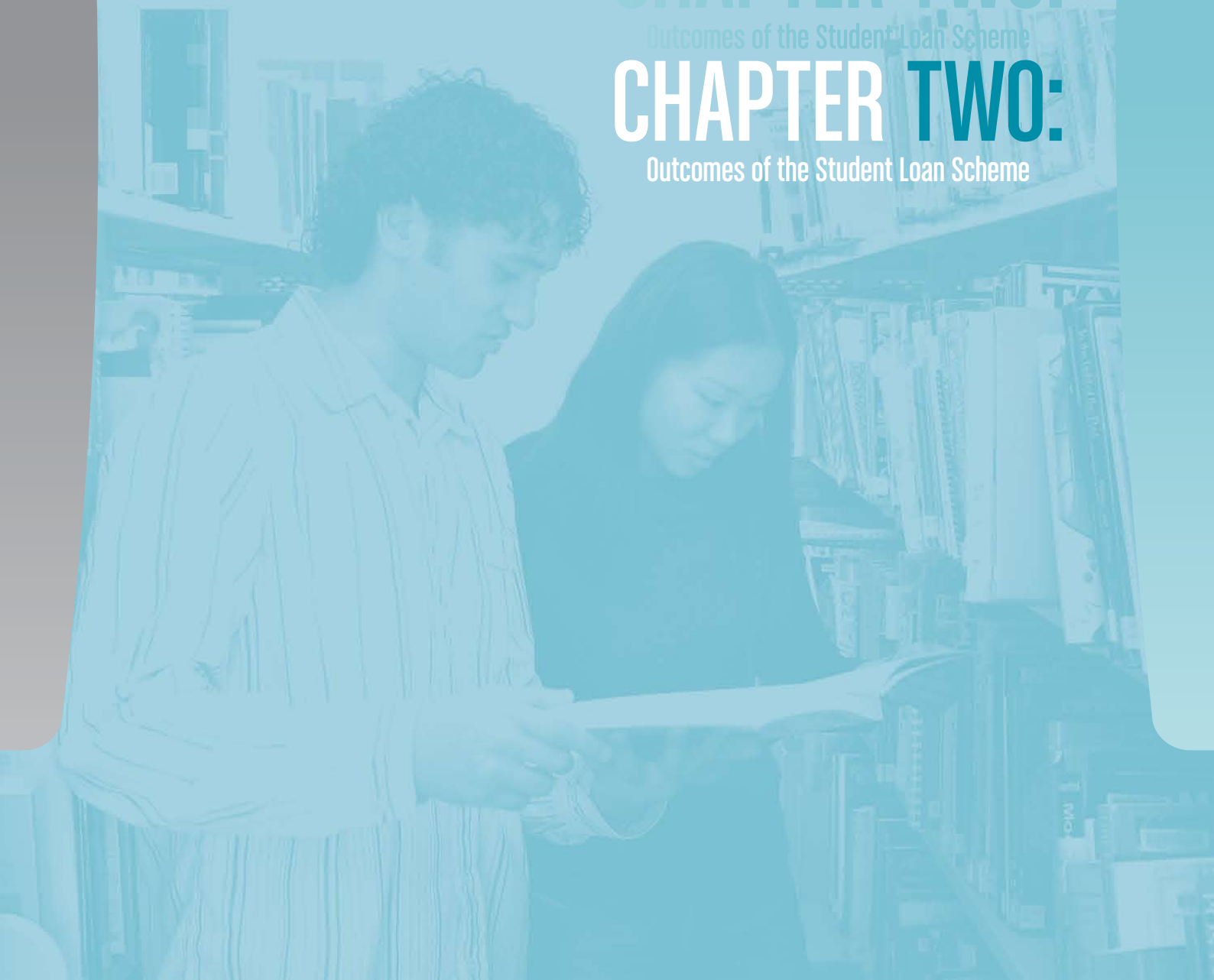
# CHAPTER TWO:

## 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. Providing money for fees payment 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 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.

