

# CHAPTER ONE:

Student Loans in the Tertiary Education System

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# 1.0 Introduction

## The Tertiary Education Strategy

Tertiary education plays a key role in supporting government goals for improving New Zealand's economic and social performance.

The Tertiary Education Strategy (TES) and the Statements of Tertiary Education Priorities (STEPs) set out how the tertiary education system is expected to contribute to national goals.

The first TES was for the years 2002 to 2007 and took a broad and inclusive approach to cover the diversity of tertiary education. The second TES is for the years 2007 to 2012 and was published in December 2006. It incorporates the Statement of Tertiary Education Priorities for 2008 to 2010 and continues the broad and inclusive direction of the previous strategy, while providing a sharper focus on the shifts required in tertiary education to achieve greater quality, relevance and value for money.<sup>1</sup>

In September the Government began seeking feedback from stakeholders on the direction proposed in the draft Tertiary Education Strategy. It is the Government's intention to develop a new Tertiary Education Strategy by the end of this year to inform the next investment cycle for tertiary education 2011 to 2013.

The following sections set out how the tertiary funding and student support systems contribute to tertiary education goals through:

- supporting affordable, equitable access to tertiary education through tuition subsidies and a range of student support, including student allowances and interest-free student loans for students who remain in New Zealand
- ensuring that students' own financial contributions through fees are affordable, predictable and fair.

## 1.1 Funding tertiary education

Tertiary education is one of the key components to economic development and growth. As such, all countries want to expand their tertiary education systems and use tertiary education to increase the skill levels and knowledge within their populations. However, the costs of investing in tertiary education are substantial. Because of this, most countries are faced with the dilemma of meeting the increasing costs of an expanding tertiary education system. In New Zealand, one of the ways successive governments have approached this is by sharing the costs between the government and students (and/or their families).

Tuition subsidies ensure the cost of tertiary education is shared between government and students. Partial subsidies enable government to provide funding for more students than would otherwise be possible, and therefore expand participation. The investment in tertiary education by way of subsidies is an acknowledgement by government that tertiary education is an important and beneficial investment in New Zealand. This is because:

- a better-educated workforce provides our economy with a greater variety of skills to call upon

- tertiary education has been found to contribute to improved outcomes in health and social cohesion
- individuals with tertiary education earn more on average than others and are less likely to be unemployed
- individuals with tertiary education report higher levels of satisfaction with their lives.

Many individuals, however, do not have the financial resources to meet their share of the costs of tertiary education at the time of study. The loan scheme enables those students to meet these costs by allowing them to pay their share over time.

While the share of the total costs of tertiary education borne by students rose from 26 percent in 1998 to 32 percent in 2000, it fell back to 25 percent by 2008 due to fee stabilisation and rising subsidy rates.

## Effects of funding policy on tertiary fees

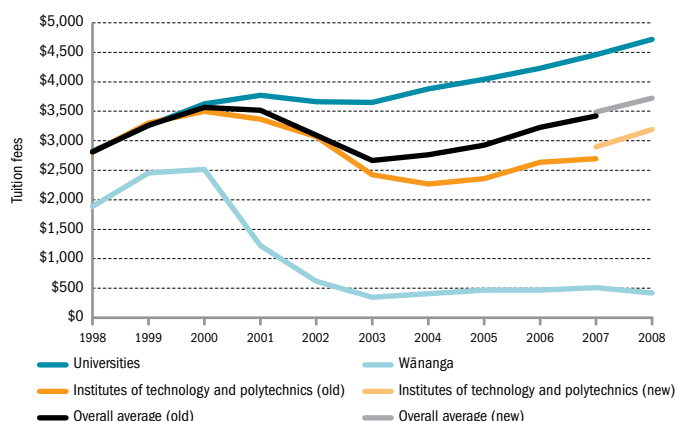
In 1998 and 1999, the funding rates paid to tertiary education providers were reduced. This led to providers increasing their fees. The effects of this can be seen between 1998 and 2000, when the average tuition fee per equivalent full-time student in public tertiary education institutions increased by 27 percent (from \$2,806 to \$3,562).

From 2001, government policies were introduced aimed at stabilising fees and the average fee per equivalent full-time student fell by 24 percent (from \$3,513 to \$2,664) between 2001 and 2003. The extent of the fall in average fees from 2001 to 2003 was magnified by several polytechnics and wānanga reducing their fees for some qualifications to zero during this time. The average fee per equivalent full-time student then increased by 35 percent (from \$2,759 to \$3,723) between 2004 and 2008. Some of this increase was due to a fall in the proportion of students in low-cost courses, especially in wānanga.

