



CHAPTER TWO

MEETING THE OUTCOMES OF THE STUDENT LOAN SCHEME

2.0 Introduction

The student support system aims to enhance access to tertiary education by reducing barriers to participation. The loan scheme helps to achieve this:

- It provides money to enable students to pay their fees and, for some, to offset some of their living costs.
- It allows the government to share the costs of tertiary education with students and their families, without imposing constraints on participation in tertiary education.
- It is based on income. If borrowers do not manage to get a good income as a result of their studies, they will repay much less or even nothing. People who do gain from their tertiary education pay their full share of the costs of their studies.

The loan scheme contributes to tertiary education outcomes by:

- helping people to gain qualifications that are of high quality and that, therefore, improve people's quality of life, their employment opportunities and their income prospects
- providing finance that reduces barriers to study
- achieving an appropriate sharing of the costs of tertiary education between the government and students and their families
- achieving an appropriate targeting of the costs of tertiary education – so that those who do not benefit financially from their tertiary education are protected.

The agencies are working to develop a shared statement of outcomes for the loan scheme.

This chapter looks at the extent to which the loan scheme contributes to enhancing access and reducing barriers to participation in tertiary education. It also explores the loan scheme's unintended outcomes.

2.1 Student Loan Scheme outcomes

Increasing rates of participation in tertiary education

Participation in tertiary education in New Zealand is at its highest rate ever. The student support system has helped move our tertiary education system from an elite system with relatively low participation, to a more accessible system with high levels of participation.

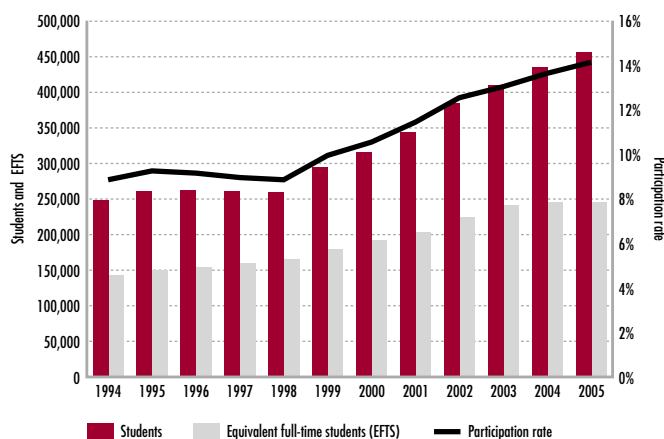
Growth in participation is reflected in the following trends:

- The number of tertiary students (including domestic⁷ and international students) has nearly doubled, from 254,100 in 1994 to 504,400 in 2005.
- There were 457,100 domestic students in 2005.

⁷ Domestic students are New Zealand citizens and New Zealand permanent residents. Australian citizens are treated as New Zealand citizens for the purpose of funding.

- In 2005, 14.2 percent of all New Zealanders aged 15 and over participated in tertiary education, up from 8.9 percent in 1994.

Figure 4 Participation by domestic students in tertiary education 1994-2005



Notes:

1. Data before 1999 excludes private training establishment (PTE) and other tertiary education provider (OTEP) students.
2. Data relates to domestic students enrolled at any time during the year.
3. Participation rate is the percentage of the population aged 15 and over who were students that year.
4. Excludes industry training, non-government funded PTEs, formal courses of a week or less, and all non-formal learning.

Source: Ministry of Education

The expansion in enrolments has been especially marked among women, Māori and Pasifika. From 1994 to 2005:

- enrolments by women in public tertiary education providers grew by 84 percent
- enrolments in public providers by Māori and Pasifika grew by 177 percent.

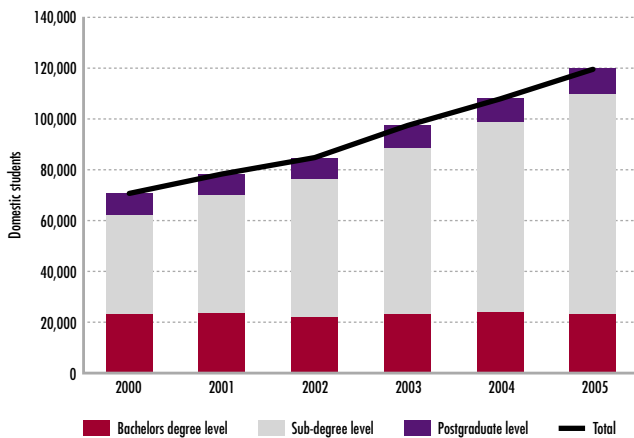
While the loan scheme is not the only factor contributing to increased participation, its introduction has enabled the government to provide funding for more places in tertiary education organisations. Without this funding, many organisations would have limited entry to courses.

