FOREWORD

Education makes a difference to the lives of all New Zealanders. We know that people with tertiary education qualifications are more likely to get good, well paid jobs and be happier and healthier. As a result of our tertiary education system, our communities have higher employment rates and higher average incomes, and we have a more productive and competitive economy. We are working to increase these benefits for New Zealanders.

The wide access to tertiary education that New Zealanders have today is underpinned by student loans. The costs of tertiary education are shared between government and the student, with loans being repaid once borrowers have sufficient income.

Government agencies work together and take an end-to-end view of student loans to ensure that the loan scheme meets its goal of improving access to tertiary education and keep it affordable. Through this report, we identify the links between student loans, participation in tertiary education, achieving qualifications and the economic goals of attaining employment and addressing the needs of firms and industry. The report aims to increase understanding of the impact of student loans, and provides evidence for the provision and nature of the support government delivers for tertiary education.

The Ministry of Education, the Ministry of Social Development and Inland Revenue co-operated to gather the information in this report.

I recommend the report to you.

Peter Hughes
Secretary for Education
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HIGHLIGHTS

STUDENT LOAN SCHEME PORTFOLIO

As at 30 June 2014:

- 721,437 people had a student loan for collection. (Page 29)
- The nominal value of loan balances was $14,235 million. (Page 43)
- The carrying value of the loan scheme — calculated using International Financial Reporting Standards — was $8,716 million. (Page 43)
- The carrying value was 61.2 percent of the nominal value. (Page 30)
- The fair value of the loan scheme was approximately $8,924 million (Table 37, Page 57)
- The cost of lending increased from 40.02 cents in the dollar lent in July to December 2013, to 41.83 cents in the dollar lent in January to June 2014. (Table 28, Page 46)
- The cost of lending is forecast to reduce to 40.44 cents per dollar for the period 1 January 2015 to 30 June 2015. It is forecast to increase to 41.59 cents for each dollar lent in 2017. (Table 28, Page 46)

Since the loan scheme began:

- 1.2 million people have taken out a student loan. (Page 22)
- Students have borrowed $20,119 million. (Page 24)
- $9,157 million has been collected in loan repayments. (Page 32)
- More than 415,000 loans have been fully repaid. (Page 32)

During 2013/14:

- $1,031.7 million in loan repayments were received, $22.2 million less than last year. (Page 56)

OUTCOMES OF THE STUDENT LOAN SCHEME

- Research shows that recent young graduates have a clear earnings advantage which emerges soon after graduation and grows over time. (Page 15)
- The number of domestic students in tertiary education in 2013 was 370,000 compared with 245,000, the number enrolled in 1994. (Figure 1, Page 8)
- The participation in tertiary education rate for Māori of all ages was 14.7 percent in 2013, up slightly from 14.5 percent in 2012. The participation rate of all Pasifika students in 2013 was 11.5 percent, up slightly from 11.3 percent in 2012. (Table 1, Page 9)
- The total number of students completing formal qualifications reached 144,000 in 2013, an decrease of 0.6 percent from 2012. (Page 9)

ABOUT STUDENTS BORROWING FROM THE STUDENT LOAN SCHEME IN 2013

- 192,257 students (74 percent of eligible students) borrowed from the loan scheme. (Pages 22 and 23)
- Of these, there were 51,732 new borrowers representing 27 percent of all borrowers. (Table 8, Page 28)
- The average amount borrowed was $8,315. (Table 7, Page 27)
OF THOSE WHO HAD A LOAN BALANCE IN 2013

- About 58 percent were female. (Table 10, Page 30)
- 57 percent were European, 22 percent were Māori, 12 percent were Asian and 11 percent were Pasifika. (Table 10, Page 30)

As at 30 June 2014:

- The average loan held by Inland Revenue was $19,731 and the median loan balance was $13,882. (Table 12, Page 30)
- 73 percent of repayments were collected through the PAYE tax system in the 2013/14 year. (Page 31)

REPAYMENT TIMES FOR BORROWERS

- The median repayment time for all borrowers who finished study in 2011 is expected to be 7.0 years. (Table 19, Page 36)
- The median repayment time for those who left study in 2011 and remained in New Zealand is expected to be 5.8 years. (Table 19, Page 36)
- The median repayment time for those who left study in 2011 and are not always based in New Zealand is expected to be 15.2 years. (Table 19, Page 36)

For more information about these highlights, refer to the appropriate chapter in the report.
**Introduction**

The purpose of this annual report is to inform Parliament and the New Zealand public about the performance of the Student Loan Scheme. The report also includes the formal financial schedules of the scheme from 1 July 2013 to 30 June 2014.

The report describes how the loan scheme operates in the context of the New Zealand tertiary education system and the goals of the Tertiary Education Strategy; the contribution it makes in enabling greater access to, and participation in, tertiary education; and developments to the loan scheme and student support policy over time.

It also looks at the outcomes of the scheme and provides detailed information about borrowers and their lending and repayment patterns. Finally, the report gives a detailed financial analysis of costs and the valuation of the loan scheme.

**Sources**

**Data from agencies**

This report uses data from four principal sources.

The information on active borrowers and borrowers in study is largely drawn from the Ministry of Social Development. Inland Revenue has supplied data on the repayments and loan balances of all borrowers. Tertiary education data and information on borrowing in the years before 2000 were supplied by the Ministry of Education.

The source data for the graphs and tables in this report, as well as additional Ministry of Education research cited, can be found on the Education Counts website, www.educationcounts.govt.nz

Other data has come from Statistics New Zealand’s Integrated Data Infrastructure (see below). Data from these sources is complemented by information drawn from the Census, the Household Labour Force Survey and other published data sources. Each table and graph states the source of its data.

Where data in the tables and graphs is provisional and subject to minor change at a later stage, this has been noted.

Different timeframes apply to the data series depending on the nature of the activity. Application and borrowing data is for the calendar year (January to December) in keeping with the academic year. Financial data is based on the government’s financial year (July to June). Some repayment data is reported for the tax year (April to March).

Each agency endeavours to provide accurate and relevant information, and methods of gathering and reporting data are continually being enhanced. When new data is collated, it not only provides information for the most recent year, but is also linked back across historical figures to take advantage of improvements in data quality. Revised data is used in this report, so readers might notice small changes in historical data reported in the current year compared to previous reports.

**The Integrated Data Infrastructure (IDI)**

The IDI includes data on student loans and allowances, but is not limited to these. It is managed by Statistics New Zealand according to the requirements of the Statistics Act 1975. The data has been made available according to strict privacy and confidentiality protocols developed with guidance from the Privacy Commissioner.

The IDI includes the following data on student loans and allowances:

- information collected by tertiary education providers on students, enrolments and courses
- information collected by the Ministry of Social Development on students’ borrowings under the loan scheme and their student allowance payments
- data on student loan balances, repayments, income and tax status from Inland Revenue.

The dataset has been updated with records to 31 March 2013.

**Definitions**

**Nominal dollars**

In this report, unless otherwise stated, all financial data is expressed in nominal dollars without adjustment for inflation.

**Ethnicity**

Statistics on ethnicity and ethnic groups are obtained from student declarations on enrolment and loan application forms. It should be borne in mind when using these statistics that declaration of ethnicity is not mandatory and where information is provided, students may choose to select more than one ethnicity.

**Terms**

Many of the terms used within the Student Loan Scheme and in this report are specific to the Scheme. Refer to the Glossary (Appendix 2) for specialised terms and their definitions to help with the accurate interpretation of this report.
CHAPTER 1

The loan scheme in the tertiary education system
1.0 Government priorities

The Tertiary Education Strategy (TES) describes the long-term strategic direction for tertiary education and the Government’s more immediate priorities for the next three to five years.

The most recent TES was published in March 2014 and sets out the Government’s six strategic priorities for tertiary education from 2014 to 2019. The strategy was developed to build on the positive achievements of the tertiary system, and to contribute to the Government’s focus on improving New Zealand’s economic outcomes, particularly in a period of increasing global competitiveness and technological innovation. The six strategic priorities are:

- delivering skills for industry
- getting at-risk young people into a career
- boosting achievement of Māori and Pasifika
- improving adult literacy and numeracy
- strengthening research-based institutions
- growing international linkages.

In 2012, the Government set targets—the Better Public Services targets—intended to ensure that the public sector can respond more effectively to the needs and expectations of New Zealanders. Two of the 10 targets relate to tertiary education:

Increase the proportion of 25-34 year olds with advanced trade qualifications, diplomas and degrees (in 2017, 55 percent of 25-34 year olds will have a qualification at level 4 or above).

Increase the proportion of 18 year olds with NCEA level 2 or equivalent qualification (in 2017, 85 percent of young people will have achieved NCEA Level 2 or an equivalent qualification).

A third target is central to the way the government agencies manage the loan scheme and their interactions with borrowers:

New Zealanders can complete their transactions with the Government easily in a digital environment.

Information in this chapter sets out how the tertiary funding and student support systems contribute to tertiary education goals through:

- supporting affordable, equitable access to quality, relevant tertiary education through tuition subsidies and student support, particularly student allowances and loans
- ensuring that students’ own financial contributions through fees are affordable, predictable and fair.

In this report, the term ‘student support’ is used to refer to the Student Loan Scheme and the Student Allowances Scheme which act together to provide financial assistance directly to students while studying. The two schemes are closely linked:

- The Student Loan Scheme provides full-time students with a weekly payment to help with their living expenses. The allowance paid is based on the financial and personal circumstances of the student and their family, making sure that those from a low income background are supported while studying. The assistance helps people in the initial years of their study and does not have to be repaid.

- The Student Loan Scheme provides funding for tuition fees as well as a contribution towards course-related costs and living costs for full-time students. The amount for living costs is calculated less any amount paid as an allowance. All amounts borrowed under the loan scheme have to be repaid. Section 3.1 gives details of the amounts paid as allowances and the living costs borrowed.

The Student Loan Scheme is currently available to New Zealanders who are enrolled in approved courses of study provided they meet eligibility criteria and performance conditions. For the eligibility criteria see Appendix 1.

1.1 Access and participation

The number of funded student places in tertiary education has more than doubled in the 22 years that the Student Loan Scheme has been in existence. Student support has helped maintain the affordability of tertiary education for students, and helped our tertiary education system to become more diverse, inclusive and accessible.

Figure 1 shows student numbers, equivalent full-time student numbers, and the rate of participation in tertiary education from 1994 to 2013.

1 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 enroll for.
declined slightly to 2013, confirming that much of the reduction in student numbers from 2005 has been in part-time enrolments. These changes have taken place against a background of a stronger labour market since 2010 which has influenced student’s decisions on whether to study or not.

Table 1 gives details of participation of domestic students in tertiary education. The figures reflect the following changes in the sector:

- The overall participation rate in tertiary education was 10.3 percent in 2013, down from 10.5 percent in 2012. However, the participation rate for the 18-19 years age group increased to reach 49.2 percent.
- In 2013 there were 127,000 domestic students completing qualifications, a decrease of 0.6 percent from 2012 and the total number of students completing qualifications in the tertiary system was 144,000.

Table 1 Participation by domestic students in tertiary education

<table>
<thead>
<tr>
<th>Participation and completion</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation of domestic students in tertiary education</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number (000)</td>
<td>382</td>
<td>373</td>
<td>370</td>
</tr>
<tr>
<td>Rate (ages)</td>
<td>10.9%</td>
<td>10.5%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Rate (18-19 years old)</td>
<td>47.1%</td>
<td>48.5%</td>
<td>49.2%</td>
</tr>
<tr>
<td>Rate (20-24 years old)</td>
<td>32.5%</td>
<td>32.1%</td>
<td>31.5%</td>
</tr>
<tr>
<td>Rate – Male</td>
<td>12.3%</td>
<td>12.1%</td>
<td>11.9%</td>
</tr>
<tr>
<td>Rate – Female</td>
<td>9.0%</td>
<td>8.8%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Rate – Māori</td>
<td>15.0%</td>
<td>14.5%</td>
<td>14.7%</td>
</tr>
<tr>
<td>Rate – Pacifica</td>
<td>11.4%</td>
<td>11.3%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Rate – European</td>
<td>9.7%</td>
<td>9.5%</td>
<td>9.4%</td>
</tr>
<tr>
<td>Rate – Asian</td>
<td>10.2%</td>
<td>9.5%</td>
<td>9.1%</td>
</tr>
<tr>
<td>Domestic students completing qualifications</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-degree (000)</td>
<td>84</td>
<td>86</td>
<td>85</td>
</tr>
<tr>
<td>Bachelors (000)</td>
<td>28</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Postgraduate (000)</td>
<td>13</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Total (000)</td>
<td>124</td>
<td>128</td>
<td>127</td>
</tr>
</tbody>
</table>

Source: Ministry of Education.

Notes:
1. The ethnic group and gender participation rates have been age standardised to enable comparisons to be made over time. These rates have been age standardised based on the structure of the New Zealand population in 2013.
2. Students can complete qualifications at different levels in the same year, hence the sum of the three levels does not add to the total of students completing their qualifications in a given year.

Table 2 gives a summary of government funding for the tertiary sector. The figures in the table are on a cash expenditure basis. In 2013:

- The number of government-funded (student achievement component) equivalent full-time student (EFTS) places was 233,000, 0.8 percent lower than in 2011.
- The amount provided by the government through student loans was $1,511 million (in the 2013/14 financial year). This compares with expenditure of $542 million on student allowances and $2,297 million on tuition subsidies (student achievement component). Note that new lending is offset by repayments from borrowers.

1.2 Current issues

The student support system enables a wide range of people to access high-quality tertiary education, to gain qualifications, knowledge and skills to enhance the economic and social wellbeing of New Zealanders. The main challenge facing the system is ensuring that tertiary education remains affordable to students while managing the fiscal pressures this places on the Government.

Since Budget 2010—and in the context of the economic downturn—the Government has made several changes to focus expenditure on need, and to introduce incentives to improve the performance of the tertiary education sector. The changes also aim to reduce or eliminate borrowing that increases debt to students without providing value to the student in the form of significant increases in income. The funds released have been reallocated to priority areas in tertiary education such as the student achievement component funding of engineering, science and agriculture, in order to improve the overall quality of the tertiary education system.

Student allowances

Student allowances have been refocused to target those in their initial years of study and continue to support those from low socio-economic backgrounds. The Government has also looked at inconsistencies between the wider social assistance and tax systems and where opportunities may exist to improve the incentives to enter study. For example, a student allowance change to be implemented in 2015 will align the student support system for sole parents more closely with the benefit system. This will ensure that sole parents will receive the same amount of support as they would if they were on benefit (see section 1.3 below).
Student loans

The changes made to the scheme in 2013/14 aim to increase the likelihood that students who borrow from the scheme succeed in study and later in work, and are able to repay their loans. The changes will also help reduce the cost of lending by restricting eligibility to borrowers who are less likely to repay their student loans, or where the economic returns are likely to be low for the borrower and the Government.

For example, the scheme no longer allows for re-lending to those in default of their student loans and has introduced a performance test for continued borrowing. The scheme has also been changed to provide fees-free access to level 1 and 2 courses for 20-24 year old students to reduce their loan levels. The Government has also put in policies to speed up repayments from borrowers by suspending the inflation adjustments to the repayment threshold for domestic borrowers—see below.

An ongoing priority is to improve the collection of student loan repayments from overseas-based borrowers. These borrowers have much lower repayment compliance and slower repayment times than New Zealand-based borrowers (see Section 3.3). Recent initiatives have been designed to:

− increase borrowers’ awareness of their repayment obligations by ensuring that contact is maintained between borrowers and Inland Revenue by expanding tracing and collection activities (see Section 3.3), and using information matching and sharing arrangements between government agencies to follow up on those who cross the border or renew their passport.
− make it easier for overseas-based borrowers to repay their loans by providing several fee-free payment options.
− reduce repayment times for borrowers living overseas with recent adjustments to the overseas-based borrower repayment policy (see below).

Further information on the cost of lending can be found in Chapter 4. A full list of student support policy changes is also available on educationcounts.govt.nz

Information for students

Government agencies are also continuing to ensure that students and their families have information available so they:

− are financially prepared for tertiary study and are aware of their repayment obligations if they choose to take out a student loan
− make well-considered decisions about where and what they study
− can take the most direct path towards their qualification(s) to help minimise the costs of study for themselves and for government.

The Ministry of Social Development and Inland Revenue administer a web page that brings together all the information people need to know about taking out a student loan, www.studylink.govt.nz/student-loans/index.html. Inland Revenue has also updated the loan calculator on its website to help borrowers work out the time it will take to repay their loan, and how the loan can be repaid faster by making extra payments.

The Government recognises that students need to be aware of the benefits that study will provide in order to make an informed decision about what qualification is best for them. For this reason it is making information available to help students and their families make decisions about what field of study to pursue. Further information on these initiatives is in Chapter 2.

1.3 Changes in 2014

Student loan repayment threshold fixed

The Government has suspended Consumer Price Index (CPI) adjustments to the student loan repayment threshold (currently $19,084 p.a./$367 weekly) until 2017. The repayment threshold was set at $19,084 from 1 April 2009 and will remain at that level until the end of the 2016/17 tax year—31 March 2017.

Additional accommodation support for sole parents through student allowances

From July 2015, sole parents taking up full-time study will receive at least the same level of accommodation support from student support as they would from the benefit system. Currently they may receive up to $165 less per week. The change to accommodation support will apply for study starting on or after 1 July 2015.

The Government will also be amending the rules around child support which can be affected if sole parent students need a benefit during academic breaks.

Youth Guarantee and fees-free tertiary provision policies

Fees-free foundation level education focuses on improving the performance and value of foundation education. It aims to encourage more people to gain basic skills so that they can go on to study at higher levels and improve their employment prospects.

From 2014:

− the Youth Guarantee programme was widened to enable 18 and 19 year olds to access fees-free full-time study for foundation level qualifications
− Student Achievement Component (SAC) funded level 1 and 2 courses were made fees-free for 20-24 year olds. The initiative focuses on those who have previously not achieved a level 1 or 2 qualification, including beneficiaries referred by the Ministry of Social Development where level 1 and 2 study meets their needs.

These initiatives have benefits for students and the government in terms of reducing student loan costs:

− students who go on to study at higher levels will have smaller student loan balances than they would otherwise have had
− the cost of lending will be reduced for the few students who would otherwise accrue large loans for lower level study and whose income is insufficient for them to fully repay their loans.
Implementation of earlier decisions

The following initiatives came into effect on 1 April 2014, implementing Budget 2013 decisions:

— Overseas-based borrower repayment obligations—adjusted with the introduction of fixed repayment obligations and two new repayment thresholds. The fixed repayment obligation is set at no less than the borrower’s annual obligation from the time they become overseas-based. This obligation will remain until their loan is repaid. Two additional steps were added to overseas-based repayment obligations for borrowers with loan balances over $45,000. (See Appendix 1.)

— Information sharing between Inland Revenue and the Department of Internal Affairs—an ongoing information-sharing agreement between the agencies allows contact details from passport applications to be shared. This agreement applies to overseas-based borrowers who have not kept their contact information up to date or are in default.

— Arrest at the border for persistent defaulters—Inland Revenue can now obtain an arrest warrant to prevent an overseas-based borrower with significant amounts in default who is visiting New Zealand, from leaving the country, if the District Court is satisfied that they have committed the offence. This is similar to provisions that already exist under the Child Support Act.

Further details on these initiatives can be found at ird.govt.nz
CHAPTER 2

Outcomes
2.0 Introduction

The overall aim of the Student Loan Scheme is to enable a wide range of people to access high-quality tertiary education to gain qualifications, knowledge and skills that enhance the economic and social wellbeing of New Zealanders. The two primary outcomes sought from the scheme are:

- enhanced human capital and labour skills
- long-term affordability of the loan scheme for borrowers and taxpayers.