Figure 1 shows the trends in average tuition fees per equivalent full-time student in universities, institutes of technology and polytechnics, and wānanga and the overall average fee for the years 1999 to 2008.

<sup>1</sup> The Strategy can be found at [www.minedu.govt.nz/educationSectors/TertiaryEducation/PolicyAndStrategy/ReleaseOfTheSecondTertiaryEducationStrategy.aspx](http://www.minedu.govt.nz/educationSectors/TertiaryEducation/PolicyAndStrategy/ReleaseOfTheSecondTertiaryEducationStrategy.aspx).

**Figure 1** Average domestic tuition fee per equivalent full-time student in tertiary education institutions by provider type



Source: Ministry of Education and Tertiary Education Commission.

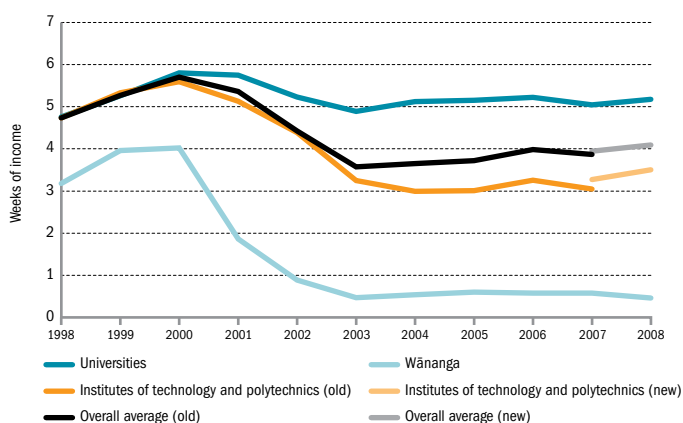
Notes:

1. Auckland University of Technology and Wellington Polytechnic are treated as universities for the entire period.
2. Data for the colleges of education is included in the university sub-sector as all colleges of education are now merged with universities.
3. Fees include GST.
4. The trends in the institutes of technology and polytechnics and wānanga during the period 2000 to 2004 are influenced by the number of courses with zero fees offered in those sub-sectors.
5. Due to an accounting change at Nelson Marlborough Institute of Technology, there is a discontinuity in the fees data for ITPs and total TEIs in 2007.

## The affordability of tertiary education

Fee stabilisation, which was introduced in 2001, was replaced by the fee and course costs maxima in 2004. This has meant that tertiary education has become more affordable since 2000. For example, in 2000 the average full-year, full-time tuition fee at a university was equivalent to 5.8 weeks' average weekly income for the employed.<sup>2</sup> By 2008, this had fallen to 5.2 weeks' average weekly income. This is demonstrated in Figure 2.

**Figure 2** Ratio of the average domestic student tuition fee at tertiary education institutions to the average weekly income of the employed



Source: Ministry of Education, Tertiary Education Commission and Statistics New Zealand, integrated dataset.

Notes:

1. Auckland University of Technology and Wellington Polytechnic are treated as universities for the entire period.
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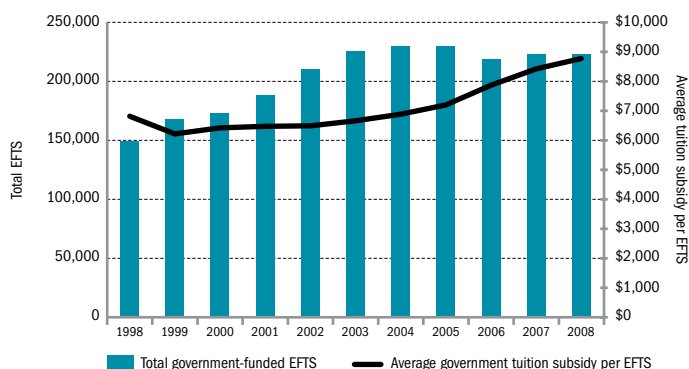
## Increased spending on tuition subsidies

Financial assistance to students participating in tertiary education is provided through three channels: paying tuition subsidies to tertiary education organisations, student allowances and student loans to students. Of these, tuition subsidies are the largest component.