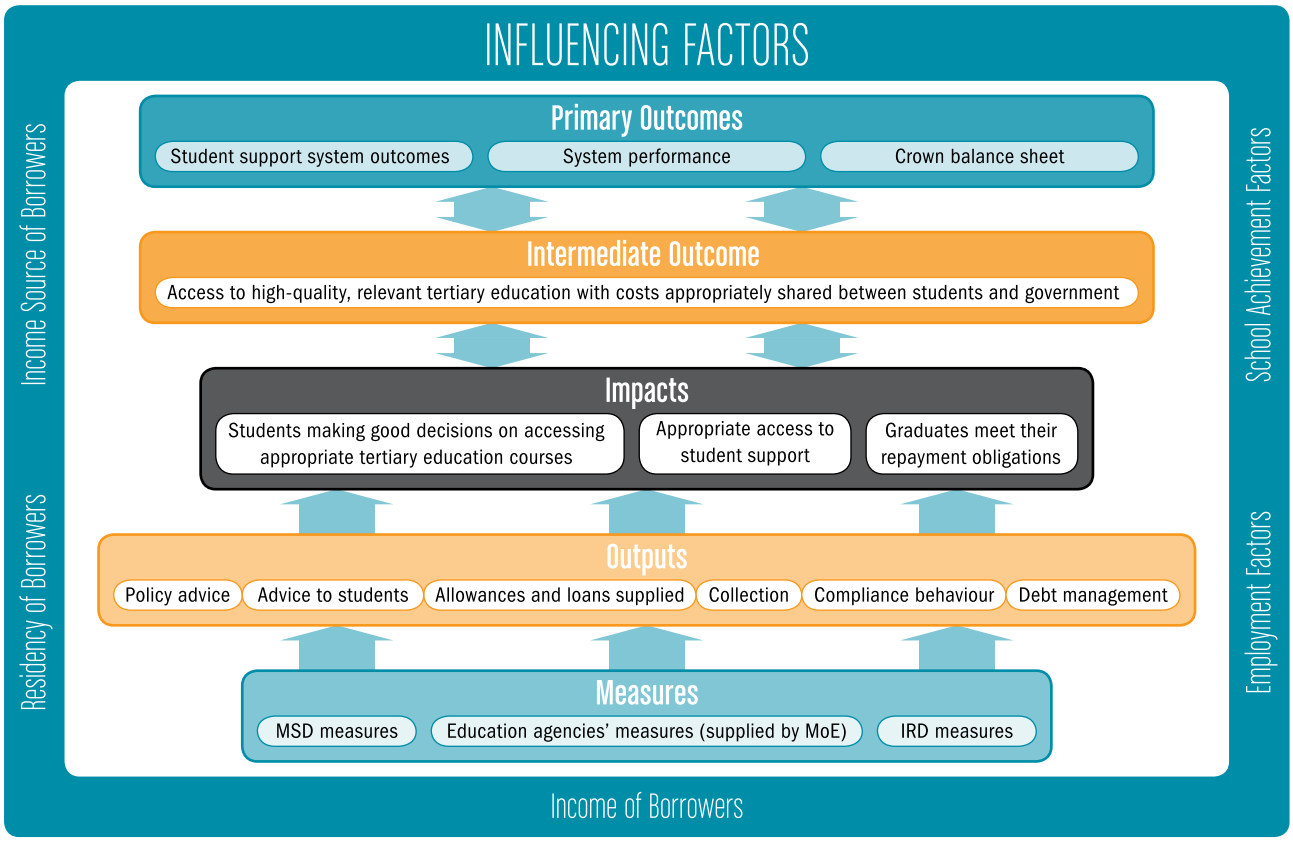
# 2.1 Understanding student support outcomes

The agencies that manage the scheme have developed a framework that links their monitoring of the operation of the Student Loan Scheme to its impacts and to the outcomes the Government and the New Zealand public expect of the scheme. The framework also places the scheme in a broader context, recognising that many factors outside of the loan scheme itself – such as changes in the labour market – also influence the outcomes of the scheme.

This framework and the agencies' monitoring are intended to ensure that:

- their operations are effective and efficient
- the scheme as a whole is meeting the expectations and outcomes government has placed on it
- risks are managed.

The diagram below illustrates the framework and shows how the monitoring of the scheme will be used to get a picture of how well the scheme is achieving its goals.