Human capital refers to the abilities and skills of an individual acquired through investment in education and training that enhance potential earning.

Figure 2 shows the outcomes of the scheme and identifies the indicators we monitor to assess whether it is achieving the desired outcomes.

**Figure 2 Outcomes of the Student Loan Scheme**

<table>
<thead>
<tr>
<th>Vision Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Student Loan Scheme aims to enable a wide range of people to access tertiary education, gaining knowledge and skills that enhance the economic and social wellbeing of New Zealand</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Primary Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhanced human capital and labour skills</td>
</tr>
<tr>
<td>A long-term affordable loan scheme for students and taxpayers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Immediate Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>More borrowers gain relevant qualifications that assist employment</td>
</tr>
<tr>
<td>More people have the opportunity to access tertiary education</td>
</tr>
<tr>
<td>Borrowers meet their repayment obligations of their own accord</td>
</tr>
<tr>
<td>Increased value and performance of the student loan asset</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>This will mean that...</th>
</tr>
</thead>
<tbody>
<tr>
<td>– students make better-informed study choices</td>
</tr>
<tr>
<td>– more borrowing is focussed towards quality high-level courses</td>
</tr>
<tr>
<td>– more graduates find relevant employment</td>
</tr>
<tr>
<td>– good information about career pathways, study options, and available support is more accessible</td>
</tr>
<tr>
<td>– more young people are engaged in education, training, or employment</td>
</tr>
<tr>
<td>– borrowers know and understand their repayment obligations</td>
</tr>
<tr>
<td>– borrowers maintain contact with Inland Revenue</td>
</tr>
<tr>
<td>– overall compliance increases</td>
</tr>
<tr>
<td>– future lending has better returns</td>
</tr>
<tr>
<td>– the return on the student loan asset improves</td>
</tr>
</tbody>
</table>

This chapter looks at the extent to which the loan scheme has succeeded in achieving these outcomes. It also explores evidence of any unintended outcomes. In doing so, we summarise the evidence for the longer-term effects of the scheme and we look at the trends that are set out in more detail in Chapter 3 of the report (which looks at borrowing and repayment trends) and Chapter 4 (which analyses the costs of the scheme).
2.1 Human capital and labour skills

Many economists measure gains in human capital by looking at people’s earnings, based on the reasoning that an employer pays for the value the worker creates. So if a group of people enjoy an earnings premium over another group, we take this as a sign that the first group has greater human capital than the second. In this section, we look at research that establishes how employers in New Zealand value people’s qualifications.

Statistics New Zealand’s Integrated Data Infrastructure dataset shows that employers pay a premium to those who have completed qualifications. For instance, on average, young people who complete a bachelor’s degree and go into the workforce earn more than 46 percent above the national median earnings, five years after graduation.2

A study of the premium paid by employers to recent young graduates shows a clear earnings advantage to those with qualifications, that this advantage emerges soon after graduation, and that it grows over time. Figure 3 shows the median and lower and upper quartile earnings for young New Zealand graduates in the first seven years after completing their qualification. The analysis focused on a subgroup of these graduates—referred to as ‘young graduates.’3 They represent the students who moved to tertiary education more or less directly from school and who were more likely to be completing their first period of tertiary education and entering the labour market for the first time. Education is likely to have more of a direct influence on earnings for young people than for older students, who perhaps already hold qualifications or have a number of years of work experience.

Figure 3 shows that the higher the qualification, the higher the expected earnings. It shows that five years after graduation:

- the median earnings of young bachelor’s degree graduates were 31 percent above those with a diploma and 45 percent above those with a level 1-3 certificate
- the median earnings of young master’s degree graduates were 15 percent higher than those who completed a bachelor’s degree, and 67 percent higher than a young level 1-3 certificate completer.

Using the data above and comparing the median earnings of young graduates with the national median earnings, we see that, five years after graduation:

- young graduates with a bachelor’s degree are 46 percent above the national median
- young people who have completed a level 1-3 certificate are slightly above the national median.

The Government has given greater priority to enrolments by younger people in higher-level qualifications because that is more effective in raising human capital.

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2 This figure is based on earnings for young domestic graduates in the 2011 and 2012 tax years relative to national median earnings for those aged between 15 and 64 years in the 2012 tax year. Earnings in the 2011 tax year are converted to 2012 dollars using the wages and salary component of the Labour Cost Index.

3 For the purposes of this study a ‘young graduate’ was defined as anyone aged 21 years or under who was studying at certificate level, 23 years or under at diploma level, 24 years or under for those who complete a three-year bachelor’s degree, with each year of additional study requirement adding a year to the age cut-off (e.g. a 26 years or under for medical degrees which are six years long), 26 years or under for anyone who was enrolled in a one-year post-bachelor qualification or graduate certificate or diploma, 27 years or under for masters, and 29 years or under for doctorate students.
The shift to higher-level qualifications

In 2013 there were nearly 245,600 domestic students enrolled in tertiary study, about 35 percent more than in 1999, but 3.7 percent below the peak in domestic enrolments in 2010. There was a decline of 10 percent in the number of New Zealanders enrolling in tertiary education at the certificate 1-3 level between 2006 and 2013, while the numbers enrolled at degree level and above rose by 20 percent, in equivalent full-time student terms. This change reflects a deliberate shift in the Government’s priorities for the system—towards a higher proportion of enrolments by younger people in higher-level qualifications.

As enrolments in tertiary education have risen, so has the number of people completing tertiary qualifications. Data from Statistics New Zealand’s Household Labour Force Survey shows a steady rise in the number of people in New Zealand holding tertiary qualifications, especially at degree level. In 2013, 50 percent of New Zealanders aged 15 years or older held a tertiary qualification, up from 44 percent in 1999, while the proportion with a bachelors degree or higher qualification rose from 10 percent to 20 percent.

The shift to enrolments in higher-level qualifications is also reflected in the data on student loan uptake. In 2006, 56 percent of borrowers were enrolled in qualifications at bachelors level or higher. By 2013, the proportion had risen to 66 percent. Over the same period, the proportion of borrowers enrolled in certificates had fallen from 30 percent to 22 percent. The trends are illustrated in Figure 4.

Figure 4 Trends in the level of study among Student Loan Scheme borrowers

The shift to more enrolments by younger people

The greatest gain in human capital from education comes from the education of younger people. This is partly because younger people have a longer period in the workforce following their education. It also reflects the fact that young people have had less time to acquire learning in the workforce. The trend towards enrolment in higher-level qualifications has been complemented by the trend towards a higher proportion of enrolments by younger people. This too is reflected in loan data. Between 2006 and 2013, there was a rise of 29 percent in the number of borrowers aged 26 or younger. The proportion of borrowers in that age group increased from 70 to 72 percent in 2013.

Figure 5 Trends in the age profile of Student Loan Scheme borrowers

Information to help study and career decisions

A wide range of information or guidance services are available for potential students to access to help them determine the benefits and nature of tertiary study that suits them. In addition to career information and advisory services provided by schools and tertiary organisations, information is available from Careers NZ, the Ministry of Business, Innovation and Employment, the Tertiary Education Commission and other agencies.

Reliable information on the outcomes of tertiary education is important for learners to make informed tertiary education decisions. This information enables them to assess the likely value of available tertiary education options. There are a number of projects underway across agencies focused on improving the quality and availability of information to support informed decisions (see Table 3).

---

4 Equivalent full-time student (EFTS) units.
### 2.2 Affordability for borrowers and taxpayers

#### Sharing the costs of tertiary education

##### The shared benefits of education

Tertiary education has many benefits for individuals, society and the economy. The discussion in the previous section shows that people who gain higher qualifications have higher earnings on average. That advantage in earnings benefits the individual, but also suggests that the individual is making a greater contribution to the economy.

In addition to the economic benefits of education, there is also a range of non-economic benefits associated with having a higher qualification. Research shows that success in education is associated with a higher quality of life, better health and other benefits for individuals. It also lifts social cohesion and reduces the proportion of the population who are dependent on support from the public through the health system and other social services. The benefits of education are shared between the person who gains a qualification and society at large.

##### Sharing the costs

Since tertiary education benefits both individuals, society and the economy in many ways, it is appropriate that costs are shared. The loan scheme has enabled the government to share costs with students and their families, helping to provide funding for more places in tertiary education organisations. Without shared funding, the government would have to reduce the number of places it funds and many providers would need to further limit entry to programmes.

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 policies restricting fee increases, this figure was 29 percent in 2013.

While the government’s share was nominally 71 percent in 2013, in practice it is larger. This is because much of the student share is met by ‘discounted’ interest-free borrowing through the Student Loan Scheme to pay compulsory fees, creating an implicit government subsidy. The government’s share rises to around 80 percent after taking the implicit subsidy into account.

#### The costs of the loan scheme to students

There are four ways of assessing the cost of tertiary education to students:

- the level of tertiary education fees compared with the level of earnings in the labour market
- the size of people’s loans when they leave tertiary education
- the amounts people repay on their loans
- the time it takes to repay loans.
The first measure is assessed by means of a proxy for the level of tuition fees over the 22-year life of the Student Loan Scheme, using the average fee for a Bachelor of Arts degree at a New Zealand university. Figure 6 traces the trend in the affordability of tertiary education. We calculate how many weeks it takes for a person with an average income to earn the average full-time university Bachelor of Arts fee.

**Figure 6** Ratio of the average full-time university Bachelor of Arts fee to average weekly earnings


Notes:
1. Excludes fees at AUT and Lincoln University.
2. Average ordinary time weekly earnings for a full-time equivalent employee are derived from the June quarter of the Quarterly Employment Survey.

Figure 6 shows that fees rose sharply during the 1990s as the loan scheme was phased in and as the government transferred a greater share of the cost of tertiary education to students and their families. By 2000, it took 6.1 weeks for the average earner to earn a full-time, full-year BA fee. Between 2001 and 2003, fees were frozen while earnings rose, so the number of weeks needed to earn the BA fee fell to 5.5. Under the fee and course costs maxima policy between 2004 and 2009, the real cost of study was stable. Since 2010, fee stabilisation has operated under the annual maximum fee movement (AMFM) policy, while earnings growth has been constrained in response to the tight fiscal environment. These two factors have seen a small, gradual increase in the number of weeks of earnings required to meet the full-time BA fee cost—from 5.5 weeks in 2009, to 5.9 weeks in 2013.

The median size of loans on 30 June 2014 was $13,882, 4.3 percent up on the previous year. About 38 percent of borrowers had a loan balance of $10,000 or less, compared to 40 percent the year before.

Figure 6 illustrates that the median loan size on leaving study from 2000 to 2011. Between 2001 and 2011, the median rose by 43 percent. When we account for inflation in this period, the change in the size of the leaving loan balance amounts to an increase of 9.4 percent.

**Figure 7** Median loan balance on leaving study 2000–2011

Source: Statistics New Zealand, Integrated Dataset on Student Loans and Allowances, and IDI. Note: This graph shows data only to 2011 as we cannot be sure if a borrower is likely to have left study until they have had no enrolment for two years.

Repayments from borrowers in New Zealand depend on income. The New Zealand Student Loan Scheme is an income-contingent scheme, under which people with low incomes are not required to make repayments, while for those above the repayment threshold, the repayments increase as a person’s income goes up, so that those with the highest incomes make the largest repayments. The repayment threshold has been held at $19,084 from April 2009 and will remain at that level until March 2017.

As borrowers’ incomes have risen, they have paid slightly more of their income to repay their loans. The repayment obligation was raised in 2013 from 10 cents in each dollar of income above the repayment threshold to 12 cents in the dollar. This increase will have the effect of bringing repayments forward.

For borrowers in New Zealand, loans are interest-free. Therefore borrowers have the benefit of the ‘time value of money’. This means that, over time, the value of the money on loan is gradually eroded so that the value of the repayments being made is less than the value of the money borrowed.

Repayment times are moderate for those who remain in New Zealand after completing study. Figure 8 gives the forecast median repayment times for borrowers who left study in 2011.

**Figure 8** Forecast median repayment times in years for those who left study in 2011

Cost of the loan scheme to the government

The Student Loan Scheme is a significant financial asset. The cost of the scheme depends on the amount of money lent and on the cost of lending each dollar. These in turn depend on a range of factors which are discussed below.

Volume of lending

The demand for tertiary education and the policies that the government uses to manage demand, affect the volume of borrowing. For instance, the government’s approach to tuition fees has a bearing on the amount of money each borrower draws from the scheme: the regulation of fees through the AMFM policy and new policies on fees for foundation-level qualifications constrain the amount of lending.

The government also sets policies that limit access to borrowing, such as the academic performance requirements that must be met if a student is to retain the right to borrow and the ‘stand-down’ period, during which new permanent residents may not borrow. These place a volume constraint on the amount of money lent.

The cost of lending

The cost of lending is affected by lending policies and by economic factors such as interest rates and changes in incomes and employment.

The most important cost is the time value of money—effectively a discount—that must be applied to new loans, partly because loans for New Zealand-based borrowers are interest free. The repayment of loans is also conditional on income being above a threshold and therefore some loans may never be repaid. Loans are also written off if a borrower dies or is declared bankrupt. These policies have a significant effect on the overall costs that make up the discount factors applied to new loans.

The economic environment determines the discount rate used to calculate the time value of money, as well as influencing borrowers’ ability to repay. If incomes are rising and/or unemployment is falling, repayments increase, but in a period of high unemployment or low earnings growth, more people will have low incomes, or be below the repayment threshold and will not be obliged to make repayments. Longer repayment times increase the costs of the loan scheme by adding to the time value of money.

The cost per dollar lent is the key measure of the cost of new loans. It has varied over time depending on the external economic factors described above—especially shifts in interest rates—and lending policies that affect the value of the loan scheme such as the forecast rate of repayment (see Figure 9).

The movements over recent years have reflected the relative importance of the external and internal pressures that have influenced lending costs at the time. These are discussed in detail in Section 4.1 of this report.

![Figure 9 Cost of lending in cents per dollar lent, 2008 to 2014](image-url)
2.3 Unintended outcomes

The Student Loan Scheme is a targeted scheme with income-contingent repayments. This means that there will be some people who might not be able to repay for a variety of reasons—for example, they leave the labour force because of illness, or disability, or because they devote themselves to unpaid work. However, it is desirable that most borrowers are able to repay their loans within a reasonable timeframe.

A number of recent initiatives are expected to help reduce the numbers who never repay. These include introducing a performance requirement for students to retain loan eligibility, an annual and life-time borrowing limit, adjusting overseas-based borrower repayment obligations and improved collection performance by Inland Revenue. In addition, the Youth Guarantee and fees-free tertiary provision policies will help reduce student loan costs for people who undertake lower-level study and whose income when they leave study may not have been enough for them to fully repay their student loans.

Are borrowers left with large debts for many years?

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 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 was a fall-off in voluntary additional repayments after the introduction of interest-free loans.

Borrowers who remain in New Zealand have shorter repayment times than is often thought. Half of those who left study in 2011 and are staying in New Zealand until repayment will have managed to settle their loan in under six years, while three-quarters repay in just over nine years. But borrowers who spend time outside of the country will have much longer repayment times. Based on forecasts for 2011 leavers, their median repayment time will be about 15 years.

Other unintended outcomes

Some surveys have concluded that students may be encouraged to go overseas after their studies and their student loans deter them from returning. It has been claimed their loans may discourage home ownership or cause them to delay having children.

The effects of loans on trends in childbearing, overseas travel and home ownership are difficult to trace. However, the available research indicates that there is no statistical evidence that the presence of income-contingent loans causes adverse effects in these areas. For a review of this research refer to last year’s annual report.

2.4 Summary

The New Zealand tertiary education system is successfully building the skill level of New Zealanders. This is reflected in tertiary enrolments and completion of tertiary qualifications. The Student Loan Scheme enables more people to gain access to higher education, although current student numbers have declined from the peak reached in 2010. The change in government priorities has brought about a shift within the tertiary education system towards more people studying full-time towards higher-level qualifications, and fewer enrolments at certificate 1-3 level.

Succeeding in tertiary education has benefits for individuals as well as for society and the economy. It is appropriate therefore, that the costs are shared. The cost of tertiary education for both Government and students has been increasing, especially as a result of the interest-free policy, which has shifted a greater share of the cost to the government from 2006 onwards. Policy changes have been made to improve the value and performance of the student loan asset, particularly to better manage the cost of new lending and to address non-compliance of overseas-based borrowers.

5 O’Connell, K (2005) Doctors and debt—the effect of student debt on New Zealand’s doctors, New Zealand Union of Students’ Associations, New Zealand Medical Students’ Association and New Zealand Medical Association.
CHAPTER 3

The state of play – how the scheme is working
3.0 Introduction

This chapter has information about:

- borrowing in 2013
- borrowers and their loan balances
- repayment performance
- forecast repayment times for different groups of borrowers.

To distinguish between the borrower population taking up loans and those who are repaying, the following terms are used:

- ‘active borrowers’ are those currently borrowing from the scheme—they will either be studying for the first time in 2013, or continuing with their study
- ‘active repayers’ distinguishes borrowers who have made at least one repayment in the financial year from borrowers who have not made any repayments.

In 2013, the following trends can be seen in the borrowing and repayment data set out in this chapter:

- since 2010 there has been a continuing decline in the number of active borrowers, but the average amount borrowed has gone up
- while there was a slight increase in uptake by full-time students, there was a marked decline in loan uptake by part-time students
- the number of borrowers enrolled in higher-level studies such as doctorates or masters was about the same—borrower numbers at all other qualification levels fell
- repayments in 2013/14 were about the same as the previous year, however compared to 2011/12, the result for:
  - 2012/13 was higher because of the ‘spike’ in voluntary repayments because borrowers took advantage of the bonus before it ended in March 2013
  - 2013/14 was higher because of the increase in the repayment rate for New Zealand-based borrowers—going up from 10 to 12 cents per dollar.

A number of other background factors also contributed to the loan borrowing and repayment trends in 2013. These factors are identified in the following sections and include:

- changes in the type of tertiary study undertaken (for example, enrolments by level and study load)
- eligibility and repayment policy changes (for example, removing course-related costs for part-time, part-year study, replacing the three-year repayment holiday for overseas-based borrowers with a one-year application-based repayment holiday)
- the recovery of the labour market since the recession of 2008
- changing demographic patterns (that is, the progression of the ‘birth bubble’ through the tertiary education system).

We expect these factors to continue having an effect in future years.

Note that information about students borrowing in 2013 refers to the academic year, whereas the remainder of the chapter has information based on the financial year from July 2013 to June 2014.

3.1 Borrowing in 2013

Borrowing profile

Figure 11 shows the borrowing profile for the 744,000 borrowers in the scheme at the end of the 2013 calendar year. This section of the report focuses on the current borrowing population of 193,000 students.

Figure 11 Number of borrowers in 2013

<table>
<thead>
<tr>
<th>First-time borrowers</th>
<th>Subsequent years</th>
</tr>
</thead>
<tbody>
<tr>
<td>50,000</td>
<td>143,000</td>
</tr>
<tr>
<td>551,000</td>
<td></td>
</tr>
</tbody>
</table>

Source: Inland Revenue.

Note: Data for active borrowers is for the 2013 calendar year. The number of inactive borrowers is an estimate based on the total number of loan accounts at 31 December 2013. All numbers have been rounded.

Uptake in 2013

Since the scheme began, about 1,209,000 people have taken out a student loan. This represents about 33 percent of the New Zealand population aged 15 years or over. In 2013, 192,257 students borrowed under the loan scheme. This was a decrease of 4 percent on the 201,187 borrowers in 2012.