Since 2000, funding in the form of tuition subsidies has increased. In the 2008/09 fiscal year, \$2,235 million in tuition subsidies<sup>3</sup> was allocated to tertiary education providers, compared with \$1,084 million in 1999/2000.<sup>4</sup> The increased funding is due to an increase in tertiary student numbers and in subsidy rates.

As can be seen in Figure 3, over the 10-year period from 1999 to 2008 the number of government-funded student places (measured in equivalent full-time student units) in formal education increased by 33 percent, from 167,000 to 223,000. Over the same period, the average tuition subsidy rate (the funding per equivalent full-time student) increased by 41 percent for public tertiary education organisations.

**Figure 3** Total government-funded equivalent full-time student (EFTS) places and average funding per equivalent full-time student in public tertiary education organisations



Source: Ministry of Education and Tertiary Education Commission.

Notes:

1. The tuition subsidy includes student component funding, base grants, clinical add-ons, fee stabilisation, special supplementary grant, the strategic priorities fund, tripartite funding, and, from 2004, the Performance-Based Research Fund.
2. Funding for community education student places is excluded from this data.
3. Funding is exclusive of GST.

Starting in the late 1990s, there were significant increases in the participation rates in tertiary education. This began to flatten in 2004. In 2006 there was a reduction in the number of government-funded enrolments (on an equivalent full-time student basis). This was partly in response to government moves to strengthen the relevance and quality of tertiary provision at certificate and diploma level, which led to a reduction in numbers in some qualifications.

Table 1 shows the three main channels of funding for tertiary study, tuition subsidies, student allowances and student loans. The total expenditure on these three areas is also expressed as a percentage of the country's gross domestic product.

2 The definition of employed is as in the New Zealand Income Survey: [http://www.stats.govt.nz/methods\\_and\\_services/information-releases/nz-income-survey.aspx](http://www.stats.govt.nz/methods_and_services/information-releases/nz-income-survey.aspx).

3 Tuition subsidies include appropriations to the Performance-Based Research Fund, for provider capability and Adult and Community Education.

4 Tuition subsidies are exclusive of GST.

**Table 1** Government financial support for tertiary study 1997/98–2008/09

Fiscal year	Student allowances \$ million	Tuition subsidies \$ million	Student loans \$ million	Total \$ million	Total as a % of Gross Domestic Product
1997/98	344	1,052	652	2,048	2.1
1998/99	378	1,114	618	2,110	2.1
1999/00	375	1,084	702	2,161	2.0
2000/01	391	1,210	867	2,468	2.2
2001/02	401	1,381	935	2,717	2.2
2002/03	387	1,576	952	2,915	2.3
2003/04	380	1,724	997	3,101	2.2
2004/05	359	1,701	969	3,029	2.0
2005/06	354	1,811	1,046	3,211	2.1
2006/07	382	1,921	1,176	3,479	2.1
2007/08	385	2,129	1,201	3,715	2.1
2008/09	444	2,235	1,350	4,030	2.3

**Source:** Annual reports of the Ministry of Education, Tertiary Education Commission, Ministry of Social Development and The Treasury.

Notes:

1. The figures for 2008/09 are provisional.
2. Student allowances are before tax or gross amounts.
3. Tuition subsidies include appropriations to the Performance-Based Research Fund, for provider capability and Adult and Community Education.
4. Student loan amounts are capital amounts.
5. Funding is GST exclusive.

As Table 1 shows, expenditure on tuition subsidies, student allowances and student loans was 2.3 percent of the country's gross domestic product in the 2008/09 fiscal year. This has been more or less constant over the last decade.

The Organisation for Economic Co-operation and Development (OECD) compares the expenditure on tertiary education across most developed countries.<sup>5</sup> In all OECD international comparisons, tertiary education is defined according to the International Standard Classification of Education level. The levels of tertiary education include levels 5A (bachelors, honours, masters, postgraduate certificates and diplomas), 5B (diplomas, national diplomas) and 6 (doctorates). The classification level 5A is called tertiary-type A education by the OECD. Classification level 5B is called tertiary-type B.

In New Zealand, tertiary education has traditionally been measured as formal study, regardless of the classification level. However, the tertiary education sector as reported in OECD comparisons excludes enrolments in level 1 to 4 certificates and hence represents only about 50 percent of the students measured in New Zealand education statistics. For this reason, the international comparisons that follow reflect New Zealand's investment in the higher tertiary education sector only.