The framework identifies three primary areas of public and government interest in the scheme performance:

- *Student support system outcomes:* How well is the student support system helping people access tertiary education and gain qualifications that are useful and that lead to employment?
- *System performance:* How well are the student support schemes working as a system? How well are borrowers able to manage their repayments? How are the agencies' systems for distributing student support and collecting loan repayments working? Are there any unintended outcomes from the student support schemes?
- *Crown balance sheet:* The loan scheme is a significant financial asset for the Government and taxpayers of New Zealand. What are trends in the valuation of the scheme? How well are the financial risks being managed?

The agencies will monitor at three levels:

- *Operational measures* – each agency looks at its own operations.
- *Agency measures* – the agencies share their monitoring information in order to understand their own performance in the light of the activities of the other agencies.
- *Public accountability measures* – key indicators of performance intended to provide government and the public with an overview of system performance.

The monitoring information that agencies collect is synthesised to get an understanding of those larger questions. This new framework is designed to improve the information collected by agencies by targeting their monitoring towards those questions and therefore, improving the reporting against the higher-level outcomes of the loan scheme over time. In the future, the information in annual reports will be structured along the lines set out in the framework.

The framework recognises that the performance of the scheme depends on the work of the agencies, but that factors outside the scheme also play a part in determining the performance of the system. For instance, repayment times could be expected to be shorter if there is a sustained period of low unemployment and rising incomes but to lengthen in a period of recession. Likewise, if the performance of senior secondary school students were to change, this could be expected to change the tertiary education choices of young people – and we know that indicators like loan repayment rates are influenced by the types of qualifications people take.

So, in the future, annual reports will comment on how loan scheme performance is shaped by those influencing factors.

The remainder of this chapter presents a synthesis of some of the information already available on the three broad outcome areas.

# 2.2 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.

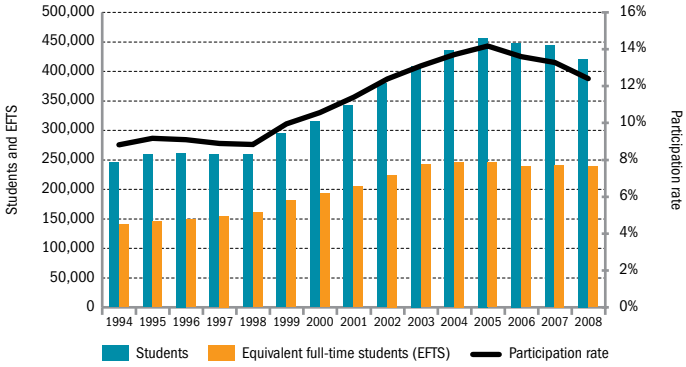
Growth in participation is reflected in the following trends:

- The number of tertiary students (including domestic[10] and international students) has nearly doubled, from 252,000 in 1994 to 460,000 in 2008.
- There were 421,000 domestic students in 2008.
- The proportion of all New Zealanders aged 15 and over[11] who participated in tertiary education in 2008 was 12 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 2008. 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 since 2006. 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 each year.
4. Participation excludes industry training, non-government-funded private training establishments, formal courses of a week or less, and all non-formal learning.

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 Statistics New Zealand estimates that the population of New Zealand at 31 December 2008 who were aged 15 and over was 3.402 million.

The expansion in enrolments between 1994 and 2008 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 2008, more than 55 percent – 233,000 – were by women
- enrolments in public providers by both Māori and Pasifika grew by 159 percent. In 2008, there were 81,000 Māori with formal enrolments in tertiary education providers, 19 percent of the total, while the 30,000 formal enrolments by Pasifika represented 7.1 percent of all enrolments.

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

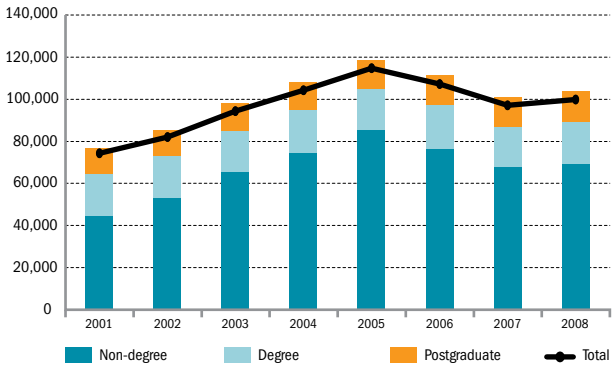
There have been no studies on whether the presence of the loan scheme has led to a change in the socio-economic mix among students in formal education in New Zealand. However, research[13] on the Australian Higher Education Contribution Scheme – which has many similarities to the New Zealand loan scheme – concluded that the scheme had no adverse effects on the socio-economic mix of the Australian student population.