The fall in the number of new borrowers is consistent with the reduction in the number of people participating in tertiary education in 2013. The decline is due to the strengthening of the labour market and the demographic impact of the ‘birth bubble’ on the youth population over time. Policy changes in Budgets 2009 and 2010—especially the introduction of an academic performance requirement on borrowers, changes to eligibility rules for New Zealand permanent residents, and changes to the entitlements for part-time students—also had the effect of reducing eligibility to borrow from the scheme.

In 2013, student loan borrowers represented about 5.5 percent of the estimated population living in New Zealand aged 15 and over. Figure 12 shows the growth in active borrower numbers and in the number of new active borrowers since 1992.
Figure 12 Number of active borrowers and new active borrowers in each academic year

![Graph showing number of active borrowers and new active borrowers](image)

Source: Ministry of Social Development. Statistics New Zealand, integrated dataset.

Note: 2013 data on new active borrowers was provided by the Ministry of Social Development and is provisional. A dot is used to distinguish this data from data provided by Statistics New Zealand from the integrated dataset, which does not yet include 2013 data. The two sets of data are derived from different datasets and therefore are not directly comparable.

Figure 13 Student loan uptake rates

![Graph showing student loan uptake rates](image)

Source: Ministry of Social Development and Ministry of Education.

Note: Overall uptake rate reflects the mix of full-time and part-time borrowers.

Figure 13 presents the proportion of students eligible to borrow who do so. In 2013, the overall uptake rate was 74 percent of eligible students. This is an increase on the 73 percent uptake in 2012. In 2007, the overall uptake was 66 percent, compared with 65 percent in 2006. Rises in uptake rates are partly a consequence of changes to loan policy, but also reflect economic conditions. There was an increase in uptake in 2000 and 2001 after the introduction of no interest while studying. Further increases from 2006 onwards were a result of the interest-free loan policy, with additional rises as the economy went into recession in 2008 and a rise in tertiary enrolments.

While the rate of full-time eligible students accessing the loan scheme rose from 74 percent in 2007 to 84 percent in 2013, there has been a decrease since 2011 in the uptake rates of part-time students (from 50 percent in 2011 to 42 percent in 2013). The policy introduced from 1 January 2012 that meant part-time, full-year students could no longer borrow for course-related costs, was a contributing factor. This appears to have discouraged some part-time students from borrowing.

Figures 14 and 15 present the number of active borrowers by study status from 2000 to 2013.

Figure 14 Number of active borrowers with full-time study status

![Graph showing number of active borrowers with full-time study status](image)

Source: Ministry of Social Development.

Full-time

Figure 14 shows that full-time, part-year active borrowers remained comparatively stable from 2000 to 2013. In 2013, full-time, part-year active borrowers decreased by 13 percent or nearly 3,200 active borrowers.

Full-time, full-year active borrower numbers steadily increased from 2005 to 2008. This was most likely a result of the introduction of the interest-free student loan policy in 2006. In 2009 and 2010, there was a sharp rise in borrowing by full-time, full-year active borrowers. Although this rise is a result of the continued impact of the interest-free student loan policy, it can also be attributed to an overall increase in enrolments—especially in full-time enrolments—leading to greater demand for loans.

Since 2011 however, there has been a reversal of this trend with fewer full-time, full-year borrowers, while full-time, part-year borrowers continued to increase. This reflects fewer students entering study post-recession, as people are returning to the workforce. In 2013, there was a significant decrease in full-time, full-year active borrowers—2.5 percent or 3,400 borrowers.

Part-time

Figure 15 indicates that there was a steady rise in part-time, full-year borrowers, with a 58 percent increase between 2002 and 2010. In 2012, however, there was a significant drop (of 23 percent) to the levels seen in 2005 to 2007. In 2013, this trend continued, with a further drop of 8 percent. This reflects a move away from part-time enrolments and may also be due to part-time borrowers returning to the workforce as the labour market recovers. The number of part-time, part-year borrowers has shown a steady increase over the decade, except in 2012, when it decreased by 19 percent or 1,969 borrowers.

In Budget 2011, the Government announced that it would remove the eligibility of part-time students for course-related costs from 1 January 2012.
Amounts borrowed

Total borrowing

Since 1992, students have borrowed a total of $20,119 million\(^6\). The total amount borrowed and the number of borrowers each year, are shown in Figure 16. As the loan scheme developed and enrolments in tertiary education increased during the 1990s, the total amount borrowed per year grew significantly as a consequence of the steady rise in fees. In 1999, the amount that could be borrowed for course-related costs was reduced, leading to a fall in total borrowing that year. The following year, that reduction was reversed, which contributed to a rise in total borrowing by 39 percent between 1999 and 2000 (from $537 million to $744 million).

From 2001 to 2005, the aggregate amount borrowed was relatively stable. There are three main reasons for this:

- The controls on fees since 2001 meant that fees, the largest component of borrowing, stabilised.
- Enrolment growth began to slow.
- Although there was an increase in enrolments by part-time students, they have lower entitlements and are therefore more likely to finance their studies privately.

In 2006, the introduction of interest-free student loans for New Zealand-based borrowers contributed to an increase in the number of active borrowers. From 2005 to 2006, the number of borrowers increased by 8.4 percent and the amount borrowed by 12 percent. Increased levels of enrolment in tertiary education in 2009 resulted in a significant rise in the number of students borrowing. The total number of active borrowers rose from 198,738 in 2009 to 212,485 in 2010, an increase of 7 percent. In 2011, the number of borrowers in the scheme fell for the first time since 2005; 207,330 students borrowed a total of $1,471 million from the loan scheme, reflecting a reduction in tertiary education enrolments. In 2013, the number of active borrowers fell by 4.4 percent; 192,257 students borrowed $1,599 million.

Average and median borrowing

Figure 17 illustrates the average amount borrowed from 1992 to 2013 and the median amount borrowed from 2000 to 2013. The average amount borrowed showed a steady increase between 1992 and 1998, in part reflecting increases in student fees. As a result of a decrease in the maximum course-related costs entitlement from $1,000 in 1998 to $500 in 1999, and of other changes that restricted the purposes for which finance from the loan scheme could be used, there was a decrease in average borrowing in 1999. Average borrowing increased again in 2000, when some of the changes made in 1999 were rescinded (notably the reduction in course-related costs entitlement and the removal of the right to borrow compulsory student services levies and students’ association fees).

The fee stabilisation policy implemented in 2001 meant that tuition fees charged by most tertiary education providers remained stable between 2001 and 2003. From 2004, fees were regulated by the fee and course costs maxima policy and since 2010 by the annual maximum fee movement policy. Under these policies, providers are permitted to increase fees, but only within limits. The introduction of interest-free student loans in 2006 and some growth in fees have contributed to a gradual increase in both the average and median amounts borrowed since 2005.

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\(^6\) Net of refunds to StudyLink.
In 2013, the average amount borrowed was $8,315, an increase of 6.3 percent ($493) on the previous year. This compares with an increase of 2.5 percent ($493) from 2010 to 2011 and 4.4 percent ($507) from 2009 to 2010. The median amount borrowed in 2013 was $7,441, an increase of 6.5 percent ($453) on 2012. Both in 2012 and 2013 the rise in borrowing was mainly due to fee increases.

Loans by component
As noted above, the overall uptake rate in 2013 was 74 percent of eligible students. Most borrowers use the loan scheme to pay for the compulsory fees charged by the tertiary education provider. Since the beginning of 2007, fees can only be borrowed for government-funded courses. Students can also borrow for living costs and up to $1,000 for course-related costs.

In 2013:
— 94 percent borrowed to pay fees
— 64 percent borrowed to help meet course-related costs
— 54 percent borrowed towards meeting their living costs
— 24 percent borrowed to pay fees only.

Amounts drawn by component as a percentage of total borrowing are as follows:
— From 2000 to 2012, the total amount drawn to pay for fees has been 62 percent of all money drawn from the loan scheme. In 2013, $1,057 million was used to pay for fees; this amounted to 66 percent of the amount drawn in 2013.
— Money used to pay for course-related costs was 7.6 percent of all money drawn in 2013.
— Money used to pay for living costs was 25.6 percent of all money drawn in 2013.

The proportion of money drawn to pay for fees increased largely because entitlements were not frozen for fees but the entitlement for course-related costs was frozen, and living costs entitlements were frozen until 2008, with increases at the rate of inflation since 2009.

The average amount borrowed for living costs increased by 5 percent in 2013. This was probably due to the reduction of access to student allowances. As the recovery from the recession of 2008 took place, family incomes rose, meaning many students lost all or some of their student allowance entitlement, resulting in their borrowing more.

In 2013:
— 45 percent of people receiving student allowances used the loan scheme to supplement their living costs. This is an increase compared with 41 percent in 2012.
— 20 percent of all borrowers borrowed for living costs under the loan scheme and also received student allowances. In 2012, this group was 20 percent of all borrowers.

Table 4: Average and median amounts borrowed by component

<table>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Average</td>
<td>4,051</td>
<td>4,253</td>
<td>4,408</td>
<td>4,576</td>
<td>4,743</td>
<td>4,766</td>
<td>5,076</td>
<td>5,441</td>
<td>5,571</td>
<td>5,850</td>
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<td>Median</td>
<td>3,906</td>
<td>4,068</td>
<td>4,230</td>
<td>4,455</td>
<td>4,618</td>
<td>4,744</td>
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<td>5,422</td>
<td>5,666</td>
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<td>Living costs ($)</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Average</td>
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<td>3,847</td>
<td>3,871</td>
<td>3,875</td>
<td>3,815</td>
<td>3,832</td>
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<td>4,256</td>
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<td>3,851</td>
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<td>Course-related costs ($)</td>
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<td>987</td>
<td>992</td>
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</tr>
<tr>
<td>Median</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

Source: Ministry of Social Development.
Table 5 presents the number of living costs borrowers and recipients of student allowances, and the average living costs and allowances received in 2013.

**Table 5** Student allowances compared with student loan living costs borrowings in 2013

<table>
<thead>
<tr>
<th></th>
<th>Number of students receiving living support</th>
<th>Average allowances</th>
<th>Average living costs loan</th>
<th>Average allowances and living costs loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student allowances only</td>
<td>47,210</td>
<td>$2,293</td>
<td>–</td>
<td>$2,293</td>
</tr>
<tr>
<td>Student allowances and living costs loan</td>
<td>37,889</td>
<td>$6,007</td>
<td>$1,955</td>
<td>$7,962</td>
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<tr>
<td>Living costs loan only</td>
<td>65,741</td>
<td>–</td>
<td>$5,091</td>
<td>$5,091</td>
</tr>
</tbody>
</table>

Source: Ministry of Social Development.

The number of students borrowing a living cost loan and/or receiving student allowances is illustrated by Figure 19. There was a declining trend in the number of students borrowing living costs and/or receiving student allowances from 2004 to 2005. However, after 2005 there was a steady increase, with a sharp rise in 2010.

The significant increase in the number of students receiving a student allowance in 2009 was a result of three factors:

— the reduction in the age limit for parental income testing to establish eligibility for an allowance from 25 to 24 years
— the 10 percent increase in the parental income threshold for student allowances
— the economic downturn that resulted in higher unemployment and lower family incomes.

In 2013, the number of borrowers fell again from the 2005 level. This is largely because the gradual recovery from the economic downturn has encouraged students to return to the workforce.

In 2013:

— 150,840 students either borrowed the student loan living costs component, or received student allowances, or both, a 5 percent fall from the 2012 level (7,353 fewer students).
— 47,210 students received student allowances only, a fall of 21 percent, or 9,935 fewer recipients, from the 2012 level, because of changes in eligibility rules for allowances and the effect of improving economic conditions—this meant that fewer students qualified for full student allowances.
— 37,889 students received student allowances and also borrowed living costs, a decrease of 5 percent, or 1,874 students, over the 2012 level.
— 65,741 students borrowed living costs only, an increase of 7 percent from 2012, or 4,456 additional borrowers.

**Figure 19** Living cost support for students—students borrowing living costs and receiving student allowances

Source: Ministry of Social Development and Ministry of Education.

**Provider type**

Table 6 shows the number of students who borrowed course fees from 2009 to 2013, categorised by provider type and the proportion they represent out of all students borrowing course fees. Overall, there has been little change in the composition of borrowers over the past four years, with students attending universities consistently representing the greatest proportion of course fee borrowers. There has been a slight, steady decline in the proportion of borrowers from private training establishments.

The average course fees borrowed by provider type are shown in Figure 20. Universities and private training establishments had a year-on-year increase in the average course fees borrowed. Universities recorded an increase of 5.5 percent ($330) in fees borrowed, as the balance of enrolments shifted to qualifications with higher fees and as fees increased. Polytechnic students’ average fee borrowings rose by 2 percent ($89). The average course fees borrowed increased by 5.6 percent ($335) for students at private training establishments and increased by 3.5 percent ($111) for wānanga students.

**Figure 20** Average course fees borrowed by provider type

Source: Ministry of Social Development.

Notes:
1. Colleges of education are now included with universities.
2. A student studying at more than one provider type has been counted in each provider type.
Table 6  Students who borrowed course fees by provider type

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>n</td>
<td>%</td>
<td>n</td>
<td>%</td>
<td>n</td>
</tr>
<tr>
<td>Universities</td>
<td>102,467</td>
<td>54</td>
<td>107,631</td>
<td>53</td>
<td>103,769</td>
</tr>
<tr>
<td>Institutes of technology and polytechnics</td>
<td>50,220</td>
<td>27</td>
<td>57,546</td>
<td>28</td>
<td>58,570</td>
</tr>
<tr>
<td>Private training establishments</td>
<td>33,879</td>
<td>18</td>
<td>33,837</td>
<td>17</td>
<td>31,593</td>
</tr>
<tr>
<td>Wānanga</td>
<td>2,795</td>
<td>1</td>
<td>3,205</td>
<td>2</td>
<td>3,309</td>
</tr>
<tr>
<td>Total</td>
<td>189,361</td>
<td>100</td>
<td>202,219</td>
<td>100</td>
<td>197,241</td>
</tr>
</tbody>
</table>

Source: Ministry of Social Development.

n = number of borrowers

Notes:
1. Students studying at more than one provider type have been counted in each provider type. As a result, the sum of the borrowers in this table will be greater than the total number of borrowers elsewhere in this report.
2. Universities include college of education students.
3. Percentages do not always add to 100 due to rounding.

Qualification level

Table 7 gives a breakdown of active borrower numbers and amount borrowed by the level of qualification. Overall there were 4.4 percent fewer borrowers in 2013. The largest decline has been in diplomas and certificates, which have been falling since 2010. However, the largest group—bachelors level—have increased consistently to 2012 and only fell slightly in 2013. The shift in borrower numbers reflected the enrolment trends in 2013.

Table 7  Student loan borrowers by level of qualification and average amounts borrowed

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctorsates</td>
<td>1,249</td>
<td>$5,850</td>
<td>1,310</td>
<td>$6,041</td>
<td>1,440</td>
<td>$6,755</td>
<td>1,546</td>
<td>$6,919</td>
<td>1,548</td>
<td>$7,117</td>
<td>1,573</td>
<td>$7,293</td>
<td>1,541</td>
<td>$8,542</td>
</tr>
<tr>
<td>Masters, honours, postgraduate certificates and postgraduate diplomas</td>
<td>10,800</td>
<td>$6,450</td>
<td>15,017</td>
<td>$6,908</td>
<td>18,127</td>
<td>$7,471</td>
<td>20,425</td>
<td>$8,099</td>
<td>19,930</td>
<td>$8,177</td>
<td>19,465</td>
<td>$8,627</td>
<td>19,295</td>
<td>$9,592</td>
</tr>
<tr>
<td>Diplomas</td>
<td>20,490</td>
<td>$6,527</td>
<td>25,944</td>
<td>$6,820</td>
<td>27,520</td>
<td>$7,006</td>
<td>28,618</td>
<td>$7,357</td>
<td>26,316</td>
<td>$8,174</td>
<td>24,936</td>
<td>$7,761</td>
<td>22,100</td>
<td>$7,898</td>
</tr>
<tr>
<td>Certificates</td>
<td>46,310</td>
<td>$5,618</td>
<td>49,596</td>
<td>$5,540</td>
<td>51,336</td>
<td>$5,661</td>
<td>54,320</td>
<td>$5,750</td>
<td>51,511</td>
<td>$5,754</td>
<td>46,440</td>
<td>$5,906</td>
<td>42,807</td>
<td>$6,204</td>
</tr>
<tr>
<td>Other</td>
<td>14,152</td>
<td>$7,161</td>
<td>1,290</td>
<td>$8,568</td>
<td>1,556</td>
<td>$6,050</td>
<td>871</td>
<td>$6,257</td>
<td>1,073</td>
<td>$6,349</td>
<td>276</td>
<td>$5,583</td>
<td>165</td>
<td>$4,137</td>
</tr>
<tr>
<td>Total</td>
<td>179,333</td>
<td>$6,792</td>
<td>184,089</td>
<td>$6,953</td>
<td>196,738</td>
<td>$6,991</td>
<td>212,485</td>
<td>$7,298</td>
<td>207,227</td>
<td>$7,633</td>
<td>201,187</td>
<td>$7,822</td>
<td>192,257</td>
<td>$8,315</td>
</tr>
</tbody>
</table>

Source: Ministry of Social Development. Qualification classifications from the Ministry of Education.

n = number of borrowers

Savg = average amount borrowed

Notes:
1. Some borrowers were enrolled in qualifications at more than one level.
2. This data is provisional.
3. Years are calendar years.
4. A small number of borrowers have not been assigned for any qualification level.
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such as the field of study, the provider attended, and the individual's pass rate. Male borrowers who studied bachelors-level
level. Figure 21 also tracks the loan balances of those who studied at this level in 2013. Between 2001 and 2011, the median leaving balance for men rose by 38.6 percent and for women by 53.8 percent. Adjusting for inflation over that period, these amounted to a rise of 6.0 percent and a rise of 17.7 percent respectively.

3.2 Loan balances

This section provides an analysis of loan balances and the characteristics of the borrower population as a whole.

Nominal value of balances

The nominal value of all loans was $14.2 billion at 30 June 2014. This is an increase of $673 million, or 5.0 percent, over the year, and a slightly larger increase than the previous year. The nominal value includes all borrower obligations—the loan principal outstanding, interest and late payment interest.

Over the reporting year, the total loan balances increased due to:

− lending made by StudyLink (including establishment fees)
− interest applied to loans held by overseas-based borrowers
− administration fees and late payment interest.

It was reduced by:

− payments received from borrowers
− bonuses for voluntary repayments (to March 2013)
− loans written off due to death or bankruptcy, or small balance write-offs.

The nominal value is the basis for other calculations such as the carrying value and average median balances. For details of the valuation of the portfolio, refer to Chapter 4 and to the financial statements for the scheme in Chapter 5.

The value of total nominal balances since 2003 is shown in Figure 22.

Source: Statistics New Zealand, Integrated Dataset and IDI.

Note: 2011 is the latest leaving cohort available.