The New Zealand Government spends above the OECD average on higher tertiary education, expressed as a percentage of gross domestic product. In 2005, New Zealand ranked sixth amongst OECD countries, with spending at 1.5 percent of gross domestic product. This compared with the OECD country average of 1.3 percent.

Table 2 shows the distribution of government expenditure on tertiary education. In 2006, financial support for students

accounted for 42 percent of government spending on tertiary education in New Zealand, the highest of all OECD countries. OECD countries spend, on average, 18 percent of their public budgets for tertiary education on financial aid to students. This high proportion in New Zealand is intended to maintain the diversity and open access of the New Zealand tertiary education system by providing students with access to tertiary education, regardless of their financial situation.

It should be noted that a proportion of the financial aid to students goes directly to institutions. For example, around 62 percent of student loan borrowing by students is for the purpose of paying tuition fees. If this is taken into account, then around 23 percent of government expenditure goes directly to students in the form of financial aid and around 77 percent goes directly to institutions, including fees paid from student loan accounts.

**Table 2** Distribution of government spending on tertiary education in 2006

	Institutions	Financial aid to students	
		Student loans	Scholarships/ Other grants
New Zealand	58%	30%	12%
OECD average	81%	9%	10%

**Source:** OECD, *Education at a glance 2009: OECD indicators*, Table B5.4.

Note: Financial aid to students includes the following categories: grants/scholarships; public student loans; family or child allowances contingent on student status; public subsidies in cash or in kind, specifically for housing, transportation, medical expenses, books and supplies, and social, recreational and other purposes; and interest-related subsidies for private loans.

<sup>5</sup> Organisation for Economic Co-operation and Development (2009) *Education at a glance 2009: OECD indicators*, Paris: OECD.

## 1.2 The student support system

The student support system has two main components, the Student Loan Scheme and the Student Allowances Scheme,<sup>6</sup> both of which provide direct funding to students. All New Zealand students enrolled in approved qualifications<sup>7</sup> can access the loan scheme, whereas student allowances are only available to students who meet income-based and age-related eligibility criteria.

### Principles of the student support system

There are a number of principles that underpin student support policies. These are:

- To maintain high levels of participation in, and completion of, tertiary education.
- To ensure that New Zealand's tertiary education system makes the best possible contribution to national development.
- To ensure equity and fairness.
- To ensure that government investment in student support and tertiary education is financially sustainable.
- To ensure that tertiary education is affordable for students.
- To ensure consistency with the wider income support system.

### How the student support system compares internationally

New Zealand's student support system is in line with that of comparable overseas countries. In countries that belong to the OECD, apart from some European countries that charge no fees or very low fees, the tuition fees charged for tertiary education are comparable with those charged in New Zealand. New Zealand tuition fees for bachelors-level and above courses are lower, on average, than those charged by most OECD countries including those in Australia and the United Kingdom.<sup>8</sup>

In addition:

- income-tested allowances are available for students from low- to middle-income backgrounds
- the loan scheme offers more protection to lower-income earners than some other international schemes (e.g. those with fixed repayment plans such as in Canada or the United States) as repayments are based on income for those who remain in New Zealand
- the typical student loan repayment time, compared with those of other income-contingent loan schemes, is relatively low<sup>9</sup>
- the interest-free student loan policy means the loans of borrowers living in New Zealand will not increase.

## 1.3 The Student Loan Scheme

### How the Student Loan Scheme fits into the wider tertiary system

The Student Loan Scheme helps to meet the access and affordability objectives for tertiary education in the following ways:

- It allows government to share the costs of tertiary education with students and their families, without imposing constraints on participation in tertiary education. Government pays the tuition subsidy and students pay tuition fees.
- It helps to reduce barriers to study by providing money to enable people to pay fees and, for some students, to offset some of their living costs.
- It helps people to reach their potential by studying for qualifications that are quality assured and improve people's employment opportunities, income prospects and consequently their quality of life.
- It protects those who do not benefit financially from their tertiary education. The amount a borrower has to repay in any year depends on their income. If it is very low, they may not have to make repayments. As a borrower's income increases and they can afford to repay more, their repayment obligation increases. This ensures that people who benefit from their tertiary education pay for the cost of their studies.
- The interest-free policy benefits borrowers who live in New Zealand by stabilising the level of their loan balances. This feature also provides incentives for graduates to stay in New Zealand and strengthen the skills and competencies of our workforce.