More people with tertiary qualifications

As enrolments in tertiary education have risen, so has the number of people completing tertiary qualifications. Statistics New Zealand data shows a steady rise in the number of people holding tertiary qualifications, especially at degree level, between 1994 and 2005:

- The number of people with a bachelors degree or higher qualification increased by 142 percent, from 195,000 to 471,000.
- The proportion of the population aged 25 to 64 with a tertiary qualification rose from 52 percent in 1997 to 58 percent in 2004.

Figure 5 Domestic students completing tertiary qualifications by level 2000–2005



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.

Source: Ministry of Education

Economic benefits

Qualifications gained in the New Zealand tertiary education system, with the support of the loan scheme, lead to greater earnings. This indicates that employers value the skills acquired during tertiary study. This is an indicator of the acquisition of human capital⁸ and therefore the extent to which our student support system and the tertiary education sector contribute to our national economic development.

Statistics from the integrated dataset show that employers pay a premium for completed qualifications. Of bachelors degree students who have left study, data shows that after five years those who graduated enjoy a 31 percent income margin over those who did not⁹.

Census data shows that those with a tertiary qualification have a higher chance of employment:

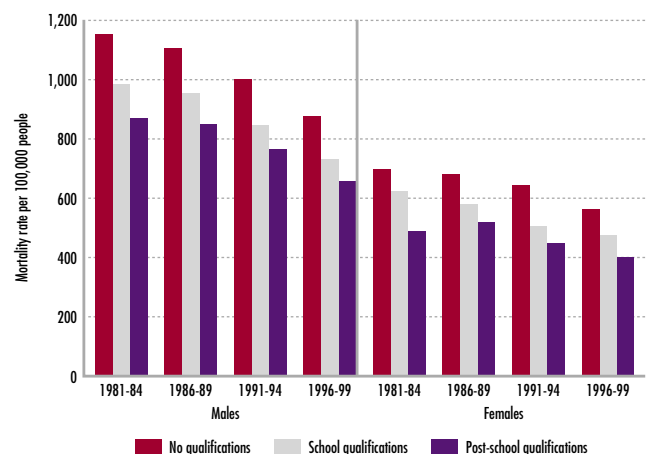
- People with no qualifications had an unemployment rate of 11 percent.
- People with school qualifications had an unemployment rate of 7 percent.
- People with higher degrees had an unemployment rate of 3.6 percent¹⁰.

Benefits to wellbeing

Two recent studies by the Ministry of Social Development show that people with tertiary qualifications in New Zealand have higher living standards¹¹.

University of Otago researchers have also found that those with tertiary qualifications have improved mortality rates¹², as illustrated in the graph below.

Figure 6 Standardised mortality rates (from all causes) of the New Zealand population aged 25 to 77 by gender and Census cohort 1981-1984 to 1996-1999



Note: These mortality rates have been standardised by age group and ethnic group.

Source: Atkinson, J New Zealand Census - Mortality Study Web Table, Department of Public Health, Wellington School of Medicine and Health Sciences, University of Otago www.otago.ac.nz/NZCMSWebTable. (June 2006)

2.2 Changes in behaviour

Borrowing behaviour

There was a reduction in the number of people using the loan scheme in 2005. It is difficult to draw inferences about borrowing behaviour from information on uptake rates across the whole loan scheme, because uptake rates are strongly influenced by the balance between full-time and part-time enrolments. Part-timers have a lower incidence of borrowing as the costs they face are lower and many part-time students have other sources of finance. So to consider borrower behaviour, we need to focus on how full-time students use the loan scheme.

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 2005 it was 76 percent.

⁸ 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.