Table 8 Demographic characteristics of active student loan borrowers

<table>
<thead>
<tr>
<th>New active borrowers7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
</tr>
</tbody>
</table>
The number of new active borrowers in 2013 was 51,732, falling by 5.7 percent from 54,836 in 2012. |
| Gender                |
| Female borrowers represented 56 percent of new active borrowers and outnumbered males by 6,222. The proportion of new active borrowers who were female was 55 percent in 2012 (female borrowers outnumbering males by 5,932). |
| Age                   |
| The average age of new active borrowers was 23 years in 2013 and the median was 19, the same as the previous year. The number of new active borrowers in the 27-50 age group decreased by 1,250 or 12.6 percent and for those over 50 it decreased by 302, or 19.5 percent, in 2013. |
| Ethnicity             |
| Of new active borrowers in 2013, 68 percent identified themselves as European, 24 percent as Māori, 14 percent as Asian and 13 percent as Pasifika. |

<table>
<thead>
<tr>
<th>Active borrowers overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender differences</td>
</tr>
<tr>
<td>In 2013, the number of female borrowers accessing the Student Loan Scheme was 112,981, compared with 79,276 males. The average amount borrowed by female borrowers increased by $319 or 7 percent (from $7,566 in 2012 to $8,085 in 2013). The average amount borrowed by male borrowers increased by $495 on average (an increase of 6 percent from $8,185 in 2012 to $8,644).</td>
</tr>
<tr>
<td>Age</td>
</tr>
<tr>
<td>Between 2012 and 2013, the number of active borrowers in the over-50 group fell from 6,313 to 5,336, a decrease of 15.5 percent. The 27-50 years demographic also fell, by 8.6 percent, from 53,648 borrowers in 2012 to 49,052 in 2013. The 20 and under age group also experienced a fall, down 2 percent, from 64,712 in 2012 to 63,361 in 2013. The 21-26 age group fell from 76,514 in 2012 to 74,508 in 2013, a decrease of 2.6 percent.</td>
</tr>
<tr>
<td>In 2013, 71.7 percent (137,869) of all active student loan borrowers were under the age of 27. Those borrowers aged 27 to 50 represented 25.5 percent of active borrowers, while the over-50 age group constituted just 2.8 percent of all active borrowers.</td>
</tr>
<tr>
<td>Ethnicity</td>
</tr>
<tr>
<td>In 2013, 56 percent of active borrowers identified themselves as European, 17 percent as Māori, 13 percent as Asian and 13 percent as Pasifika.</td>
</tr>
</tbody>
</table>

Further details on demographic characteristics of borrowers are available in the tables on the Education Counts website.

Leaving balances

Figure 21 gives the median leaving balances of male and female borrowers in the leaving cohorts from 1992 to 2011. Between 1999 and 2008, male borrowers left with larger median loan balances than females. However, since 2009 this trend has been reversed, with female borrowers’ balances at $14,070 and males at $13,830 in 2011.

The largest volume of borrowing has tended to be by students at bachelors level. Figure 21 also tracks the loan balances of those who studied at this level in 1997 and 2011. Male borrowers who studied bachelors-level qualifications leave their study with higher leaving loan balances than female borrowers. The level of the loan balance on leaving depends on many factors such as the field of study, the provider attended, and the individual’s pass rate.

<table>
<thead>
<tr>
<th>Figure 21 Median loan balances for leavers by gender—all borrowers and those who studied at bachelors level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
</tr>
<tr>
<td>$0</td>
</tr>
<tr>
<td>$10,000</td>
</tr>
<tr>
<td>$20,000</td>
</tr>
</tbody>
</table>

Notes:

7 Those entering the loan scheme for the first time in 2012.
8 The percentages of ethnicity are based on the new data from the IDI. It has a different definition of ethnicity from the previous reports. It no longer includes the Middle Eastern/Latin American/African category.
Total nominal balances have risen consistently over the period shown, as the total number of borrowers has grown. The increases in the last two years have been lower than the average of the previous eight years, because of higher repayments made over the last two years. Chapter 3.3 discusses changes in repayments in more detail.

Figure 23 shows the average and median values since 2004. The range of loan balances is shown in Table 9. Note that about two-thirds of all loans are under $20,000 and that less than one percent are over $100,000.

Table 9 Range of loan balances at 30 June 2014

<table>
<thead>
<tr>
<th>Balance range</th>
<th>Borrowers</th>
<th>%</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1-1,999</td>
<td>51,129</td>
<td>7.09</td>
<td>7.09</td>
</tr>
<tr>
<td>$2,000-3,999</td>
<td>54,621</td>
<td>7.57</td>
<td>14.66</td>
</tr>
<tr>
<td>$4,000-5,999</td>
<td>53,115</td>
<td>7.64</td>
<td>22.30</td>
</tr>
<tr>
<td>$6,000-7,999</td>
<td>63,838</td>
<td>8.85</td>
<td>31.15</td>
</tr>
<tr>
<td>$8,000-9,999</td>
<td>52,300</td>
<td>7.25</td>
<td>38.40</td>
</tr>
<tr>
<td>$10,000-14,999</td>
<td>104,381</td>
<td>14.47</td>
<td>52.86</td>
</tr>
<tr>
<td>$15,000-19,999</td>
<td>77,087</td>
<td>10.69</td>
<td>63.55</td>
</tr>
<tr>
<td>$20,000-24,999</td>
<td>62,717</td>
<td>8.69</td>
<td>72.24</td>
</tr>
<tr>
<td>$25,000-29,999</td>
<td>47,195</td>
<td>6.54</td>
<td>78.78</td>
</tr>
<tr>
<td>$30,000-34,999</td>
<td>36,162</td>
<td>5.01</td>
<td>83.80</td>
</tr>
<tr>
<td>$35,000-39,999</td>
<td>29,072</td>
<td>4.03</td>
<td>87.83</td>
</tr>
<tr>
<td>$40,000-44,999</td>
<td>20,781</td>
<td>2.88</td>
<td>90.71</td>
</tr>
<tr>
<td>$45,000-49,999</td>
<td>16,115</td>
<td>2.23</td>
<td>92.94</td>
</tr>
<tr>
<td>$50,000-54,999</td>
<td>12,587</td>
<td>1.74</td>
<td>94.69</td>
</tr>
<tr>
<td>$55,000-59,999</td>
<td>8,682</td>
<td>1.20</td>
<td>95.89</td>
</tr>
<tr>
<td>$60,000-64,999</td>
<td>18,115</td>
<td>2.51</td>
<td>98.40</td>
</tr>
<tr>
<td>$65,000-69,999</td>
<td>6,404</td>
<td>0.89</td>
<td>99.29</td>
</tr>
<tr>
<td>$70,000-74,999</td>
<td>2,763</td>
<td>0.38</td>
<td>99.67</td>
</tr>
<tr>
<td>$75,000-79,999</td>
<td>1,204</td>
<td>0.17</td>
<td>99.84</td>
</tr>
<tr>
<td>&gt; $139,999</td>
<td>1,169</td>
<td>0.16</td>
<td>100.00</td>
</tr>
<tr>
<td>Total</td>
<td>721,437</td>
<td>100.00</td>
<td></td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

Number of borrowers

At 30 June 2014 there were 721,437 student loan borrowers, compared to 710,968 last year—see Figure 24. The large increase between 2011 and 2012 was due to the changes made in the way loans are administered when the Student Loan Scheme Act 2012 took effect.

In April 2012 Inland Revenue received two intakes of information about loans. The first was a bulk transfer from StudyLink of all information for the 2011 academic year for borrowers who had drawn loans. This was the usual process for the period to April 2012. From April 2012 loan information was transferred to Inland Revenue on a daily basis. This resulted in Inland Revenue receiving records of borrowing for two academic years (2011 and 2012) in its system in 2012.
Figure 24 Number of borrowers at 30 June

Source: Inland Revenue administration data.

Table 10 Characteristics of student loan borrowers

<table>
<thead>
<tr>
<th>Ethnicity</th>
<th>% of borrowers</th>
<th>% of total loan balance</th>
<th>Forecast median repayment times</th>
</tr>
</thead>
<tbody>
<tr>
<td>European</td>
<td>56.9</td>
<td>60.8</td>
<td>6.7</td>
</tr>
<tr>
<td>Māori</td>
<td>22.0</td>
<td>18.9</td>
<td>8.2</td>
</tr>
<tr>
<td>Pasifika</td>
<td>10.7</td>
<td>10.4</td>
<td>8.2</td>
</tr>
<tr>
<td>Asian</td>
<td>12.3</td>
<td>13.9</td>
<td>7.9</td>
</tr>
<tr>
<td>Other</td>
<td>4.6</td>
<td>5.2</td>
<td>7.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gender</th>
<th>% of borrowers</th>
<th>% of total loan balance</th>
<th>Forecast median repayment times</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>42.1</td>
<td>44.3</td>
<td>7.1</td>
</tr>
<tr>
<td>Female</td>
<td>57.9</td>
<td>55.7</td>
<td>7.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Qualification</th>
<th>% of borrowers</th>
<th>% of total loan balance</th>
<th>Forecast median repayment times</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctorates</td>
<td>0.7</td>
<td>1.3</td>
<td>7.3</td>
</tr>
<tr>
<td>Masters</td>
<td>2.6</td>
<td>4.3</td>
<td>6.8</td>
</tr>
<tr>
<td>Honours/ Postgrad cert/dip</td>
<td>8.4</td>
<td>11.8</td>
<td>6.4</td>
</tr>
<tr>
<td>Bachelors</td>
<td>31.0</td>
<td>40.1</td>
<td>7.5</td>
</tr>
<tr>
<td>Diplomas</td>
<td>13.8</td>
<td>13.6</td>
<td>7.2</td>
</tr>
<tr>
<td>Level 4 Certificates</td>
<td>13.4</td>
<td>9.2</td>
<td>6.9</td>
</tr>
<tr>
<td>Level 1-3 Certificates</td>
<td>23.9</td>
<td>15.5</td>
<td>7.4</td>
</tr>
</tbody>
</table>

Source: Statistics New Zealand, IDI.

Notes:
1. The first two columns are for borrowers with a loan at 31 March 2013.
2. The third column has forecast repayment times (in years) for borrowers who left study in 2009 and had a loan at 31 March 2012. The third column therefore does not represent the same borrower population as the first two. Further forecast repayment times are in part 3.3 of this report.
3. Multiple response reporting has been used for ethnicity data and hence the percentages do not add to 100 percent.
4. Borrowers with unknown ethnicity or unknown level of qualification are not shown in the table. Totals do not add to 100 percent.

Figure 25 Borrowers at 30 June 2014 by age group

Source: Inland Revenue administration data.

Note: The graph gives data by single year of age from age 19 to age 65. Those aged greater than 65 are consolidated to a single bar. This accounts for the apparent ‘spike’ in the graph.

Summary of student loans at 30 June

Table 11 Borrower accounts and total nominal balances

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of borrowers</th>
<th>Nominal balances</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Borrowers based:</td>
<td>$ million</td>
</tr>
<tr>
<td></td>
<td>– in New Zealand</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>600,137</td>
<td>10,299</td>
</tr>
<tr>
<td>2013</td>
<td>603,965</td>
<td>10,678</td>
</tr>
<tr>
<td>2014</td>
<td>611,960</td>
<td>11,199</td>
</tr>
<tr>
<td></td>
<td>– overseas</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>101,095</td>
<td>2,670</td>
</tr>
<tr>
<td>2013</td>
<td>107,003</td>
<td>2,884</td>
</tr>
<tr>
<td>2014</td>
<td>109,477</td>
<td>3,036</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>701,232</td>
</tr>
<tr>
<td></td>
<td>710,968</td>
<td>13,562</td>
</tr>
<tr>
<td></td>
<td>721,437</td>
<td></td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

Table 12 Average and median value of loans

<table>
<thead>
<tr>
<th>Year</th>
<th>Borrowers based:</th>
<th>Average loan</th>
<th>Median loan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>– in New Zealand</td>
<td>$18,494</td>
<td>$19,731</td>
</tr>
<tr>
<td>2012</td>
<td>10,299</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>10,678</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>11,199</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>– overseas</td>
<td>$12,849</td>
<td>$13,882</td>
</tr>
<tr>
<td>2012</td>
<td>2,670</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>2,884</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>3,036</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>$12,969</td>
<td>$13,562</td>
</tr>
<tr>
<td></td>
<td>14,235</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.
3.3 Repayment performance

Repayments

Earlier in this report reference has been made to factors that affect loan repayment, such as:

− the size of the borrower group actively repaying loans
− legislative changes to repayment obligations
− the number of borrowers in New Zealand and those overseas
− economic conditions that influence incomes
− circumstances or events anticipated in the legislation such as having a low income, death or bankruptcy
− non-compliant behaviour by borrowers and the effectiveness of measures to improve compliance.

This section of the report deals with these factors in more detail. It also highlights the impact of major events such as the move to pay period repayment obligations and the change in the repayment rate for New Zealand-based borrowers.

Trends

In the year to June 2014, repayments were just over $1.0 billion, virtually unchanged from last year—see Table 13.

<table>
<thead>
<tr>
<th>Table 13 Loan repayments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>__________________________</td>
</tr>
<tr>
<td>PAYE</td>
</tr>
<tr>
<td>From borrower</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Payee change</td>
</tr>
<tr>
<td>From borrower</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

Although repayments were at about the same level over the two years, they were affected by different factors:

− In 2012/13 payments directly from borrowers experienced a temporary peak caused by the ending of the bonus on voluntary repayments. This is discussed further below.
− In 2013/14 the 24.9 percent increase in repayments through PAYE was due to the increase in the repayment rate from 10 to 12 cents in the dollar for New Zealand-based borrowers. The new rate came into effect in April 2013, so PAYE payments in the previous year were at the new rate in the last three months of the financial year. New Zealand-based borrowers who make direct payments to meet their repayment obligations also paid at the new rate. The change in the rate will have a continuing effect on repayments. Other changes to the scheme that have also had the effect of increasing repayments through PAYE are:
  − maintenance of the annual repayment threshold
  − the move to pay period repayment obligations for borrowers in New Zealand with salary or wage income, with increased use of the correct tax code and greater accuracy in the deductions being made
  − a slight increase in the income of borrowers, meaning that relatively more is collected compared to previous years.

Table 14 shows the payment received directly from borrowers. The most significant factor that affected direct repayments was the ending of the bonus on voluntary repayments in 2012/13, creating a ‘spike’ in that year. The move to pay period repayment obligations has decreased the amount paid directly by borrowers—for the 2012/13 tax year 96 percent of New Zealand-based borrowers had no end-of-year obligation requiring direct payment.

<table>
<thead>
<tr>
<th>Table 14 Analysis of repayments directly from borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Direct repayments</td>
</tr>
<tr>
<td>Overseas-based</td>
</tr>
<tr>
<td>New Zealand-based</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Annual % change</td>
</tr>
<tr>
<td>Overseas</td>
</tr>
<tr>
<td>New Zealand-based</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

However, the amount collected from direct repayments from borrowers in 2013/14 was 18 percent more than two years before in 2011/12. This was due to:

− increased repayments (from 10 to 12 cents per dollar over the repayment threshold) made by New Zealand-based borrowers who repay directly, for example, self-employed people
− an increase in the number of overseas-based borrowers who met their repayment obligations when they came off their automatic three-year repayment holiday
− an ongoing programme of work to collect overdue student loan debt from overseas-based borrowers
− increased communications and education activities
− increased publicity for student loan changes announced by Government, such as the arrest at border sanction.
Figure 25 Repayment profile for the 2012/13 tax year

New Zealand-based: 346,000
Overseas-based: 262,000
Actively repaying: 33,000
Not actively repaying: 74,000

Source: Inland Revenue administration data.

Most of the 262,000 New Zealand-based borrowers who are not actively repaying their loan have no repayment obligations. These include borrowers who are current students, those who have no income and those whose income is below the repayment threshold. Of the 74,000 overseas-based borrowers who are not actively repaying their loan, a small number are on a repayment holiday, while the rest are mostly those who are not meeting their repayment obligations.

Note that the analysis in Figure 25 is based on the definition of active repayment (that is, the borrower has made at least one payment during the tax year) and does not differentiate according to the size of the amounts repaid.

Voluntary repayment bonus

From April 2009 borrowers who made voluntary repayments over $500 above their repayment obligation received a 10 percent bonus. The removal of the bonus was announced in Budget 2012 and it came into effect on 31 March 2013, the end of the 2012/13 tax year. Table 15 shows data processed to 30 June 2014 for bonuses for the entire period in which the bonus applied.

The bonus can be recorded retrospectively to previous tax years, so payments are spread into appropriate tax years depending on the borrower’s tax situation.

Table 15 Repayment bonus payments processed to June 2014

<table>
<thead>
<tr>
<th></th>
<th>Number of borrowers</th>
<th>Voluntary repayments $ million</th>
<th>Bonus $ million</th>
<th>Average bonus $ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Periodic bonus</td>
<td>107,733</td>
<td>$376.52</td>
<td>$37.7</td>
<td>$349.5</td>
</tr>
<tr>
<td>Finalising bonus</td>
<td>43,683</td>
<td>$467.98</td>
<td>$46.8</td>
<td>$1,071.3</td>
</tr>
<tr>
<td>By tax year ending 31 March</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009/10</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NZB</td>
<td>24,199</td>
<td>$72.2</td>
<td>$7.2</td>
<td>$298.3</td>
</tr>
<tr>
<td>OBB</td>
<td>8,622</td>
<td>$60.3</td>
<td>$6.0</td>
<td>$698.9</td>
</tr>
<tr>
<td>Total</td>
<td>32,821</td>
<td>$132.5</td>
<td>$13.2</td>
<td>$403.6</td>
</tr>
<tr>
<td>2010/11</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NZB</td>
<td>27,356</td>
<td>$85.4</td>
<td>$8.5</td>
<td>$312.2</td>
</tr>
<tr>
<td>OBB</td>
<td>9,424</td>
<td>$61.1</td>
<td>$6.1</td>
<td>$648.4</td>
</tr>
<tr>
<td>Total</td>
<td>36,780</td>
<td>$146.5</td>
<td>$14.7</td>
<td>$398.3</td>
</tr>
<tr>
<td>2011/12</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NZB</td>
<td>29,387</td>
<td>$101.5</td>
<td>$10.2</td>
<td>$345.4</td>
</tr>
<tr>
<td>OBB</td>
<td>11,415</td>
<td>$79.6</td>
<td>$8.0</td>
<td>$697.6</td>
</tr>
<tr>
<td>Total</td>
<td>40,802</td>
<td>$181.1</td>
<td>$18.1</td>
<td>$443.9</td>
</tr>
<tr>
<td>2012/13</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NZB</td>
<td>27,120</td>
<td>$250.0</td>
<td>$25.0</td>
<td>$921.7</td>
</tr>
<tr>
<td>OBB</td>
<td>13,893</td>
<td>$134.5</td>
<td>$13.4</td>
<td>$967.9</td>
</tr>
<tr>
<td>Total</td>
<td>41,013</td>
<td>$384.4</td>
<td>$38.4</td>
<td>$937.3</td>
</tr>
<tr>
<td>NZB – total</td>
<td>108,062</td>
<td>$509.0</td>
<td>$50.9</td>
<td>$471.1</td>
</tr>
<tr>
<td>OBB – total</td>
<td>43,354</td>
<td>$335.5</td>
<td>$33.5</td>
<td>$773.8</td>
</tr>
<tr>
<td>Total</td>
<td>151,416</td>
<td>$844.5</td>
<td>$84.5</td>
<td>$557.7</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

Notes:

Periodic bonus = bonus applied at the end of the tax year/pay period.
Finalising bonus = bonus applied at the time of a loan being fully repaid.
NZB = New Zealand-based borrower.
OBB = overseas-based borrower.

Loans fully repaid

Loans that are fully repaid, or ‘finalised’, can be backdated to previous years. There is often a time lag of about two years before definitive data on fully repaid loans becomes available. At the time this report was produced, over 415,000 borrowers had repaid their loan since the scheme began and Inland Revenue had collected a total of $9,157 million in repayments. In the year to June 2013, 41,580 borrowers repaid their loans in full.