## More people with tertiary qualifications

As enrolments in tertiary education have risen, so has the number of people completing tertiary qualifications. Household Labour Force Survey data shows a steady rise in the number of people holding tertiary qualifications, especially at degree level, between 2003 and 2008:

- The proportion of the population aged 15 or over with a tertiary qualification rose from 47 percent in 2003 to 50 percent in 2008.
- The proportion with a bachelors degree or higher rose from 12 percent to 17 percent over the same period.

**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 after 2005, this is a consequence of a 12 percent fall in the number of completions of non-degree qualifications that followed government moves to strengthen the quality and relevance of non-degree provision. There was a 10 percent increase in postgraduate completions and a 1.2 percent decrease in degree-level qualification completions between 2005 and 2008.

## 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[14] 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 for 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.[15]

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.[16] 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

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

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

14 Ministry of Education (2007) *Profile & trends 2006: New Zealand's tertiary education sector*, chapter 5, p. 40.

15 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.

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

– people with higher degrees had an unemployment rate of 2.5 percent.

New Ministry of Education research[17] 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.

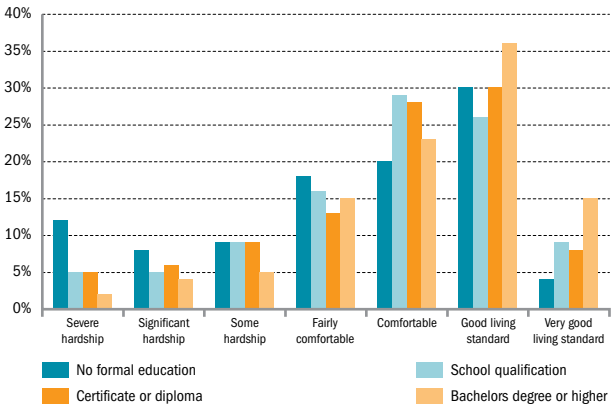
## Benefits to wellbeing

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 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.

**Figure 6** Living standards of New Zealanders by qualification level 2000

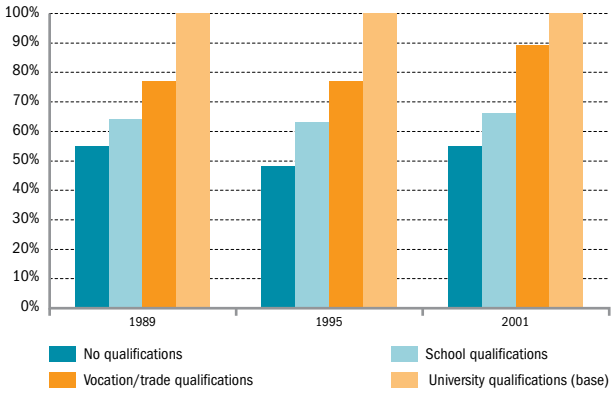



**Source:** Ministry of Social Development (2002) *Living standards 2000*.

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.[18] 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.[19] 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 avoiding 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.[20]

A Treasury study[21] which reviewed a number of New Zealand and overseas studies detailing the relationship between health and education level concluded that those studies suggest higher levels of education lead to better mental and physical health outcomes.

17 Nair, B. (2009) *Labour market outcomes of student support recipients*, Wellington: Ministry of Education.

18 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.

19 Organisation for Economic Co-operation and Development (2005) *Education at a glance: OECD indicators 2005*, Paris: OECD, pp. 151-153.

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

21 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.

# 2.3 Student Loan Scheme performance

## 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 30 percent in 2008.

While the government's share was nominally 70 percent in 2008, 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[22] reported that full-time students work 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[23] and the United States.[24]

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.