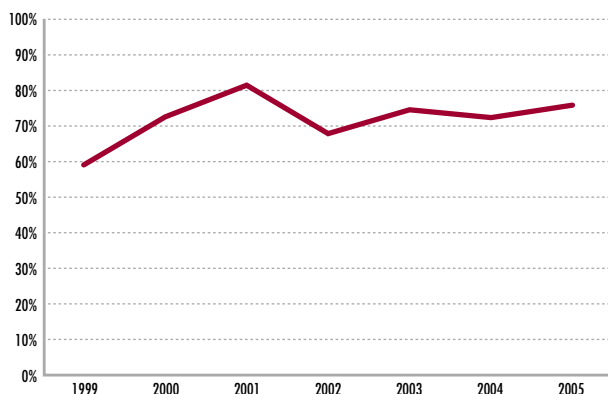
⁹ Hyatt, J and R Smyth (2006) *How do graduates' incomes change over time?* Ministry of Education, for full details of this finding.

¹⁰ Smart, W (2006) *Outcomes of the New Zealand tertiary education system: a synthesis of the evidence*, Ministry of Education. This study also finds that the unemployment rate of those with tertiary qualifications is less susceptible to fluctuations within the economy.

¹¹ Smart (2006) op cit. describes the relevant parts of these studies.

¹² Smart (2006) op cit.

Figure 7 Uptake rates of student loans for full-time students 1999-2005



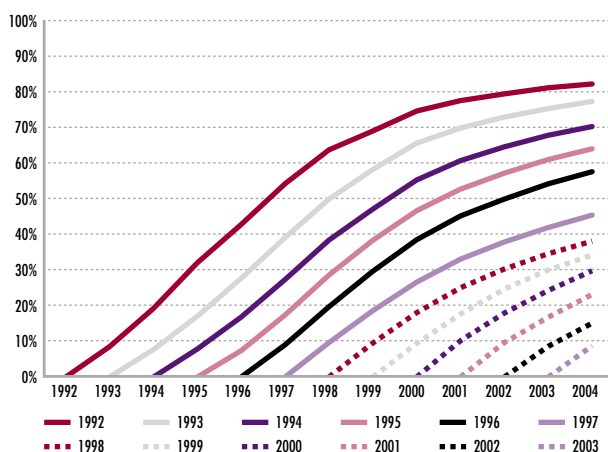
Source: Ministry of Education and Ministry of Social Development

The increase in uptake rates among full-time students between 1999 and 2001 reflects the introduction in 2000 of the 'no interest while studying' policy. Changes in uptake rates also reflect general economic conditions; as jobs have become easier to get, more students have been able to access part-time work and that, too, has influenced the uptake of loans and the amounts borrowed.

Changes in repayment behaviour

The following graph shows the percentage of people who have completely repaid their loans according to the year that they left study.

Figure 8 Percentage of each leaving cohort who have repaid in full by year 1992-2004



Source: Statistics New Zealand, integrated dataset

By 1996, more than half of those who left study in 1992 had repaid in full. However, this cohort had very low borrowings as fees were relatively low and they had only borrowed for one year.

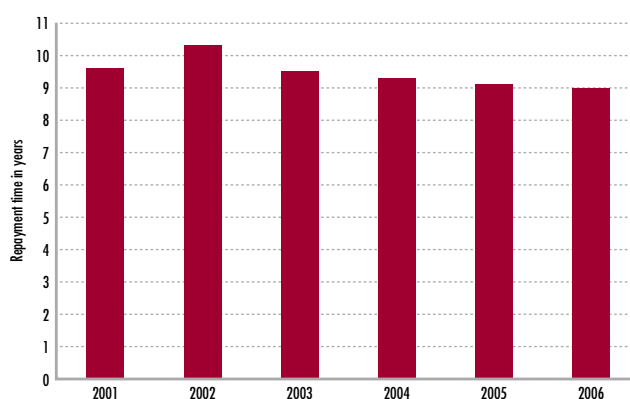
Of those who left study in 1996, half had repaid by the end of 2002 – six years after leaving study. Leavers in 1997 and 1998 repaid their loans more slowly.

Those who left study in 2000 and later 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 page 26)
- high employment in the last five or six years.

Looking to the future, the forecast average repayment time is nine years, compared with a forecast of 9.5 years in 2003 and more than 10 years in 2002.

Figure 9 Forecast average repayment times 2001-2006



Source: Ministry of Education

These forecasts take account of economic conditions such as the availability of jobs and estimates of salary levels, as well as changes in the loan scheme policy.