Figure 26 shows the number of loans repaid in full since 2003. The dip in loans fully repaid in 2006 and 2007 is most likely due to the introduction of interest-free loans, which resulted in reduced voluntary repayments. The increase in repayments from 2008 reflects more recent policy and administration changes such as better management of collections by Inland Revenue leading to better compliance.

The high volume of loans paid in full for 2013 is attributed to increased repayments in the final year of the voluntary repayment bonus and increasing repayments through PAYE. Over the length of the bonus scheme, 43,000 borrowers received bonuses on fully repaying their loans.
Figure 26 Number of loans fully repaid at 30 June

![Graph showing number of loans fully repaid from 2004 to 2013.](image)

Source: Inland Revenue administration data

Note: Historical data can be changed because loans can be booked to previous tax years when they are repaid.

**Write-off due to death or bankruptcy**

The loan balances of borrowers who die or who are declared bankrupt are written off. In the year to 30 June 2014, $15 million was written off due to bankruptcy and $9 million due to the death of the borrower. The average write-off due to bankruptcy was for $22,000, about the same as the previous year.

**Table 16 Write-offs due to bankruptcy or death**

<table>
<thead>
<tr>
<th>Write-offs</th>
<th>2011/12</th>
<th>2012/13</th>
<th>2013/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bankrupt</td>
<td>$10</td>
<td>$12</td>
<td>$15</td>
</tr>
<tr>
<td>Deceased</td>
<td>$12</td>
<td>$13</td>
<td>$9</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data

**Overdue repayments**

**Trends**

Table 17 presents a summary of overdue repayments by borrowers’ status as New Zealand or overseas based.

Overdue repayments rose by 21 percent in 2012/13. As in the previous year, the increase was driven by defaulting overseas-based borrowers. The overdue amount owed by this group rose by 28 percent, mainly because a large group of borrowers reached the end of their automatic three-year repayment holiday and did not meet their repayment obligations afterwards.

This was the last group of borrowers to receive an automatic three-year repayment holiday. Repayment holidays are still available, but have to be applied for and only last for one year. At 30 June 2014, 1,396 overseas-based borrowers (1.3 percent of all overseas-based borrowers) were on repayment holidays.

Overdue repayments from New Zealand-based borrowers have fallen by 15 percent ($15 million) from 2012/13. This is because of the move to pay-period repayment obligations. Previously, New Zealand-based borrowers had their repayment obligations assessed annually, and therefore had to make payments by 7 February or 7 April (for borrowers with a tax agent) to ensure they met their repayment obligations for the year. The move to pay period repayment obligations has made it much easier for New Zealand-based borrowers to meet their obligations. Campaigns requiring borrowers to use the right tax code and reminding self-employed borrowers to pay their tax on time have also reduced the amount in arrears by New Zealand-based borrowers.

**Table 17 Overdue student loan repayments at 30 June**

<table>
<thead>
<tr>
<th>Overdue repayments</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrowers based:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– in New Zealand</td>
<td>102.6</td>
<td>100.8</td>
<td>86.1</td>
<td>–14.6%</td>
</tr>
<tr>
<td>– overseas</td>
<td>409.7</td>
<td>535.1</td>
<td>683.3</td>
<td>27.7%</td>
</tr>
<tr>
<td>Total</td>
<td>512.3</td>
<td>635.9</td>
<td>769.4</td>
<td>21.0%</td>
</tr>
<tr>
<td>Number of borrowers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– in New Zealand</td>
<td>38,577</td>
<td>39,379</td>
<td>86.1</td>
<td>14.6%</td>
</tr>
<tr>
<td>– overseas</td>
<td>409.7</td>
<td>535.1</td>
<td>683.3</td>
<td>27.7%</td>
</tr>
<tr>
<td>Total</td>
<td>92,048</td>
<td>104,287</td>
<td>109,744</td>
<td>5.2%</td>
</tr>
<tr>
<td>Average amount outstanding</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– in New Zealand</td>
<td>$2,559.7</td>
<td>$3,024.5</td>
<td>18.2%</td>
<td></td>
</tr>
<tr>
<td>– overseas</td>
<td>$7,662.1</td>
<td>$8,408.4</td>
<td>2.0%</td>
<td></td>
</tr>
<tr>
<td>All borrowers</td>
<td>$5,565.6</td>
<td>$7,011.0</td>
<td>15.0%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

Table 18 shows the age of overdue repayments for the last three years. The number of overdue repayments more than two years in arrears has been increasing steadily, reflecting the continuing non-compliance of overseas-based borrowers.

**Table 18 Age of overdue repayments at 30 June**

<table>
<thead>
<tr>
<th>Age of overdue repayments</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-1 month</td>
<td>8.3</td>
<td>1.6%</td>
<td>9.4</td>
</tr>
<tr>
<td>2-3 months</td>
<td>94.4</td>
<td>18.4%</td>
<td>113.7</td>
</tr>
<tr>
<td>4-6 months</td>
<td>7.0</td>
<td>1.4%</td>
<td>8.2</td>
</tr>
<tr>
<td>7-12 months</td>
<td>4.7</td>
<td>0.9%</td>
<td>9.4</td>
</tr>
<tr>
<td>1-2 years</td>
<td>94.3</td>
<td>18.4%</td>
<td>98.9</td>
</tr>
<tr>
<td>2-5 years</td>
<td>255.8</td>
<td>49.9%</td>
<td>268.1</td>
</tr>
<tr>
<td>&gt; 5 years</td>
<td>47.7</td>
<td>9.3%</td>
<td>128.2</td>
</tr>
<tr>
<td>Total</td>
<td>512.3</td>
<td>100.0%</td>
<td>635.9</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.
Improving repayment compliance

Inland Revenue continued its programme of work to collect overdue student loan repayments owed by overseas-based student loan defaulters.

One of the key ways to increasing compliance of overseas-based borrowers is having up-to-date address details to keep borrowers informed of their obligations, and to follow up on their arrears. Inland Revenue uses private sector agencies to track and trace overseas-based borrowers. Its information sharing agreements with other government agencies also enable it to obtain information from New Zealand Customs when borrowers arrive in the country and from the Department of Internal Affairs when student loan borrowers apply for their New Zealand passport. Since starting this work on overseas-based student loan defaulters in 2010, Inland Revenue has collected an additional $123 million in repayments as at 30 June 2014, which it expected would not have been received if these measures were not in place.

A provision is now in force allowing Inland Revenue to request an arrest warrant for those borrowers who knowingly default on their overseas-based repayment obligations. Under this law, student loan borrowers who are significantly behind on their overseas-based repayment obligations and continue to ignore their repayment obligation—despite previous contacts from Inland Revenue—may be stopped from leaving New Zealand until they resolve their arrears.

These initiatives are expected to help improve overseas-based borrowers’ compliance over time, as this group still represents an increasingly disproportionate share of the total amount overdue. In 2014 overseas-based borrowers:

- made up 15 percent of all borrowers (2013: 15 percent)
- made up 74 percent of all borrowers with overdue payments (2013: 62 percent)
- had 89 percent of the amount overdue (2013: 84 percent).

3.4 Repayment times

This section looks at the repayment phase of loans. It gives information on how long it has taken and how long we expect it will take borrowers to repay their loan in full. This is a key measure of the affordability of tertiary education for students. It is also a critical part of the calculation of the value of the loan portfolio.

Repayment times are influenced by factors such as:

- government policy on tertiary education and on loans in particular
- the strength of the labour market
- the type of study undertaken
- whether a borrower stays in New Zealand or spends long periods overseas
- the size of loan on leaving study.

Observations of the time taken for former students to repay are made from the Integrated Data Infrastructure. The Student Loans Integrated Model is used for projections of repayment times. Although there are always limitations on the power of models to predict future behaviour, this model has proved reliable in its forecasting to date.

Repayment times and rates

As at 30 June 2014, a total of $9,157 million had been collected in repayments by Inland Revenue since the loan scheme was established in 1992.

Of the students who left study in 1992, 74 percent had repaid their loan in full by 2002 and 85 percent by 2012. This cohort had lower borrowing in comparison with those in later years. This is because fees were relatively low during this period, and as the loan scheme only commenced in 1992, this cohort had only borrowed for one year.

Figure 27 Percentage of borrowers fully repaid by leaving cohort

Rates of repayment fluctuate from year to year. Students who left study after 2000 have faster repayment rates than those who borrowed and left study in the late 1990s. The variance in repayment times is in part due to changes in the overall economic conditions and student support policy, such as:

- no interest while studying for full-time students and for part-time students on low incomes (introduced in 2000)
- fee stabilisation policies that have operated since 2001
- interest-free student loans for New Zealand-based borrowers (introduced in 2006).

Repayment rates also reflect the strength of the labour market. Of the groups whose repayment rates are shown in Figure 27, those who left study in 2004 to 2007 experienced relatively high demand for skilled graduates and their repayment rates reflect the fact that they earned more than those who left in 1995 to 1998, when earnings were lower.

Of the students who left study in 1998, 16 percent had fully repaid their loan three years later in 2001. By comparison, three years after leaving study, 20 percent of students from the 2001 cohort and 19 percent of the 2008 cohort had repaid their loan in full.

There are some borrowers who never succeed in repaying their loan completely and others who make no progress toward repayment over extended periods of time.
Figure 28 shows the trend in progress to full repayment. In 2012 the repayment status for students who left study in 1992 was:
− around 85 percent had fully repaid
− 3 percent had made partial payment
− around 12 percent made no progress toward repayment at all.

Figure 28 Proportion of borrowers who left study in 1992 who had repaid all, some or none of their student loans from 1992–2012

Borrowers tend to have a high rate of full repayment immediately after finishing their study. This is reflected in data for the 1992 cohort:
− 8 percent repaid in full one year out of study and 54 percent had made no progress
− 50 percent had repaid in full by 1997 and 25 percent had not made any progress.

A similar trend can be seen in Figure 29 with borrowers who left study in 2000:
− 13 percent of this group had repaid their loan in full by the end of 2002, while 51 percent had made no repayment progress
− 50 percent of borrowers had repaid their loan in full by 2010, while the proportion of borrowers who had made no progress toward repayment had decreased to 30 percent.

Figure 29 Proportion of borrowers who left study in 2000 who had repaid all, some or none of their student loans from 2000–12

More recent leavers can be seen in Figures 30, 31 and 32. We see that 51 percent of the 2002 leavers had repaid in full by 2012. For the 2006 leavers, 36 percent had repaid in full by 2012 and 26 percent had fully repaid their loans by 2012 for the 2008 cohort.

Figures 28 and 29 also illustrate how the rate of repayment reduces over time. For borrowers who left study in 1992, the rate of repayments began to slow down about 10 years out of study and the proportion of borrowers who have made no progress toward repayment began to plateau. Among the 2000 leavers, the proportion who had completely repaid increased steadily over the first 10 years after study. But the proportion who had repaid nothing began to reduce at a slower rate over the last three years covered in Figure 29. This picks up borrowers who are based overseas or are earning below the repayment threshold.

Figures 30 and 31 show the impact of the interest-free student loan policy (introduced in 2006) on the progress borrowers made with repayment of their loan. Comparing the 2006 and 2002 cohorts, we see that:
− two years after study only 53 percent of the 2002 leavers had reduced or repaid their loan, but 74 percent of the 2006 leavers had (i.e. the 2006 cohort made considerably more headway in repaying their loans soon after leaving study compared to the 2002 leavers)
— six years after study 77 percent of the 2006 cohort had reduced or repaid their loan, but just 69 percent of the 2002 cohort had done so; note that 12 years after leaving, only 72 percent of the 2000 cohort reached a similar point of repayment.

Despite the marked differences in repayment behaviour of the three cohorts (2000, 2002 and 2006) discussed above, there has been little difference between them in reaching full repayment in the first five years. For example, about 30 percent of all three groups had fully repaid by the fifth year.

Figure 32 Proportion of borrowers who left study in 2008 who had repaid all, some or none of their student loans from 2008–2012

The 2008 cohort was amongst the first cohorts to face the effects of the recession of 2008 immediately after leaving study. Figure 32 shows the repayment pattern for them. Around 71 percent of these leavers had reduced or repaid their loan two years after study and this percentage has plateaued to about 73 percent four years after leaving study. The early years of the cohort may have been affected by reduced employment opportunities and incomes, as well as the introduction and subsequent removal of the voluntary repayment bonus scheme. Overall the repayment behaviour in terms of the number who completely repaid their loan for the 2008 cohort closely follows the 2002 cohort in the first three years after leaving.

Four years after study however, we notice a sharp increase in those who completely repaid their loan for the 2008 cohort closely follows the 2002 cohort in the first three years after leaving.

The recent increase in the repayment rate for New Zealand-based borrowers from 10 cents to 12 cents per dollar earned, will affect repayment patterns, and will be especially marked for recent leaving cohorts. These cohorts will repay their loan sooner compared to earlier cohorts.

Forecast repayment times

This section looks at the expected repayment times of recent tertiary leavers—those who last studied in 2011. Forecast repayment times are calculated using actual repayment data to the end of April 2014. Projections after then are from the Ministry of Education’s Student Loan Integrated Model.

<table>
<thead>
<tr>
<th>% of leavers</th>
<th>25th percentile</th>
<th>Median</th>
<th>75th percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>100.0%</td>
<td>3.6</td>
<td>7.0</td>
</tr>
<tr>
<td>By gender</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>42.0%</td>
<td>3.3</td>
<td>6.7</td>
</tr>
<tr>
<td>Female</td>
<td>58.0%</td>
<td>3.8</td>
<td>7.2</td>
</tr>
<tr>
<td>By level of study</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certificates</td>
<td>—</td>
<td>3.6</td>
<td>6.9</td>
</tr>
<tr>
<td>Diplomas</td>
<td>—</td>
<td>3.7</td>
<td>7.2</td>
</tr>
<tr>
<td>Bachelors</td>
<td>—</td>
<td>3.8</td>
<td>7.1</td>
</tr>
<tr>
<td>PostGrad</td>
<td>—</td>
<td>2.0</td>
<td>6.7</td>
</tr>
<tr>
<td>By ethnicity</td>
<td></td>
<td></td>
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<td>—</td>
<td>4.3</td>
<td>7.8</td>
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<tr>
<td>Asian</td>
<td>—</td>
<td>3.4</td>
<td>7.3</td>
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<tr>
<td>By leaving balance ($000)</td>
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<tr>
<td>&lt;5</td>
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<td>5-10</td>
<td>20.0%</td>
<td>3.2</td>
<td>5.4</td>
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<td>10-15</td>
<td>14.3%</td>
<td>4.2</td>
<td>7.0</td>
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<tr>
<td>15-20</td>
<td>10.0%</td>
<td>4.7</td>
<td>7.8</td>
</tr>
<tr>
<td>20-25</td>
<td>8.6%</td>
<td>5.4</td>
<td>8.6</td>
</tr>
<tr>
<td>25-30</td>
<td>6.7%</td>
<td>5.9</td>
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<td>30-35</td>
<td>5.0%</td>
<td>6.6</td>
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<tr>
<td>35-40</td>
<td>4.0%</td>
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<tr>
<td>40-45</td>
<td>2.9%</td>
<td>7.7</td>
<td>10.5</td>
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<tr>
<td>45-50</td>
<td>2.3%</td>
<td>8.0</td>
<td>11.1</td>
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<td>55-60</td>
<td>1.2%</td>
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<td>60-65</td>
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<td>65-70</td>
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<td>70-75</td>
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<tr>
<td>&gt;70</td>
<td>2.0%</td>
<td>11.4</td>
<td>16.2</td>
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</table>

<table>
<thead>
<tr>
<th>By location</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Always NZ based</td>
<td>76.7%</td>
<td>3.0</td>
<td>5.8</td>
</tr>
<tr>
<td>Not always NZ based</td>
<td>23.3%</td>
<td>8.8</td>
<td>15.2</td>
</tr>
</tbody>
</table>


Notes:
1 Repayment times are in years
2 A dash indicates that the repayment projection is not seen to occur in the model within 30 years.
Overall the median repayment time (the time taken for half of the borrowers to have fully repaid) is 7.0 years. Female borrowers make up 58 percent of the leavers and have a forecast median repayment time of 7.2 years, compared to 6.7 years for males. This six month gender difference is also seen in the 25th percentile and 75th percentile of repayment times.

By level of study we see similar repayment times for Certificate and Diploma levels. Bachelor level leavers are comparable with these lower levels of study, except in the 75th percentile where the time taken for three-quarters to fully repay is 11.6 years—around one year faster than those who studied at the lower levels. Postgraduate level repayment times stand out, with the majority repaying faster, but with some taking longer than other groups to fully repay.

The European ethnic group shows shorter forecast repayment times compared with other ethnic groups, with a median repayment time of 6.6 years. Māori borrowers have the longest median repayment time, at 8.0 years, and are also longest at the 25th percentile. Pasifika borrowers are forecast to have slightly faster repayment times than Māori, with a median of 7.8 years. The median repayment time among Asian borrowers is 7.3 years; however, the 75th percentile is 14.7 years—longer than for other ethnicities.

The size of the loan on leaving study has a large bearing on the time taken to repay, as may be expected. The projections show that three quarters of loans initially between $15,000 and $20,000 will be repaid within 12.8 years. However for loans initially between $45,000 and $50,000 it is projected that it will take 16.5 years for three quarters to be repaid.

Borrowers who remain in New Zealand on average repay their loan much faster than those who are not always New Zealand based. One quarter of those always New Zealand based repay within three years, while it is projected to take 8.8 years for the same proportion to repay if some time is spent overseas. The median repayment times show the same relationship—5.8 years for always New Zealand based and 15.2 years for those with some time overseas. The modelling predicts that 77 percent of leavers are expected to be always New Zealand based while they still have a loan.
CHAPTER 4

Valuation and cost
4.0 Introduction

This chapter looks at the latest valuation of the Student Loan Scheme at 30 June 2014 and changes since the previous valuation. It explains the key valuation statistics and the factors that have led to changes over the past year. It also identifies the costs of the scheme and looks at the modelling of the total loan balance into the future.

The valuation of the loan scheme in 2014 saw a decrease of $12 million in the value of the asset.

Student loan valuation terms

Nominal value
The nominal value of student loans is the balance of borrowings with Inland Revenue and the Ministry of Social Development. It is the total amount owed by borrowers at a point in time, including loan principal, interest and late payment interest. The change in the value from year to year reflects changes in the amount owed by borrowers.

The nominal value as at 30 June 2014 was $14,235 million (2013: $13,562 million).

Fair value
The fair value is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm’s length transaction.

The fair value calculation discounts expected repayments using a contemporary view of future discount rates. This differs from the carrying value calculation, which uses discount rates at the time of borrowing.

The fair value has been reported in the accounts since 2003.

The fair value as at 30 June 2014 was $8,924 million (2013: $8,298 million).

Carrying value
The carrying value is the value of the Student Loan Scheme asset which is maintained in the scheme’s accounts. It increases during the year as new loans are issued and decreases as repayments are made. Adjustments are made each year following an annual valuation of the asset. Since 1 July 2005, valuations have been made in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Under NZ IFRS, the cost to the government of new lending is recognised at the time it is lent, so that, all things being equal, there is no further cost associated with that lending. An annual, NZ IFRS-compliant valuation is undertaken and any adverse difference between the carrying value and the result of this valuation is recorded as an expense.

The carrying value as at 30 June 2014 was $8,716 million (2013: $8,288 million).

Initial write-down
When a student draws money from the Student Loan Scheme, part of the money is treated as an operating expense and part as capital. The capital part is the value of repayments that are expected from this lending.

The operating expense is the balance of the lending and is known as the ‘initial fair value write-down’. The initial fair value write-down is normally treated as the cost of lending.

Interest unwind
The schedule of revenue and expenditure includes revenue from what is called an ‘interest unwind’. As time moves on, loans on the balance sheet come closer to being repaid and are therefore worth more to the owner.