## Borrowing behaviour

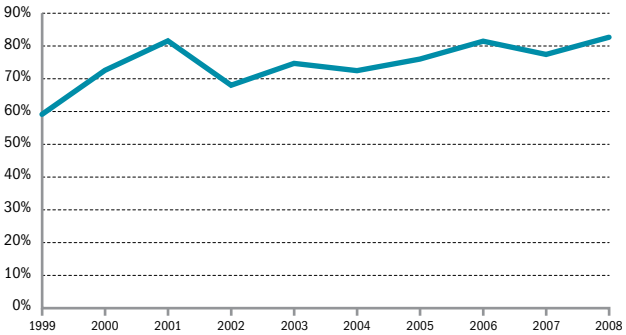
One important way of looking at the impact of the loan scheme is to look at how changes in the scheme affect the behaviour of borrowers – their borrowing patterns and their repayment behaviour.

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 69 percent in 2008. 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 17 percent to 34 percent, between 2006 and 2008.

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 81 percent in 2001 but ranged between 72 percent and 76 percent between 2003 and 2005. In 2006, it rose to 81 percent, but then fell to 77 percent in 2007 and was 83 percent in 2008.

**Figure 8** Student loan uptake rates for full-time students



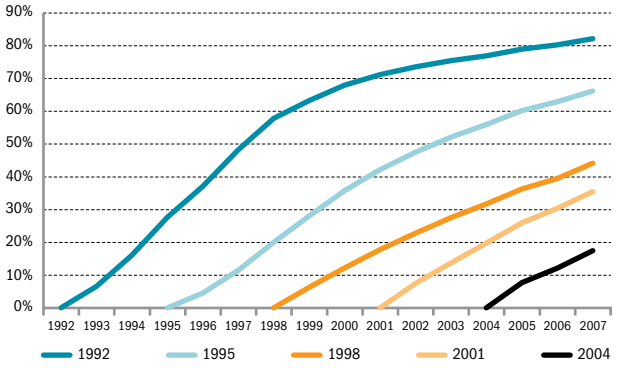

**Source:** Ministry of Education and Ministry of Social Development.

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.

## Repayment behaviour

Up until 30 June 2009, $5,661 million had been collected in repayments since the loan scheme began in 1992. By 1997, almost half of those who left study in 1992 had repaid in full, while 80 percent had repaid in full by 2007. 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 in each year who left study in 1992, 1995, 1998, 2001 and 2004




**Source:** Statistics New Zealand, integrated dataset.

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

23 NatWest Student Living Index 2009.

24 US Bureau of Labor Statistics.

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 1.1)
- more generous repayment provisions – 50 percent of compulsory repayment obligation, less inflation, credited to principal – introduced in 2000
- no interest while studying for full-time students and for part-time students on low incomes[25] – introduced in 2000
- high employment in the last five or six years.

Figure 9 is based on the percentage of people who still had loan accounts open at the end of 2007. This is just one possible methodology for calculating repayment times. One alternative is to model the percentage of loan accounts repaid rather than the percentage of people who have repaid. This gives slightly different results because it takes into account the fact that some people repay their loan accounts in full, and then return to study at a later date and open a new loan account. In comparison with the methodology used in Figure 9, under this alternative methodology the percentage of those fully repaid increases from 82 percent to 85 percent for 1992 leavers and from 44 percent to 51 percent for 1998 leavers. For 2004 leavers, the increase is from 17 to 20 percent.

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 or who went overseas 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 however, to detect the effects of these changes in Figure 9.

Looking to the future, the forecast median repayment time for those who left study in 2006 and who remain in New Zealand is 3.9 years. For all 2004 leavers, the forecast median is 6.9 years. There is more information on repayment time forecasts in chapter 4.

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[26] 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.

## 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 expected that the current economic conditions will affect loan uptake and repayments. This is because more people will choose to study in the current labour market, current students will extend their period of study, more post-study borrowers will be unemployed and the rate of growth in salaries and wages will decline or incomes may fall.