2.3 Unintended outcomes

Qualitative research and surveys of borrowers' opinions have suggested that the loan scheme may encourage people to go overseas, discourage home ownership and cause people to delay having children. As well, some people have said that many people – especially women – may never repay their loans. However, the evidence suggests otherwise.

Going overseas

There is a long tradition of New Zealanders travelling overseas after completing their tertiary education. It has sometimes been claimed that the loan scheme has increased the numbers going overseas.

The relationship between the size of student loans and the incidence of travel overseas following study was the subject of a statistical study released by the Ministry of Education in 2006¹³. This analysis drew the following conclusions:

¹³ Smart, W (2006) *Do student loans drive people overseas – what is the evidence?* Ministry of Education.

- The size of a loan was associated with going overseas – but the association was not strong.
- Other factors such as age, ethnicity, type of tertiary education organisation and level of qualification studied were equally associated with travel overseas.
- There are lots of other factors, not captured in administrative data, involved in a decision to go overseas.

So, while the decision to go overseas is associated with the size of a loan, there is no evidence that loans *cause* people to travel overseas or have any major effect in their decisions to travel.

Home ownership and having children

A recent study¹⁴ on household wealth explored the statistical relationships between the presence and size of student loans and home ownership. It conducted a similar analysis of the relationship between loans and having children.

This study reached the following conclusions:

- The presence and size of a student loan does not appear to affect the probability of a couple having a mortgage.
- Non-partnered individuals with loans are statistically less likely to have a mortgage than non-partnered individuals without student loans.
- The size of a student loan has a modest, yet statistically significant, effect on the probability of a non-partnered individual having a mortgage.
- The presence of a student loan has no effect on mortgage size, but the loan's size does have a (weak) effect on the size of a mortgage.
- Neither the presence nor the size of a student loan appears to reduce the number of children a couple has.
- Non-partnered individuals with a student loan are (slightly) more likely to have more children than those without loans.

Non-repayment

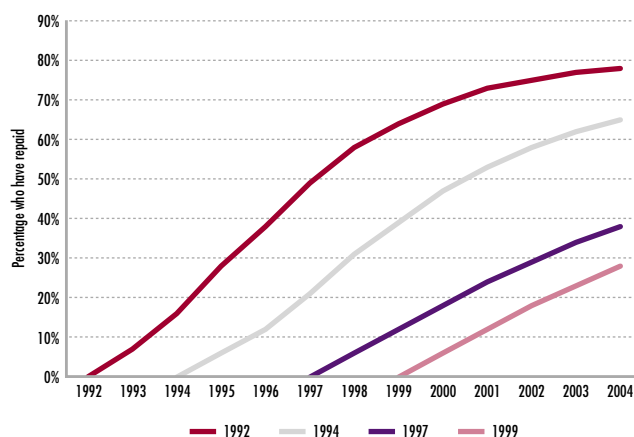
The loan scheme has a repayment threshold so there is no repayment obligation for those with very low incomes, and the unpaid portion is written off on death. The loan scheme allows for the fact that some people will never repay their loans, such as:

- people who suffer illness or disability that reduces or removes their work opportunities
- people who do not work because they are involved in child-rearing
- people who leave New Zealand and remain overseas for an extended time.

While the loan scheme provides for people who never repay, it is not intended that someone will hold a student loan throughout their adult life.

The following graph shows the percentage of borrowers who left study in 1992, 1994, 1997 and 1999 and completely repaid their loans by 2004.

Figure 10 Percentage of borrowers fully repaid by 31 March 2005 – those who left study in 1992, 1994, 1997 and 1999

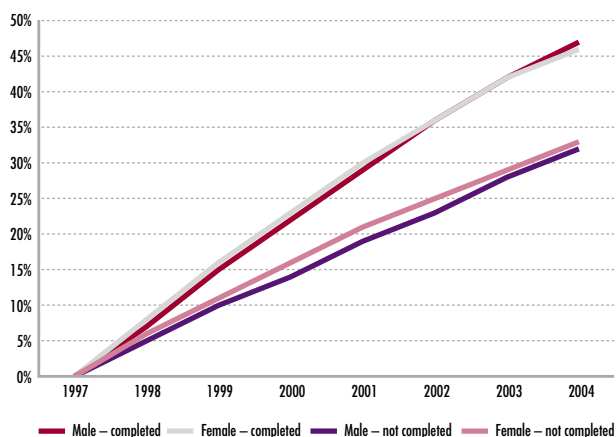


Source: Statistics New Zealand, integrated dataset

It is evident from Figure 10 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.