This increase in value is called the interest unwind; in effect, this is a partial reversal, or unwinding, of the reduction in value brought about by the initial discounting process.

The Ministry of Education uses a model—the Student Loans Integrated Model (SLIM)—to value the loan scheme each year. It is also used to assess policy options. The model starts with actual data drawn from the integrated dataset on student loans and allowances and projects future repayments using the past behaviour of borrowers to model future events. It takes account of economic trends, interest rates, and discount rates, and trends in incomes and borrower behaviour. Details of the assumptions used in SLIM this year are in Appendix 1.

4.1 Valuation and accounting

Each year, the student loan asset is valued in accordance with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). If this value is lower than the current carrying value, the carrying value is reduced or ‘written down’ through what is known as an impairment or reduction in value. Impairment is treated in the government’s accounts as an expense.

The valuation can also result in an increase in value—called a negative impairment. A negative impairment is shown in the accounts as a gain.

At 30 June 2014, the carrying value of student loans was assessed as $8,716 million.

Carrying value
The source of movements in the carrying value in 2013/14 is set out in Table 20.

The opening carrying value from the last valuation is:

- increased by new lending during the year (including establishment fees applied at the time each loan is first drawn)
- decreased by the initial write-down of that new lending
- reduced by repayments that are made during the year
- increased by the ‘interest unwind’, which is income that accrues to the asset as future repayments become due sooner
- adjusted for any impairment resulting from a revaluation of the student loan asset according to NZ IFRS principles.

---

9 For lending to December 2012, the discount rates for the carrying value were fixed based on the time of a borrower’s first borrowing from the scheme.
10 See also the Fair value in Section 4.1.
11 For a detailed description see Section 5.4, Statement of accounting policies in Chapter 5.
12 The initial write-down is called ‘fair value write-down on new borrowings’ in the financial schedules (chapter 5). In this chapter we use the term ‘initial write-down’ to avoid confusion with ‘fair value’, which is a different concept.
Factors that contributed to the impairment of the student loan portfolio during the 2013/14 financial year include:

— Policy change effects: the freezing of the repayment threshold at $19,084 per annum for a further two years (until April 2017) increased the value of the scheme by $46 million. An additional $8 million was an adjustment to reflect the change in the valuation method.

— Macroeconomic effects: a higher forecast of earnings growth and lower Consumer Price Index forecasts added $176 million to the valuation.

— Changes in the composition of the borrower population, decreased the value by $20 million.

— The annual update of the modelling increased the value by $98 million. However, the value was decreased by $124 million because of a correction to the valuation of balances previously held by StudyLink but now transferred to Inland Revenue.

— Experience variation: this represents the difference between what had been predicted for 2012/13 at last year’s valuation and the actual results. This amounted to a reduction in value of $2 million.

— Remaining impairment: this amounted to a decrease of $47 million and represented the effect of one further year’s experience on the model.

Together these factors amount to a decrease of $12 million.
Table 21 The loan scheme’s nominal value, carrying value and fair value at 30 June

<table>
<thead>
<tr>
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</tr>
<tr>
<td>Nominal value</td>
<td>7,499</td>
<td>8,370</td>
<td>9,413</td>
<td>9,573</td>
<td>10,259</td>
<td>11,145</td>
<td>12,070</td>
<td>12,969</td>
<td>13,562</td>
<td>14,235</td>
</tr>
<tr>
<td>Carrying value</td>
<td>6,465</td>
<td>5,569</td>
<td>6,011</td>
<td>6,741</td>
<td>6,553</td>
<td>6,790</td>
<td>7,459</td>
<td>8,291</td>
<td>8,288</td>
<td>8,716</td>
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<tr>
<td>Fair value</td>
<td>5,994</td>
<td>5,537</td>
<td>5,443</td>
<td>5,521</td>
<td>5,464</td>
<td>6,261</td>
<td>7,221</td>
<td>8,527</td>
<td>8,298</td>
<td>8,924</td>
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</table>

<table>
<thead>
<tr>
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</tr>
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<tbody>
<tr>
<td>Ratios</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Carrying value to nominal value</td>
<td>86.2</td>
<td>66.5</td>
<td>63.9</td>
<td>70.4</td>
<td>63.9</td>
<td>60.9</td>
<td>61.8</td>
<td>63.9</td>
<td>61.1</td>
<td>61.2</td>
</tr>
<tr>
<td>Fair value to nominal value</td>
<td>79.9</td>
<td>66.2</td>
<td>57.8</td>
<td>57.7</td>
<td>53.3</td>
<td>56.2</td>
<td>59.8</td>
<td>65.8</td>
<td>61.2</td>
<td>62.7</td>
</tr>
</tbody>
</table>

Source: Student Loan Scheme Financial Statements.

Notes:
1. The carrying value from 2006 onwards is prepared according to New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).
2. The carrying value up until 30 June 2005 was prepared according to New Zealand Financial Reporting Standards.

Figure 35 shows how the impairment has moved over time. It also shows the ratio of the carrying value to the nominal value—a key measure of the financial health of the loan scheme asset. The movements over time reflect changes in loan policy as well as the macroeconomic factors (such as interest rate changes) that affect the value of the scheme.
4.2 Historical and forecast costs

Table 22 gives a longer-term overview of the movements in the main financial parameters of the scheme. Over the last nine years the scheme has:

- lent out $11,800 million to students
- received $6,300 million in repayments
- written down new lending over the period by $5,100 million (and also incurred an initial write-down of $1,400 million in 2006)
- experienced an aggregate impairment of $1,100 million
- booked $4,300 million in interest unwind income.

The net result of the movements over the period shows that the asset was worth $6,500 million in 2005 and is now worth $8,700 million.

### Table 22 Nominal and carrying value movements

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nominal value</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening balance</td>
<td>7,499</td>
<td>8,370</td>
<td>8,920</td>
<td>9,573</td>
<td>10,259</td>
<td>11,145</td>
<td>12,070</td>
<td>12,969</td>
<td>13,562</td>
</tr>
<tr>
<td>New lending</td>
<td>8</td>
<td>1,107</td>
<td>1,122</td>
<td>1,259</td>
<td>1,423</td>
<td>1,453</td>
<td>1,477</td>
<td>1,470</td>
<td>1,511</td>
</tr>
<tr>
<td>Establishment fee</td>
<td>4</td>
<td>9</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>12</td>
<td>12</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Administration fee</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>20</td>
</tr>
<tr>
<td>Repayment</td>
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<td>-486</td>
<td>-550</td>
<td>-619</td>
<td>-652</td>
<td>-691</td>
<td>-767</td>
<td>-1,054</td>
<td>-1,032</td>
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<tr>
<td>Interest</td>
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<td>-</td>
<td>-</td>
<td>14</td>
<td>119</td>
<td>142</td>
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<td>-</td>
<td>42</td>
<td>16</td>
<td>45</td>
<td>50</td>
<td>43</td>
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<tr>
<td>Voluntary repayment bonus</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Death write-off</td>
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<td>-2</td>
<td>-10</td>
<td>-9</td>
<td>-11</td>
<td>-9</td>
<td>-10</td>
<td>-13</td>
<td>-9</td>
</tr>
<tr>
<td>Bankruptcy write-off</td>
<td>-11</td>
<td>-9</td>
<td>-16</td>
<td>-11</td>
<td>-15</td>
<td>-10</td>
<td>-12</td>
<td>-9</td>
<td>-15</td>
</tr>
<tr>
<td>Balancing item</td>
<td>6</td>
<td>384</td>
<td>-68</td>
<td>98</td>
<td>12</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Closing balance</strong></td>
<td>8,370</td>
<td>8,920</td>
<td>9,573</td>
<td>10,259</td>
<td>11,145</td>
<td>12,070</td>
<td>12,969</td>
<td>13,562</td>
<td>14,235</td>
</tr>
</tbody>
</table>

| **Carrying value**   |         |         |         |         |         |         |         |         |         |
| Opening balance      | 6,465   | 5,569   | 6,011   | 6,741   | 6,553   | 6,790   | 7,459   | 8,291   | 8,288   |
| New lending          | 8       | 1,107   | 1,122   | 1,259   | 1,423   | 1,453   | 1,477   | 1,470   | 1,511   |
| Initial write-down on new borrowing | -328 | -488    | -487    | -532    | -728    | -713    | -702    | -536    | -629    |
| Initial write-down   | -1,415  | -       | -       | -       | -       | -       | -       | -       | -       |
| Establishment fee    | 8       | 9       | 9       | 10      | 11      | 12      | 12      | 11      | 11      |
| Repayment            | -486    | -486    | -550    | -619    | -652    | -691    | -767    | -1,054  | -1,032  |
| Interest unwind      | 358     | 451     | 406     | 473     | 463     | 484     | 526     | 590     | 579     |
| Impairment           | -13     | -151    | 231     | -779    | -280    | -286    | -484    | -12     |         |
| **Closing carrying value** | 5,569 | 6,011   | 6,741   | 6,553   | 6,790   | 7,459   | 8,291   | 8,288   | 8,716   |

| **Average cost of lending in cents per dollar** | 9       | 31.17   | 41.15   | 40.25   | 39.15   | 47.39   | 45.25   | 44.62   | 36.19   |

Source: Ministry of Education, Inland Revenue and Ministry of Social Development.

Notes:
1. The balance at 30 June 2007 has been restated as per Table 15 of the 2008 annual report to exclude accrued interest that would be subsequently written off. All other nominal balance figures are as per the accounts as published in annual reports.
2. Interest and penalty amounts are only available for the 2008/09 and later fiscal years. Before this, these amounts are implicit in the balancing item.
3. The no interest for New Zealand-based borrowers policy came into effect on 1 April 2006.
4. The establishment fee is the amount charged by the Ministry of Social Development to borrowers each time they take out a loan. Before 2012, this was known as the administration fee.
5. The administration fee is an annual fee added to loans on 31 March. Before 2012, this was known as the administration fee.
6. The administration fee is an annual fee added to loans on 31 March. Before 2012, this was known as the administration fee.
7. Before 2008/09, the balancing item includes penalties and loan interest charged. In 2011/12, the balancing item reflects adjustments over the period.
8. The interest in 2008/09 is low because in that year $96 million was reversed due to over-charging interest on borrower accounts in previous years.
9. In all years, new lending is net of repayments made to the Ministry of Social Development (which were mostly refunded course fees) and the repayments are those made to IRD only. In previous annual reports, refunded course fees were counted both in the lending and in the repayment lines.
10. From 1 April 2012, the initial write-down is applied to new borrowing net of refunded course fees. Before this, gross lending was written down.
Scheme expenses

Tables 23 and 24 show the net expense and cash outlay of the scheme over the last eight years.

Table 23 Cash movements for the year ending 30 June

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>New lending</strong></td>
<td>$1,107</td>
<td>$1,122</td>
<td>$1,259</td>
<td>$1,423</td>
<td>$1,453</td>
<td>$1,477</td>
<td>$1,470</td>
<td>$1,511</td>
</tr>
<tr>
<td><strong>Repayments</strong></td>
<td>-486</td>
<td>-550</td>
<td>-619</td>
<td>-652</td>
<td>-691</td>
<td>-767</td>
<td>-1,054</td>
<td>-$1,032</td>
</tr>
<tr>
<td><strong>Net cash out</strong></td>
<td>621</td>
<td>572</td>
<td>640</td>
<td>771</td>
<td>762</td>
<td>710</td>
<td>416</td>
<td>479</td>
</tr>
</tbody>
</table>

Source: Student Loan Scheme Financial Statements.

Note: In all years, new lending is net of repayments made to the Ministry of Social Development (which were mostly refunded course fees) and the repayments are those made to Inland Revenue only. In previous annual reports, refunded course fees were counted both in the lending and in the repayment lines.

Table 24 Cost of the scheme for the year ending 30 June

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Write-down on new lending</strong></td>
<td>$484</td>
<td>$483</td>
<td>$529</td>
<td>$723</td>
<td>$708</td>
<td>$696</td>
<td>$532</td>
<td>$625</td>
</tr>
<tr>
<td><strong>Interest unwind income</strong></td>
<td>-$451</td>
<td>-$406</td>
<td>-$473</td>
<td>-$463</td>
<td>-$484</td>
<td>-$526</td>
<td>-$590</td>
<td>-$579</td>
</tr>
<tr>
<td><strong>Establishment fee at fair value</strong></td>
<td>-$5</td>
<td>-$5</td>
<td>-$6</td>
<td>-$6</td>
<td>-$7</td>
<td>-$7</td>
<td>-$7</td>
<td>-$6</td>
</tr>
<tr>
<td><strong>Impairment</strong></td>
<td>$151</td>
<td>-$231</td>
<td>$779</td>
<td>$280</td>
<td>-$124</td>
<td>-$286</td>
<td>$484</td>
<td>$12</td>
</tr>
<tr>
<td><strong>Net expense</strong></td>
<td>$179</td>
<td>-$159</td>
<td>$829</td>
<td>$534</td>
<td>$93</td>
<td>-$123</td>
<td>$419</td>
<td>$51</td>
</tr>
</tbody>
</table>

Source: Student Loan Scheme Financial Statements.

Notes:
1. The write-down on new lending excludes the write-down on the establishment fee added to borrowers’ loan balances at the time they first draw on their loans each year. The establishment fee in 2013/14 was $10.8 million and is shown here at fair value of $6.4 million.
2. From 1 April 2012, the initial write-down is applied to new borrowing net of refunded course fees. Prior to this, gross lending was written down.

These tables indicate that, in 2013/14, $1,511 million was lent out. Repayments amounted to $1,032 million, meaning that the net cash outlay was $479 million, an increase of 15 percent on the previous year but a decrease of 38 percent on the peak year of 2009/10.

The high level of repayments in 2012/13 was due to accelerated voluntary repayments as borrowers took advantage of the bonus before it was removed in April 2013. In 2013/14 there was a second consecutive year with more than $1,000 million in repayment receipts. This level largely arises from the increase in the repayment rate from 10 to 12 cents in the dollar for New Zealand-based borrowers—a change that occurred on 1 April 2013.

The new lending incurred an expense through an initial write-down of $625 million. The interest unwind led to income of $579 million, and establishment fees added $6 million to the value of the scheme. The valuation of the scheme at 30 June 2014 produced an impairment of $12 million. The combination of these factors was a net cost of $51 million for the year.

This ‘cost view’ treats the scheme as if it were an entity. Its portfolio is generating an accounting return through the interest unwind which is helping to offset the cost of new lending. Viewed this way, the net expense for the Crown over the last eight years as been $1,823 million, of which $440 million came from the last four years. The portfolio is growing, so we would expect this cost to decrease in the future, as the interest unwind grows, as the portfolio grows and while the level of new lending remains relatively flat.

Costs of new lending

When the government lends money under the Student Loan Scheme, part of the lending is treated as an asset and is regarded as a capital item. The other portion is treated as an expense and is effectively ‘written off’ from an accounting point of view. It reflects the fact that some of the sum lent will never be repaid (for instance, if the borrower never earns above the repayment threshold, or if they die or are made bankrupt). In addition, the value of the repayments—spread over time—is lower in dollar terms than the amount lent.

The cost of lending—technically called the ‘initial fair value write-down’—is the amount expensed for each dollar of lending. It is calculated by the actuaries who value the scheme when they do their valuation.

The two main factors that influence the cost of lending are the:

- repayment pattern—because the more slowly people repay (or not at all), the more the value is eroded and the greater the cost
- interest rate—because the cash flows are discounted by what is called ‘the effective interest rate’.

Compared with last year, the 2014 valuation predicts overall that repayments are expected to occur a little sooner. Faster repayments from new lending will cause a reduction in the cost of lending.

The forecast of interest rates is for lower rates than that made a year ago. This factor lowers the effective interest rate used to discount the value of the lending. This also reduces the cost of lending.
Approach to calculating the cost of new lending

From 1 January 2013, discount rates have been set according to the year of lending, so that a student who borrowed over several years would have a different discount rate for each year’s borrowings. This change, from the ‘borrower approach’ to the ‘year of lending approach’, was made to increase the accuracy of the cost of lending and was agreed to by the Government and the loan scheme auditors. Previously, the discount rate used in the valuation of each borrower’s loan was set according to the prevailing interest rate in the year they first borrowed. The rate was fixed until the loan was repaid, even if the person borrowed in subsequent years when interest rates had changed.

One consequence of the change is that the effective interest rate—one of the factors that contribute to the cost of lending—changes on 1 January each year. But all the other factors that contribute to the fair value write-down change at balance date (30 June) when the valuation takes place. This means that we now have two rates for the cost of lending each year. One, covering July to December, uses the effective interest rate set on 1 January, plus the results of the valuation. The other, covering January to June, uses the valuation information from the previous year and the current effective interest rate.

The cost of lending between January and June 2014 was 41.83 cents for each dollar lent, up from 35.19 cents per dollar a year earlier.

<table>
<thead>
<tr>
<th>Table 25 Average cost of lending a dollar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average cost of lending in cents per dollar</td>
</tr>
<tr>
<td>July-Dec</td>
</tr>
<tr>
<td>Jan-Jun</td>
</tr>
</tbody>
</table>

Source: Ministry of Education.

Note: The first five figures in this table relate to annual periods—fiscal years. The second five apply for periods of six months each. Around 73 percent of lending in a year occurs from January to June.

Cost of Crown ownership

The assets on the Crown’s balance sheet, such as the Student Loan Scheme, have a cost associated with them which is the cost of capital. If the Crown did not own as many assets, for example, debt would be lower than it would otherwise be, annual interest payments would be lower and the risks associated with ownership would be reduced.

Measuring the Crown’s cost of capital is not straightforward. The Crown faces a direct and obvious cost of borrowing when it raises debt. This cost is almost always lower than that faced by the private sector, because sovereign borrowers normally have a higher credit rating than private companies.

The fact that the Crown has a lower cost of borrowing than the private sector leads some to conclude that the Crown is best placed to finance investment. However, the direct cost of borrowing is not the whole picture. Investments come with risks borne by taxpayers when Crown projects fail to meet expectations.

The Crown’s cost of capital therefore reflects both the direct cost of borrowing and the risks associated with each of the Crown’s investments.

The appropriate proxy that represents the associated capital costs of the Student Loan Scheme to the Crown is given by the discount rate of 6.62 percent, which is also the rate used to derive the fair value of the asset. This discount rate consists of the Representative Risk Free Rate (4.50 percent), the Risk Premium (1.58 percent), and the costs of collection and administration of the scheme (0.54 percent).

The proxy of the Crown’s cost of holding the asset on 30 June 2014 would be as set out in Table 26.

<table>
<thead>
<tr>
<th>Table 26 Government’s cost of ownership of the Student Loan Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of the asset</td>
</tr>
<tr>
<td>Discount rate for the asset</td>
</tr>
<tr>
<td>Cost of capital associated with the Student Loan Scheme</td>
</tr>
</tbody>
</table>

Source: Ministry of Education.

Forecast expenses

The Budget Economic and Fiscal Update 2014 forecast these cash flows for the scheme.

<table>
<thead>
<tr>
<th>Table 27 Forecast of cash movements for years ending 30 June</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
</tr>
<tr>
<td>--------</td>
</tr>
<tr>
<td>New lending</td>
</tr>
<tr>
<td>Repayments</td>
</tr>
<tr>
<td>Net cash out</td>
</tr>
</tbody>
</table>

Source: Budget Economic and Fiscal Update 2014 (BEFU 2014) and Ministry of Education.

Note: New lending is net of Ministry of Social Development refunds.