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 2000 who had completely repaid their loans by the end of 2007 – by gender and completion status


**Source:** Statistics New Zealand, integrated dataset.

Notes:

1. Leaving cohorts are those who last studied in 2000, had borrowed from the scheme, and had a student loan balance of $10 or more at 31 March in the following year. Those who had repaid their student loan before 31 March in the year after leaving study are excluded.
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.[27] 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.[28] The second is that women may be more debt-averse and hence strive to repay more quickly.

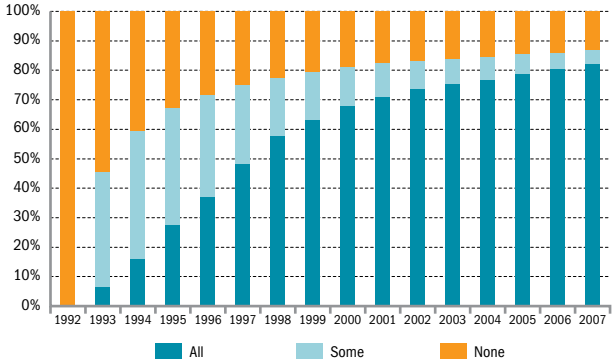
25 These policies meant that most students paid no interest, or less than the full interest charged, while studying.

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

27 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.

28 Note, however, that in some years, especially before 2000, women often left study with higher median loan balances – refer to Figure 26 later in this report.

**Figure 11a** Proportions of borrowers who left study in 1992 who had repaid all, some or none of their student loans by the end of 2007



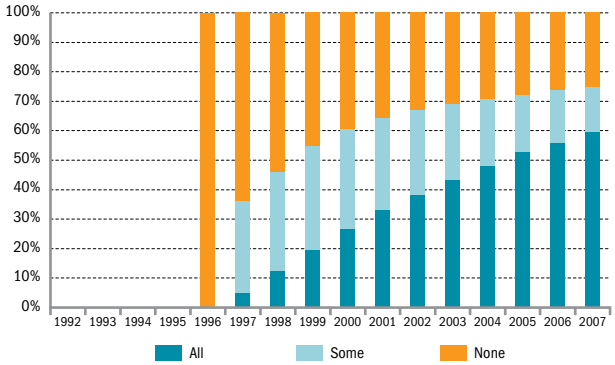

**Source:** Statistics New Zealand, integrated dataset.

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.

As was noted above, different methodologies can be used to calculate repayment times. The methodology used in Figure 11a excludes those who settle their loan accounts and then return to study. Including this group would shift the percentage of those who had repaid in full to 85 percent.

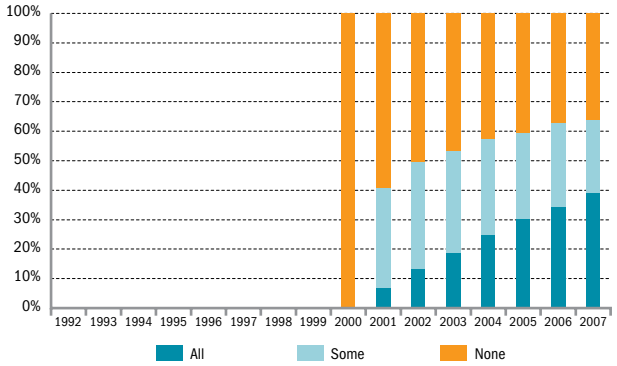
Figure 11a shows that the number of people who complete repayment increases every year – even among the 1992 leavers, who had been out of study for 15 years. However, the number who made progress towards repaying their loans remained reasonably steady between 2004 and 2007. This implies that there are a proportion of borrowers – around 12 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 1996 leavers – the numbers who have made no progress to repayment have begun to diminish more slowly since 2004. For the 2000 leavers, shown in Figure 11c, there continues to be a reduction in the numbers who haven't repaid anything.

**Figure 11b** Proportions of borrowers who left study in 1996 who had repaid all, some or none of their student loans by the end of 2007




**Source:** Statistics New Zealand, integrated dataset.

**Figure 11c** Proportions of borrowers who left study in 2000 who had repaid all, some or none of their student loans by the end of 2007




**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 for a variety of reasons. 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 to 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.

## Unintended outcomes

Some surveys[29] 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 have said that many people – especially women – may never repay their loans.