The following graph shows that the probability of repaying a loan depends on whether the borrower has completed a qualification, but it doesn't depend on their gender.

Figure 11 Percentage of borrowers who left study in 1997 who had completely repaid their student loans by 31 March 2005 – by gender and completion status



Notes:

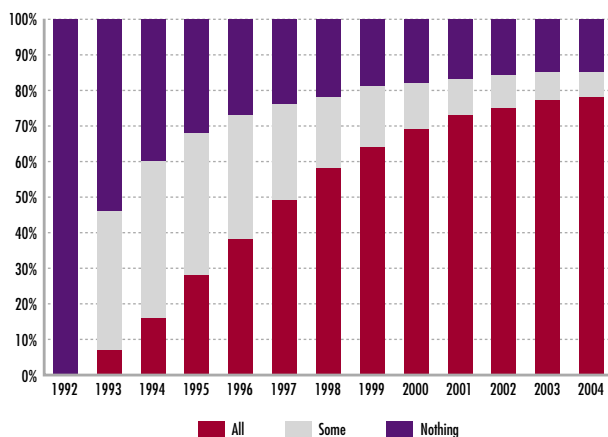
1. The leaving cohort is those who last studied in 1997, had borrowed from the scheme, and had a student loan balance of \$10 or more at 31 March in the following year. Excluded are 3.4 percent who had repaid their student loan before 31 March 1998.
2. Full repayment is deemed to occur when the student 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.

Source: Statistics New Zealand, integrated dataset

¹⁴ Scobie, G., J Gibson, T Le, (2005) *Household wealth in New Zealand*, Institute of Policy Studies, Victoria University, Wellington.

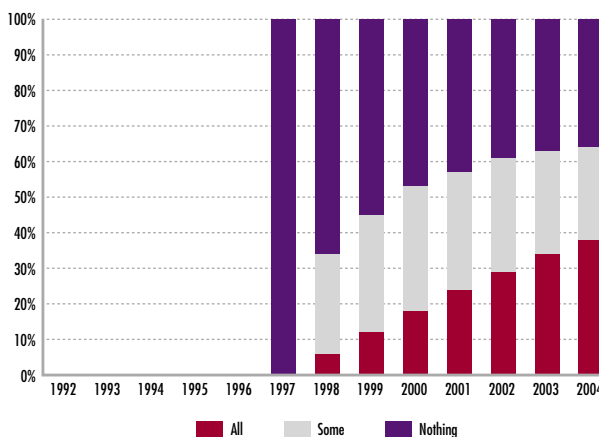
Information from the integrated dataset indicates that a small proportion of borrowers are unlikely to repay their loans in full. Around 15 percent of the 1992 leavers had repaid nothing of their loans 12 years after leaving study.

Figure 12a Proportions of borrowers who left study in 1992, who have repaid all, some or none of their student loans by 31 March 2005



Source: Statistics New Zealand, integrated dataset

Figure 12b Proportions of borrowers who left study in 1997, who have repaid all, some or none of their student loans by 31 March 2005



Source: Statistics New Zealand, integrated dataset

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 by the end of 2004:

- are more likely to have left study without completing a qualification – 44 percent had made no progress, compared with 25 percent of those who had completed their qualifications
- are more likely to have taken lower level qualifications – 39 percent of those who studied below degree level had made no progress, compared with 29 percent who studied at bachelors level or higher
- are more likely to be male than female – 37 percent of men had made no progress, compared with 35 percent of women; and this difference becomes more pronounced at degree level and higher, with 32 percent for men and 27 percent for women
- are more likely to be Māori or Pasifika than of other ethnic groups – nearly half of all Māori and Pasifika students had made no progress, compared with 28 percent for those of European ethnicity.

The analysis of the longer-term outcomes of a policy such as the loan scheme is complex. It takes many years for trends to emerge. Without sophisticated statistical modelling, it is hard to draw clear causal associations. As the loan scheme matures and new waves of data are added to the integrated dataset, the agencies will be able to strengthen their analysis.