The annual valuation assesses the value to which new lending should be written down for the following six months. In January 2015 current interest rates will be assessed and a write-down will be determined using the model results from the last valuation.
The initial fair value write-down from July 2013 to December 2013 was 40.02 cents in the dollar and for January 2014 to July 2014 (covering about three quarters of the lending in the year) it was 41.83 cents in the dollar. One way of looking at this is that of every dollar the Crown lends in this period, 58.17 cents is treated as an asset and 41.83 cents as an expense.

This is forecast to change over the next few years as shown in Table 28.

### Table 28 Average cost of lending a dollar actual and forecast

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>July-Dec</td>
<td>Jan-Jun</td>
<td>July-Dec</td>
<td>Jan-Jun</td>
<td>July-Dec</td>
</tr>
<tr>
<td>Half year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>40.02</td>
<td>41.83</td>
<td>44.99</td>
<td>39.92</td>
<td>41.85</td>
</tr>
<tr>
<td>Annual</td>
<td>36.49</td>
<td>42.69</td>
<td>40.44</td>
<td>41.14</td>
<td>41.54</td>
</tr>
</tbody>
</table>

The forecast expenses of the Student Loan Scheme can be estimated using the cost assumptions for new lending per dollar (in Table 28) and the cash forecast (Table 27) above. The current valuation fully accounts for impairment known at this time, and it would take an adverse change in outlook to generate further impairment (or a favourable change in outlook to generate a future reversal of impairment as happened in 2011 and 2012). This is why there is no forecast impairment in future years.

### Table 29 Forecast of costs of the scheme for years ending 30 June

<table>
<thead>
<tr>
<th></th>
<th>Actual 2014</th>
<th>Actual 2015</th>
<th>Actual 2016</th>
<th>Actual 2017</th>
<th>Actual 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Write-down on new lending</td>
<td>625</td>
<td>654</td>
<td>674</td>
<td>705</td>
<td>726</td>
</tr>
<tr>
<td>Interest unwind income</td>
<td>-579</td>
<td>-608</td>
<td>-632</td>
<td>-656</td>
<td>-679</td>
</tr>
<tr>
<td>Establishment fee at fair value</td>
<td>-6</td>
<td>-7</td>
<td>-7</td>
<td>-7</td>
<td>-7</td>
</tr>
<tr>
<td>Impairment</td>
<td>12</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net expense</td>
<td>51</td>
<td>40</td>
<td>34</td>
<td>42</td>
<td>41</td>
</tr>
</tbody>
</table>

Aggregate balance projection

Using the forecast of new lending and repayments, and assuming a constant proportion of the loan book held by Inland Revenue is overseas and attracting loan interest, a forecast of nominal loan balance and of the carrying value can be made. This is shown in Table 30.

### Table 30 Forecast of scheme loan balance and carrying value as at 30 June

<table>
<thead>
<tr>
<th></th>
<th>Actual 2014</th>
<th>Actual 2015</th>
<th>Actual 2016</th>
<th>Actual 2017</th>
<th>Actual 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Values</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nominal value</td>
<td>14,235</td>
<td>14,833</td>
<td>15,431</td>
<td>16,000</td>
<td>16,533</td>
</tr>
<tr>
<td>Carrying value</td>
<td>8,716</td>
<td>9,104</td>
<td>9,496</td>
<td>9,851</td>
<td>10,163</td>
</tr>
<tr>
<td>Carrying value to nominal value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ratios</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carrying value to nominal value</td>
<td>61.2</td>
<td>61.4</td>
<td>61.5</td>
<td>61.6</td>
<td>61.5</td>
</tr>
</tbody>
</table>

Source: Ministry of Education.

Notes:
1. New lending and repayment numbers are from BEFU 2014. The costs of scheme numbers have been reworked from BEFU 2014 to reflect the valuation results as at 30 June 2014.
2. The write-down on new lending excludes the write-down on the establishment fee added to borrowers’ loan balances at the time they first draw on their loans each year. The establishment fee is shown net of this write-down, that is, at fair value.

Under a ‘cost view’ we expect the net cost of the scheme to remain steady at around $40 million in each of the following four years.
4.3 Agency costs

The cost of administering the loan scheme varies from year to year, depending on the number of borrowers, the number of transactions, and any system changes required for the implementation of new policies.

Table 31 Student Loan Scheme administration costs

<table>
<thead>
<tr>
<th></th>
<th>2009/10</th>
<th>2010/11</th>
<th>2011/12</th>
<th>2012/13</th>
<th>2013/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Social Development</td>
<td>$13.8</td>
<td>$17.0</td>
<td>$16.4</td>
<td>$15.8</td>
<td>$16.2</td>
</tr>
<tr>
<td>Inland Revenue</td>
<td>$28.8</td>
<td>$39.3</td>
<td>$31.5</td>
<td>$30.2</td>
<td>$33.5</td>
</tr>
<tr>
<td>Ministry of Education</td>
<td>$0.7</td>
<td>$0.8</td>
<td>$0.8</td>
<td>$0.9</td>
<td>$0.7</td>
</tr>
<tr>
<td>Statistics New Zealand</td>
<td>$0.7</td>
<td>$0.7</td>
<td>$0.7</td>
<td>$0.7</td>
<td>$0.7</td>
</tr>
<tr>
<td>Total</td>
<td>$44.0</td>
<td>$57.8</td>
<td>$49.4</td>
<td>$47.6</td>
<td>$51.1</td>
</tr>
</tbody>
</table>


Note: All amounts exclude GST.

Table 31 shows the total cost for the agencies over the last five years. The figures are a mixture of estimates and actual costs. These differ by agency, depending on how their appropriations are structured.

In addition to costs incurred by the Ministry of Social Development and Inland Revenue in managing the lending and repayment process, both the Ministry of Education and Statistics New Zealand have costs resulting from the scheme. The Ministry of Education provides policy advice to government on student support in the tertiary education sector, arranges the valuation of the scheme, and produces this report. Statistics New Zealand manages the integrated data infrastructure—their costs associated with the scheme cover the collation and management of data. The costs above include those that can be directly attributed to these activities plus overhead costs where appropriate.

Borrowers contribute to the cost of administering the loan scheme through a $60 establishment fee that is charged to the borrower’s account by StudyLink when the loan is first made. From the 2011/12 tax year, borrowers were also charged an annual administration fee of $40. Borrowers are not charged the administration fee if the establishment fee has been charged in the same tax year. This new policy improves value for money of student support expenditure by recovering more of the costs of administering the Student Loan Scheme.

Table 32: Estimated cost ratios

<table>
<thead>
<tr>
<th></th>
<th>2009/10</th>
<th>2010/11</th>
<th>2011/12</th>
<th>2012/13</th>
<th>2013/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs per dollar</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Social Development cost for each dollar advanced</td>
<td>0.97</td>
<td>1.17</td>
<td>1.11</td>
<td>1.07</td>
<td>1.06</td>
</tr>
<tr>
<td>Inland Revenue cost for each dollar collected</td>
<td>4.42</td>
<td>5.69</td>
<td>4.11</td>
<td>2.87</td>
<td>3.25</td>
</tr>
<tr>
<td>Percentage Total cost as a percentage of turnover</td>
<td>2.12%</td>
<td>2.70%</td>
<td>2.20%</td>
<td>1.89%</td>
<td>2.00%</td>
</tr>
</tbody>
</table>


Note: All amounts exclude GST.

Table 32 shows the administrative costs from Table 31 in light of the scale of the scheme. The cost ratios for the scheme have remained relatively stable over the last three years. The relatively high costs in 2009/10 and 2010/11 were due to project costs for system improvements made in those years.
CHAPTER 5

Financial schedules
5.0 Financial schedules for the year ending 30 June 2014

The financial schedules for the Student Loan Scheme comprise schedules of revenue and expenditure, assets and cash flows. The Ministry of Social Development and Inland Revenue administer student loans on an agency basis within policy parameters set by the Ministry of Education, on behalf of the Crown.

The financial information represents extracts from the non-departmental financial schedules of Vote Revenue and Vote Social Development to provide a consolidated view of the Student Loan Scheme.

The schedule of assets shows a total asset value (carrying value) as at 30 June 2014 of $8,716 million ($8,288 million at 30 June 2013).
5.1 Schedule of revenue and expenditure

Table 33 Schedule of revenue and expenditure for the year ended 30 June 2014

<table>
<thead>
<tr>
<th></th>
<th>2012/13</th>
<th>2013/14</th>
<th>2013/14</th>
<th>2013/14</th>
<th>2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Budget*</td>
<td>Estimated Actual*</td>
<td>Actual</td>
<td>Forecast*</td>
</tr>
<tr>
<td></td>
<td>$ million</td>
<td>$ million</td>
<td>$ million</td>
<td>$ million</td>
<td>$ million</td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest unwind</td>
<td>589.5</td>
<td>600.0</td>
<td>572.0</td>
<td>579.3</td>
<td>601.0</td>
</tr>
<tr>
<td>Establishment fees</td>
<td>11.3</td>
<td>11.3</td>
<td>11.4</td>
<td>11.0</td>
<td>11.4</td>
</tr>
<tr>
<td>Total revenue</td>
<td>600.8</td>
<td>611.3</td>
<td>583.4</td>
<td>590.3</td>
<td>612.4</td>
</tr>
<tr>
<td>Expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impairment</td>
<td>484.0</td>
<td>110.0</td>
<td>(29.6)</td>
<td>12.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Fair value write-down on new borrowings</td>
<td>535.6</td>
<td>537.0</td>
<td>644.0</td>
<td>629.5</td>
<td>668.0</td>
</tr>
<tr>
<td>Total expenditure</td>
<td>1,019.6</td>
<td>647.0</td>
<td>614.4</td>
<td>641.5</td>
<td>768.0</td>
</tr>
<tr>
<td>Net surplus/(deficit)</td>
<td>(418.8)</td>
<td>(35.7)</td>
<td>(31.0)</td>
<td>(51.2)</td>
<td>(155.6)</td>
</tr>
</tbody>
</table>

*The statement of accounting policies provides explanations of these figures which are not subject to audit.
— The accompanying accounting policies and notes form part of these financial schedules.
— The figures in this schedule represent the combined total for the applicable agencies.
— For a full understanding of the Crown’s financial position and the results of its operations for the year, refer to the Financial Statements of the Government, for the year ended 30 June 2014.
— Details of the consolidated movements are shown in Note 1.
### 5.2 Schedule of assets

#### Table 34 Schedule of assets as at 30 June 2014

<table>
<thead>
<tr>
<th></th>
<th>2012/13 Actual $ million</th>
<th>2013/14 Budget $ million</th>
<th>2013/14 Estimated Actual $ million</th>
<th>2013/14 Actual $ million</th>
<th>2014/15 Forecast $ million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student loans</td>
<td>1,020.0</td>
<td>1,079.0</td>
<td>1,158.0</td>
<td>1,193.0</td>
<td>1,219.0</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>1,020.0</td>
<td>1,079.0</td>
<td>1,158.0</td>
<td>1,193.0</td>
<td>1,219.0</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student loans</td>
<td>7,268.2</td>
<td>7,909.6</td>
<td>7,593.8</td>
<td>7,522.8</td>
<td>7,805.0</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>7,268.2</td>
<td>7,909.6</td>
<td>7,593.8</td>
<td>7,522.8</td>
<td>7,805.0</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>8,288.2</td>
<td>8,988.6</td>
<td>8,751.8</td>
<td>8,715.8</td>
<td>9,024.0</td>
</tr>
</tbody>
</table>

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

- The accompanying accounting policies and notes form part of these financial schedules.
- The figures in this schedule represent the combined total for the applicable agencies.
- For a full understanding of the Crown’s financial position and the results of its operations for the year, refer to the Financial Statements of the Government, for the year ended 30 June 2014.
- Details of the consolidated movements are shown in Note 1.
### 5.3 Schedule of cash flows

**Table 35 Schedule of cash flows for the year ended 30 June 2014**

<table>
<thead>
<tr>
<th></th>
<th>2012/13 Actual</th>
<th>2013/14 Budget*</th>
<th>2013/14 Estimated Actual*</th>
<th>2013/14 Actual</th>
<th>2014/15 Forecast*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows – investing activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayments received</td>
<td>1,053.9</td>
<td>1,020.0</td>
<td>1,050.0</td>
<td>1,031.7</td>
<td>1,158.0</td>
</tr>
<tr>
<td>Refunded course fees</td>
<td>96.8</td>
<td>115.2</td>
<td>96.5</td>
<td>90.5</td>
<td>98.6</td>
</tr>
<tr>
<td><strong>Cash disbursed for:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New borrowings</td>
<td>(1,566.8)</td>
<td>(1,631.7)</td>
<td>(1,686.1)</td>
<td>(1,601.0)</td>
<td>(1,684.4)</td>
</tr>
<tr>
<td><strong>Net cash outflow from investing activities</strong></td>
<td>(416.1)</td>
<td>(496.5)</td>
<td>(539.6)</td>
<td>(478.8)</td>
<td>(427.8)</td>
</tr>
<tr>
<td><strong>Net increase/(decrease) in cash</strong></td>
<td>(416.1)</td>
<td>(496.5)</td>
<td>(539.6)</td>
<td>(478.8)</td>
<td>(427.8)</td>
</tr>
</tbody>
</table>

*The statement of accounting policies provides explanations of these figures which are not subject to audit.

- The accompanying accounting policies and notes form part of these financial schedules.
- The figures in this schedule represent the combined total for the applicable agencies.
- For a full understanding of the Crown’s financial position and the results of its operations for the year, refer to the Financial Statements of the Government, for the year ended 30 June 2014.
- Details of the consolidated movements are shown in Note 1.
5.4 Statement of accounting policies

These financial schedules are for the year ended 30 June 2014 and include forecast financial schedules for the year ended 30 June 2015. They have been combined to provide a single view of actual and forecast information.

References to the financial schedules incorporate the forecast financial schedules, unless otherwise stated.

Reporting entity

The Student Loan Scheme is a Crown activity which is reported as part of the consolidated Financial Statements of the Government. The scheme has the elements of revenue, expenditure, assets and cash flows within the Financial Statements of the Government.

Statutory authority

The scheme is administered jointly by the Ministry of Education, Inland Revenue and the Ministry of Social Development, under the Student Loan Scheme Act 2011. Also relevant to the administration of the scheme is the Education Act 1989.

Budgets and forecast figures

The Budget figures for 2013–14 are those included in The Estimates of Appropriation for the year ending 30 June 2014.


Forecasts

The forecast financial schedules have been prepared in accordance with the Public Finance Act 1989. The purpose of the forecast financial schedules is to facilitate Parliament’s consideration of appropriations for, and planned performance of, the scheme. These forecasts may not be appropriate for other purposes.

The forecast financial schedules have been prepared in accordance with the accounting policies detailed above. Additional accounting policies relating to the forecasts are set out below.

The forecast financial schedules comply with New Zealand generally accepted accounting practice (NZ GAAP) and have been prepared in accordance with Financial Reporting Standard 42: Prospective Financial Statements.

Forecast policies

The forecasts have been compiled on the basis of existing government policies and Ministerial expectations at the time the schedules were finalised and reflect all government decisions and circumstances as at 29 April 2014.

The key assumption in the preparation of the forecasts is that the carrying value of student loans is based on a valuation model adapted to reflect current student loans policy. As such, the carrying value over the forecast period is sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macroeconomic factors such as inflation and discount rates used to determine the effective interest rate for new borrowers.

Any change in these assumptions would affect the present fiscal forecast.

For other key fiscal forecasts assumptions, refer to the Budget Economic and Fiscal Update 2014.

These assumptions are adopted as at 29 April 2014.

Variations to forecast

The actual financial results for the forecast period covered are likely to vary from the information presented in these forecasts. Factors that may lead to a material difference between information in these Forecast Financial Schedules and the actual reported results include:

− changes due to initiatives or legislation approved by Cabinet
− macroeconomic factors affecting capital lending, borrower incomes, borrower repayments, inflation, discount rates and interest rates.

Any changes to budgets during 2014–15 will be incorporated into The Supplementary Estimates of Appropriations for the year ending 30 June 2016.

Financial instruments

Student loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method, plus or minus any impairment movement. Fair value on initial recognition is determined by projecting forward the expected repayments required under the scheme and discounting them back at an appropriate discount rate. The difference between the amount lent and fair value is expensed on initial recognition.

The subsequent measurement at amortised cost is determined using the effective interest rate calculated at initial recognition.

The effective interest rate discounts estimated future cash flows through the expected life of the loan to the net carrying amount of the loan, excluding future credit losses. Interest is recognised on the loan evenly in proportion to the amount outstanding over the period to repayment.

Allowances for impairment are recognised when there is objective evidence that the loan is impaired. Impairment movements are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan, and that the event (or events) has an impact on the estimated future cash flows of the student loan carrying value that can be reliably measured.
The measurement of impaired value can result in an increase or decrease to the carrying value of the student loan debt.

**Interest**

Interest is calculated on the nominal student loan account balances on a daily basis at a rate determined by the government, currently 5.5 percent per annum. Interest is charged to New Zealand-based borrowers and overseas-based borrowers; however, there is a concurrent write-off for New Zealand-based borrowers under the interest-free policy.

**Credit risk**

For the Student Loan Scheme, credit risk is the risk that borrowers will default on their obligation to repay their loans or die before their loan is repaid, causing the scheme to incur a loss.

The Student Loan Scheme policy does not require borrowers to provide any collateral or security to support advances made. As the total sum advanced is widely dispersed over a large number of borrowers, the Student Loan Scheme does not have any material individual concentrations of credit risk.

The credit risk is reduced by the collection of compulsory repayments from New Zealand-based borrowers through the tax system.

**Interest rate risk**

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in interest rates. Changes could impact on the return on loans advanced. The interest rate and the interest write-off provisions attached to student loans are set by the government.

**Changes in accounting policies**

There have been no changes in the student loan accounting policies applicable to the preparation of these financial schedules from those used in the previous year. All accounting policies have been applied on a basis consistent with the previous year.