Around 40 percent of couple families comprising partners aged 18 to 24 have student loan debt. This falls to 30 percent among

29 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.

those aged 25 to 34 and to 10 percent at ages 35 to 44. The corresponding figures for mortgage debt are: 50 percent, 70 percent and 75 percent.[30]

The effects of loans on trends in child bearing, overseas travel and home ownership are difficult to trace. However, there is no statistical evidence that the presence of loans causes adverse effects in these areas.

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. Further, evidence from countries that have no loans and that have very low tertiary tuition fees – such as France – shows that birth rates among women with tertiary qualifications have fallen. These two findings suggest that the factors that drive both birth rates and the age of child bearing among women with tertiary qualifications are complex but that the presence of student loans is not a key factor.

A Ministry of Education statistical analysis[31] 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.[32]

## 2.4 The Crown balance sheet – trends in the costs to the Crown

The Student Loan Scheme is a significant financial asset. The government agencies responsible for the scheme are expected to manage it in a way that protects that asset. The value of the scheme depends on a variety of factors. Firstly, the policies that govern the scheme affect its value. The loan scheme is not designed to make financial returns; rather it is intended as a cost-effective means of enhancing access to tertiary education. As a consequence, the scheme policy includes provisions such as the repayment threshold and the fact that the level of an individual's repayments depends on his or her income. And loans are interest-free for those who remain in New Zealand.

The second group of factors that affect the scheme's value is the country's economic conditions. If incomes are rising, so will repayments, but in a period of higher unemployment, more people will earn below the repayment threshold and won't be obliged to make repayments. The prevailing rate of interest affects the Government's cost of borrowing to finance the loan scheme, so the discount rate that applies to the loan scheme value changes as interest rates change.

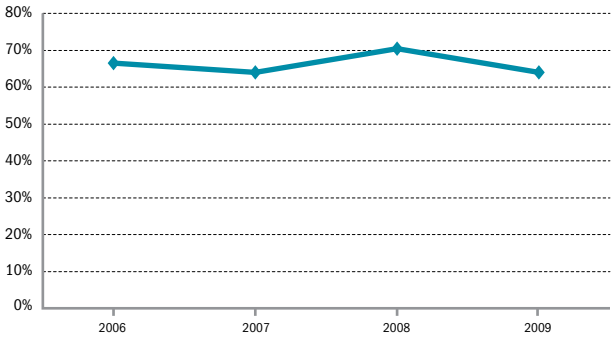
The third group of factors that affect the value relate to borrower behaviour. If many borrowers choose to go overseas once they finish their studies, this affects the value of the scheme because it is more difficult to collect repayments.

Finally, the value is affected by how well the agencies manage their roles in the scheme.

The scheme is valued according to New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). The approach to the valuation is described in detail in chapter 4 of this report.

On 30 June 2009, the value of the scheme in the Crown's accounts was 64 percent of the total amount of money owed (which is called the nominal value). This is down from 70 percent in 2008, 64 percent in 2007 and from 67 percent in 2006. This is shown in Figure 12 below.

**Figure 12** Carrying value as a percentage of the nominal value of the Student Loan Scheme, 2006–2009




**Source:** Student Loan Scheme Financial Statements.

The main reasons for the recent fall are:

- *current economic conditions* – incomes are not expected to grow as strongly in the short to medium term. This affects the borrowers' expected repayments and leads to a lower value of the loans to the Crown
- *better data and modelling* – over time, the agencies have developed more accurate estimates of:
  - likely repayment rates
  - the numbers of borrowers who are based overseas and their borrowing behaviour
- *an unexpected need to credit $96 million* to borrowers who hadn't supplied the correct information to Inland Revenue on their study status in the years 2000 to 2006 and so had incorrectly accrued interest.

More detail on changes in the value of the scheme can be found in chapter 4.

30 Legge, K. & Heynes, A. (2009) Beyond reasonable debt: a background report on the indebtedness of New Zealand families, *Social Policy Journal of New Zealand*, Vol. 35, pp. 27-42.

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

32 Kemp, S., Horward, J. & Fergusson, D. (2006) Student loan debt in a New Zealand cohort study, *New Zealand Journal of Educational Studies* 2006, Vol. 41(2), pp. 273-291. 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.