### Shared responsibility

Six government agencies have an interest in the Student Loan Scheme – the three agencies that manage the scheme (the Ministry of Education, the Ministry of Social Development and Inland Revenue) plus the Tertiary Education Commission, the New Zealand Qualifications Authority and Statistics New Zealand.

- The Ministry of Education provides advice to government on tertiary education strategy and policy, funding for tertiary education and quality assurance and monitoring.
- The Ministry of Social Development provides information on student support entitlements, assesses applications for student support, and makes student support payments.
- Inland Revenue manages the collection of loan repayments, applies interest write-off policies, and provides information on loan repayments.
- The Tertiary Education Commission approves courses and qualifications for eligibility for funding and for access to student loans and allowances.
- The New Zealand Qualifications Authority provides quality assurance of qualifications and tertiary providers – a prerequisite for access to loans and allowances.
- Statistics New Zealand manages the integrated dataset on student loans and allowances.

6 Information on student allowances is available on the StudyLink website at [www.studylink.govt.nz](http://www.studylink.govt.nz).

7 This includes industry trainees undertaking courses at tertiary education providers if they meet the appropriate eligibility criteria.

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

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

## 1.4 Student support changes 2009

In 2009, the Government announced some changes to student support:

### Voluntary bonding scheme

The Government introduced a voluntary bonding scheme for new doctors, midwives, nurses, veterinary professionals and teachers working in hard-to-staff or understaffed areas or specialties. New graduates in these positions will be bonded for three to five years and will receive payments after the third, fourth and fifth year that will be made directly to their student loan (if they have one). The purpose of this scheme is to fill gaps in important workforce areas using student loan repayment as an incentive. More information about the scheme for each of the professions is available at [www.moh.govt.nz/bonding](http://www.moh.govt.nz/bonding), [www.maf.govt.nz](http://www.maf.govt.nz) and [www.minedu.govt.nz](http://www.minedu.govt.nz).

### 10 percent bonus for voluntary repayments

From 1 April 2009, borrowers who make a voluntary student loan repayment of over \$500 in a tax year will have their student loan balance reduced by an additional 10 percent of the value of the repayment. The bonus will be credited after 31 March 2010 following systems changes. New Zealand-based and overseas-based borrowers are eligible, provided they are up to date with their compulsory loan repayment obligations. Borrowers are able to spread voluntary repayments over a tax year and, provided repayments total \$500 or more, they will receive a bonus. Repayments made to StudyLink will not qualify for the bonus. More information about the bonus is available at [www.ird.govt.nz](http://www.ird.govt.nz) by searching for 'voluntary repayment bonus'.

### Discontinuation of Step Up and Bonded Merit scholarships

The Government announced the discontinuation of Step Up and Bonded Merit scholarships; the last scholarships were awarded in April 2009. Step Up and Bonded Merit were expensive to administer and did not significantly affect the study choices of recipients. For these reasons Step Up and Bonded Merit scholarships were considered relatively low priorities at a time when budgets are tight. Current recipients will continue receiving their scholarship for the remainder of their tenure.

### System improvements

In June 2009, the Minister of Revenue announced that the Government had approved implementation funding to enable Inland Revenue to purchase a dedicated loan management solution for the administration of student loans. A dedicated loan management solution will deliver a number of benefits including:

- providing the flexibility needed to deliver policy changes in a timely and cost-effective manner
- enabling Inland Revenue to provide enhanced online services increasing borrowers' ability, particularly overseas-based borrowers, to self-manage their loan account at their convenience
- enabling Inland Revenue to cope more efficiently with an expanding borrower base - numbers of borrowers are increasing each year

- allowing administrative resources to be used more effectively and focused on higher-value activity.

Inland Revenue estimates that it will take two years to purchase and implement the new loan management solution for a 'go live' date of 1 July 2011.

In parallel with the implementation of a new loan management system, the Government is proposing a number of changes to the ways in which loans are administered by Inland Revenue. Dependent on the outcome of public consultation, final decisions by Government and the legislative process, the new loan management solution would give effect to these new legislative rules. In September 2009, the Government agreed to put forward legislation to simplify the administration of student loan repayments, moving from paper-based management of repayments towards electronic management and communication.

For a more comprehensive overview of Student Support policy changes see the document *Changes to the student support system*, found at [www.educationcounts.co.nz](http://www.educationcounts.co.nz).