**Comparatives**

When presentation or classification of items in the financial schedules is amended or accounting policies are changed, comparative figures have been restated to ensure consistency with the current period, unless it is impracticable to do so.
### 5.5 Notes to the financial schedules

#### Note 1: Consolidated movements schedule

**Table 36** Consolidated movements schedule for the year ended 30 June 2014

<table>
<thead>
<tr>
<th></th>
<th>2012/13</th>
<th>2013/14</th>
<th>2013/14</th>
<th>2013/14</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual $ million</td>
<td>Actual $ million</td>
<td>Inland Revenue $ million</td>
<td>Ministry of Social Development $ million</td>
</tr>
<tr>
<td><strong>Opening nominal balance</strong></td>
<td>12,968.7</td>
<td>13,562.3</td>
<td>13,562.3</td>
<td>0.0</td>
</tr>
<tr>
<td>New borrowings</td>
<td>1,566.8</td>
<td>1,601.0</td>
<td>0.0</td>
<td>1,601.0</td>
</tr>
<tr>
<td>Borrowings transferred</td>
<td>0.0</td>
<td>0.0</td>
<td>1,521.5</td>
<td>(1,521.5)</td>
</tr>
<tr>
<td>Repayments</td>
<td>(1,053.9)</td>
<td>(1,031.7)</td>
<td>(1,031.7)</td>
<td>0.0</td>
</tr>
<tr>
<td>Refunded course fees</td>
<td>(96.8)</td>
<td>(90.5)</td>
<td>0.0</td>
<td>(90.5)</td>
</tr>
<tr>
<td>Interest</td>
<td>155.8</td>
<td>150.9</td>
<td>150.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Administration and establishment fees</td>
<td>32.6</td>
<td>32.8</td>
<td>21.8</td>
<td>11.0</td>
</tr>
<tr>
<td>Penalties</td>
<td>43.4</td>
<td>48.9</td>
<td>48.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Deaths and bankruptcies</td>
<td>(22.0)</td>
<td>(24.5)</td>
<td>(24.5)</td>
<td>0.0</td>
</tr>
<tr>
<td>Voluntary repayment bonus</td>
<td>(32.3)</td>
<td>(14.2)</td>
<td>(14.2)</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Closing nominal balance</strong></td>
<td>13,562.3</td>
<td>14,235.0</td>
<td>14,235.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Adjustment due to initial fair value recognition and impairment</td>
<td>(5,274.1)</td>
<td>(5,519.2)</td>
<td>(5,519.2)</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total carrying value</strong></td>
<td>8,288.2</td>
<td>8,715.8</td>
<td>8,715.8</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Opening carrying value</strong></td>
<td>8,290.9</td>
<td>8,288.2</td>
<td>8,288.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Repayments</td>
<td>(1,053.9)</td>
<td>(1,031.7)</td>
<td>(1,031.7)</td>
<td>0.0</td>
</tr>
<tr>
<td>Refunded course fees</td>
<td>(96.8)</td>
<td>(90.5)</td>
<td>0.0</td>
<td>(90.5)</td>
</tr>
<tr>
<td>Establishment fees</td>
<td>11.3</td>
<td>11.0</td>
<td>0.0</td>
<td>11.0</td>
</tr>
<tr>
<td>New borrowings</td>
<td>1,566.8</td>
<td>1,601.0</td>
<td>0.0</td>
<td>1,601.0</td>
</tr>
<tr>
<td>Fair value write-down on new borrowings</td>
<td>(535.6)</td>
<td>(629.5)</td>
<td>(629.5)</td>
<td>0.0</td>
</tr>
<tr>
<td>Borrowings transferred</td>
<td>0.0</td>
<td>0.0</td>
<td>1,521.5</td>
<td>(1,521.5)</td>
</tr>
<tr>
<td>Impairment</td>
<td>(484.0)</td>
<td>(12.0)</td>
<td>(12.0)</td>
<td>0.0</td>
</tr>
<tr>
<td>Interest unwind</td>
<td>589.5</td>
<td>579.3</td>
<td>579.3</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(2.7)</td>
<td>427.6</td>
<td>427.6</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Student loans carrying value</strong></td>
<td>8,288.2</td>
<td>8,715.8</td>
<td>8,715.8</td>
<td>0.0</td>
</tr>
</tbody>
</table>
Note 2: Recognition

Student loan nominal value
The nominal balance is the sum of all obligations that borrowers have including loan principal, interest and penalties. The change in nominal value from year to year reflects the net growth of the portfolio through new lending less repayments and other adjustments, such as write-offs due to deaths and bankruptcies. The nominal balance is the basis for other values such as the carrying value and fair value.

Student loan carrying value
Student loans are initially recognised at fair value plus transaction costs and subsequently measured annually at amortised cost using the effective interest rate method and including the annual impairment figure.

Impairment of student loans in 2013-14 was $12 million. This impairment is mainly due to higher average loan balances, partially offset by updated income sub-models and a policy change. Average loan balances have been adjusted upwards this year as the adjustment made in the 2013 valuation to account for lending up until 31 March 2012 did not sufficiently capture additional lending made by existing borrowers but held by StudyLink. The policy change was an extension of the freezing of the repayment threshold for two more years to 31 March 2017.

In 2012-13 the impairment of student loans was $484.0 million. This was driven by lower than expected incomes and repayments as well as changes to macroeconomic assumptions for income recovery and earnings inflation.

Fair value on initial recognition of student loans is determined by projecting forward expected repayments required under the scheme and discounting them back at an appropriate discount rate. The subsequent measurement at amortised cost is determined using the effective interest rate calculated at initial recognition. This rate is used to spread the interest income across the life of the loan and determines the loan’s carrying value at each reporting date.

The valuation model reflects current student loan policy. The carrying value is also sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macroeconomic factors such as inflation and the discount rate used to determine the effective interest rate on new borrowers. The significant assumptions are shown below.

### Table 37 Significant assumptions

<table>
<thead>
<tr>
<th></th>
<th>30 June 2013</th>
<th>30 June 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Carrying value</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effective interest rate1</td>
<td>7.08%</td>
<td>7.06%</td>
</tr>
<tr>
<td>Interest rate applied to loans for overseas borrowers</td>
<td>5.1%-6.2%</td>
<td>5.1%-6.2%</td>
</tr>
<tr>
<td>Consumer Price Index</td>
<td>1.4%-2.5%</td>
<td>1.8%-2.5%</td>
</tr>
<tr>
<td>Future salary inflation</td>
<td>2.2%-3.5%</td>
<td>2.8%-3.5%</td>
</tr>
<tr>
<td><strong>Fair value</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value ($m)</td>
<td>8,298.0</td>
<td>8,924.0</td>
</tr>
<tr>
<td>Discount rate2</td>
<td>6.45%</td>
<td>6.62%</td>
</tr>
<tr>
<td>Impact on fair value of a 1% increase in discount rate ($m)</td>
<td>(423.0)</td>
<td>(448.0)</td>
</tr>
<tr>
<td>Impact on fair value of a 1% decrease in discount rate ($m)</td>
<td>471.0</td>
<td>501.0</td>
</tr>
</tbody>
</table>

Source: Inland Revenue.
1. The effective interest rate is a weighted average rate across all cohorts.
2. The discount rate is the single discount rate that is equivalent to a set of year-specific discount rates used to compute the fair value.

Three data changes have been introduced for the 2014 student loan valuation model—the integrated data infrastructure (IDI), live data transfers and unit record monthly data (URMD).

Statistics New Zealand compiles the IDI from data provided by Inland Revenue, Ministry of Social Development and Ministry of Education. The IDI replaces the integrated dataset used in the past. The IDI is current to 31 March 2013. It contains information on borrowings, repayments, income, educational factors and socio-economic factors amongst others which had been used in the valuation model.

This is the first year that live transfer data has been used for the valuation. The live transfer of lending data between Ministry of Social Development and Inland Revenue began on 1 April 2012. Previously lending data was transferred annually.

Due to a 15 month data lag in the IDI and because the financial information is based on tax years, URMD is used to fill in this lag as much as possible to determine the balances for each tranche of capital lending by calendar year. The URMD extract contains monthly loan transactions, loan balances at select months, start and end dates for periods when participants are classified as overseas-based and customs data listing entry and exit dates for all New Zealanders. The financial impact on the valuation of adopting the URMD this year is not material.

As per last year, the valuation model also utilises Employer Monthly Schedule information which summarises income from salaries and wages i.e. more recent data to value student loans at balance date.
Student loan fair value

Fair value is the amount for which the loan book could be exchanged between knowledgeable, willing parties in an arm’s length transaction as at 30 June 2014. It is determined by discounting the estimated cash flows at an appropriate discount rate. The estimated fair value of the student loan debt at 30 June 2014 has been determined to be $8,924 million ($8,298 million at 30 June 2013).

Fair values will differ from carrying values due to changes in market interest rates, as the carrying value is not adjusted for such changes whereas the fair value was calculated on a discount rate that was current at 30 June 2014.

At that date, the fair value was calculated on a discount rate of 6.08 percent which excludes expenses, whereas a weighted average discount rate of 7.06 percent including expenses was used for the carrying value. For reference, the representative discount rate for fair value including an allowance for expenses is 6.62 percent. The difference between fair value and carrying value does not represent an impairment of the asset.

Note 3: Reconciliation of impairment allowance account

Table 38 Reconciliation of impairment allowance account

<table>
<thead>
<tr>
<th></th>
<th>30 June 2013</th>
<th>30 June 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of year</td>
<td>$952</td>
<td>$1,436</td>
</tr>
<tr>
<td>Impairment expense recognised on receivables</td>
<td>$484</td>
<td>$12</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>$1,436</td>
<td>$1,448</td>
</tr>
</tbody>
</table>

Source: Inland Revenue.
Independent Auditor’s Report

To the readers of the Student Loan Scheme’s financial schedules for the year ended 30 June 2014

The Auditor-General is the auditor of the Student Loan Scheme (the Scheme). The Auditor-General has appointed me, Ajay Sharma, using the staff and resources of Audit New Zealand, to carry out the audit of the financial schedules of the Scheme on her behalf.

We have audited the financial schedules of the Scheme on pages 50 to 58 that comprise the schedule of assets as at 30 June 2014, the schedule of revenue and expenditure and schedule of cash flows for the year ended on that date and notes to the financial schedules that include accounting policies and other explanatory information.

Opinion

In our opinion the financial schedules of the Scheme on pages 50 to 58:

• comply with generally accepted accounting practice in New Zealand; and

• fairly reflect the Scheme’s:
  – financial position as at 30 June 2014; and
  – financial performance and cash flows for the year ended on that date.

Our audit was completed on 27 November 2014. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Secretary for Education and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General’s Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers’ overall understanding of the financial schedules. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial schedules whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Scheme’s financial schedules that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Scheme’s internal control.

An audit also involves evaluating:

• the appropriateness of accounting policies used and whether they have been consistently applied;

• the reasonableness of the significant accounting estimates and judgements made by the Secretary for Education;

• the adequacy of all disclosures in the financial schedules; and

• the overall presentation of the financial schedules.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial schedules. Also, we did not evaluate the security and controls over the electronic publication of the financial schedules.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Secretary for Education

The Secretary for Education is responsible for preparing financial schedules that:

• comply with generally accepted accounting practice in New Zealand; and

• fairly reflect the Scheme’s financial position, financial performance and cash flows.
The Secretary for Education is also responsible for such internal control as is determined necessary to enable the preparation of financial schedules that are free from material misstatement, whether due to fraud or error. The Secretary for Education is also responsible for the publication of the financial schedules, whether in printed or electronic form.

The Secretary for Education’s responsibilities arise from the Education Act 1989 and the Student Loan Scheme Act 2011.

**Responsibilities of the Auditor**

We are responsible for expressing an independent opinion on the financial schedules and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

**Independence**

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with, or interests in, the Scheme.

Ajay Sharma
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand
Appendix 1: Management and design of the scheme

Roles and responsibilities

Ministers and officials

The Minister responsible for tertiary education is responsible for student loan policy and the Minister of Revenue is responsible for all student loan operational matters. The Secretary for Education is appointed as the Lead Official and this role is delegated to the Deputy Secretary Graduate Achievement, Vocations and Careers.

The Lead Official is responsible and answerable to Ministers for the Student Loan Scheme, with responsibilities including: leading a Scheme work programme, working with StudyLink and Inland Revenue on processes to improve operation of the Student Loan Scheme, Scheme performance management, Scheme communications, and supporting Ministers to undertake their roles.

Agencies with an interest in the scheme

The Ministry of Education is the lead agency on student loans; responsible for providing strategic policy advice on student loans, forecasting borrower costs, preparing the annual report and managing the valuation process.

StudyLink, a service of the Ministry of Social Development, is responsible for the administration and payment of loans, processing around 240,000 applications per year and making loan payments to students and tertiary education organisations. StudyLink provides operational policy advice regarding student loan eligibility and entitlement.

Inland Revenue is responsible for collecting student loan repayments and ensuring repayment obligations are met by borrowers. Inland Revenue provides operational policy advice on matters concerning the collection of loans and is responsible for the Student Loan Scheme Act.

The Treasury is the Government’s lead advisor on economic, financial and regulatory policy. Its role is to bring a fiscal and economic focus to student loans policy advice, including the valuation of the Student Loan Scheme and its fiscal sustainability.

Statistics New Zealand disclaimer

This report uses data from the Integrated Data Infrastructure, or IDI. Statistics NZ makes the following disclaimer about use of the data.

Access to the anonymised data from the IDI used in this report was provided by Statistics NZ in accordance with security and confidentiality provisions of the Statistics Act 1975 and secrecy provisions of the Tax Administration Act 1994. The results in this report have been confidentialised to protect individual persons, households, businesses and organisations from identification. The results presented in this report are the work of the author, not Statistics NZ.

Legal structure and authority

Student loan eligibility rules are set out in the decisions of Cabinet recorded in Cabinet Minutes. Access to a student loan is provided through a contract between the Crown and the student. The collection rules for student loans are set out in the Student Loan Scheme Act 2011.

The purpose of the Act is to:

— provide for the effective administration of student loans
— provide for the collection of student loan repayments
— provide transparency about student loans so that borrowers understand their obligations for those loans
— encourage borrowers to repay their student loans at the earliest possible time.

Parameters of the scheme

Eligibility

To be eligible a student must be:

— a New Zealand citizen or a refugee or protected person (under the Immigration Act 2009). Permanent residents (including Australians) are subject to a three-year stand-down before they can receive a student loan
— enrolled in an approved qualification offered by a recognised tertiary education provider
— studying:
  • full-time, or
  • part-time for a full year (32 weeks or longer), or
  • part-time for part of the year (less than 32 weeks) with a course load of 0.25 equivalent full-time student units or more.

In addition:

— students under 18 years need parental consent before they can borrow
— undischarged bankrupts are not eligible for a student loan
— students must not have exceeded the 7 EFTS limit (which includes all study for which a student has had a student loan, from 1 January 2010). Students may be eligible for additional entitlement beyond the 7 EFTS limit to:
  • finish a paper or course of study if it takes the student over the 7 EFTS limit
  • complete postgraduate study (up to an additional 1 EFTS)
  • undertake doctoral study (up to an additional 3 EFTS)
— they need to pass at least half of their course load (EFTS) over a set period to retain their student loan eligibility
— the amount of study for which a student can borrow in a year is capped at 2 EFTS
— the amount that a student can borrow for pilot training is capped at $35,000 per EFTS
— students aged 55 years and over are restricted to the compulsory fees element of the scheme
— borrowers in default of their loans by $500 or more, are ineligible for a further loan
— borrowers are required to provide details of a contact person before they receive a loan
— students under 18 and enrolled in a ‘fees-free’ Youth Guarantee and SAC levels 1 and 2 qualification are ineligible for student loans
— 18 to 24 year olds enrolled in a Youth Guarantee or SAC levels 1 and 2 qualification will not be able to access the course fees part of student loans, as all Level 1 and 2 qualifications will be fees-free.

Loan components
Loans have four components.

Compulsory fees
Students can borrow the full amount of their compulsory fees. These are directcredited to the borrower’s chosen tertiary education provider.

Where compulsory, students’ association fees can be borrowed as part of the compulsory fees loan entitlement. Otherwise, students’ association fees can be borrowed as part of a student’s course-related costs entitlement.

Course-related costs
Full-time students can borrow up to $1,000 each year to help cover expenses related to their studies, such as equipment, textbooks and field trips. Students may have to provide justification of their expenses. Students studying part-time are not able to access this component of the loan scheme.

Living costs
Only full-time students are eligible for the living costs component for each week of the course, less the net amount of any student allowance paid.

The living costs component is paid in weekly instalments in arrears. In the week of the course, less the net amount of any student allowance paid.

Full-time students can borrow up to $1,000 each year to help cover expenses related to their studies, such as equipment, textbooks and field trips. Students may have to provide justification of their expenses. Students studying part-time are not able to access this component of the loan scheme.

Establishment and administration fees
When a new loan account is set up, StudyLink charges an establishment fee of $60. This is added to the student’s loan balance when they first draw from the loan account, or when fee payments are made to the provider (on the student’s instructions). The establishment fee is charged for each loan that is established.

If a student borrows for three academic years, this requires three loans to be established and therefore three establishment fees are charged, one for each academic year.

If a student cancels their loan within seven days of the account being established, and repays any money that has been drawn down, the $60 establishment fee (and any interest charged on it) will be waived. Otherwise, the establishment fee is always included in the loan balance.

An annual administration fee of $40 is charged to the borrower’s account if the loan balance is $20 or more at 31 March each year. This fee is not payable if a StudyLink establishment fee has been charged in the same tax year.

Loan repayments
Inland Revenue handles the collection of loan repayments. Borrowers have obligations depending on whether they are defined as being New Zealand-based or overseas-based. Repayments from New Zealand-based borrowers are generally made through the tax system.

Interest is charged on the loans of overseas-based borrowers, but not of those who are defined as being based in New Zealand.

On 1 April 2013, the student loan repayment rate for New Zealand-based borrowers was increased from 10 to 12 cents per dollar in excess of the threshold.

In New Zealand—earning salary or wages
New Zealand-based borrowers are required to declare to their employer that they have a student loan as part of the PAYE (pay as you earn) deductions system. From 1 April 2012, deductions are made when a borrower earns over the pay-period threshold (for example if a borrower is paid weekly, the annual repayment threshold is divided by 52 weeks). These deductions are generally considered as meeting a borrower’s repayment obligation for that pay period, unless there has been a significant over- or under-deduction. This means there are no end-of-year repayment obligations for borrowers earning solely salary or wages.

Borrowers can apply for an exemption from having repayment deductions if they are in full-time study and expect to earn under the annual repayment threshold. Those who have two or more jobs can apply for a reduced student loan deduction rate on their secondary income, if they earn less than the pay period repayment threshold from their main job.

In New Zealand—adjusted net income
Borrowers have adjusted net income if they have income other than salary or wages, for example if they are self-employed. These borrowers generally make repayments in three instalments during the tax year in the same way that businesses pay provisional tax.

Borrowers with adjusted net income and who earn over the annual repayment threshold have the following obligations:

— 12 percent of their total income over the threshold if their salary and wages are below the annual repayment threshold
— 12 percent of their adjusted net income if they have no salary and wages or if their salary and wages are above the annual repayment threshold.

Overseas
Overseas-based borrowers are those defined as being overseas for 184 days or more. However, some borrowers overseas for 184 days or more may be treated as New Zealand-based in limited circumstances.
Interest applies to loans from the day after the borrower leaves New Zealand. The interest rate applying from April 2013 to March 2014 was 5.9 percent per annum, and is 5.5 percent for the tax year to March 2015.

The repayment obligation for overseas borrowers is not based on income as it is for New Zealand-based borrowers. The obligation is set in steps according to loan balances. From 1 April 2014 the steps were:
- under $1,000—the whole loan balance is due
- $1,000 and up to $15,000—$1,000 is due
- over $15,000 and up to $30,000—$2,000 is due
- over $30,000 and up to $45,000—$3,000 is due
- over $45,000 and up to $60,000—$4,000 is due
- over $60,000—$5,000 is due.

Repayment obligations do not decrease if the loan balance decreases (though they do increase if the balance increases). The level set at 1 April 2014 remains the minimum repayment until the borrower returns to New Zealand or repays the loan fully.

To March 2014, repayment obligations were:
- for loan balances under $1,000—the whole loan balance is due
- over $1,000 and up to $15,000—$1,000 is due
- over $15,000 and up to $30,000—$2,000 is due
- over $30,000—$3,000 is due.

### Repayment holiday
Changes to the repayment holiday took effect with the enactment of the Student Loan Scheme Amendment Act 2012. Borrowers going overseas from 1 April 2012 need to apply for a repayment holiday and provide a contact person in New Zealand. The repayment holiday was reduced to a maximum of one year.

From April 2007, overseas-based borrowers were automatically given a repayment holiday for a maximum of three years. Borrowers did not have to make repayments during this period, although their loans still attracted interest. Those entitled to the repayment holiday include borrowers who went overseas after 1 April 2007 and those who were already overseas and had either kept up to date with their repayments or had been overseas for less than a year.

### Voluntary repayments
By making voluntary repayments towards their student loan, borrowers can repay their loan faster. All borrowers are able to make voluntary repayments towards their student loan at any time. They can be made in a number of ways, including through additional deductions from salary or wages by using a special repayment code, by automatic payment, through online banking, or with credit or debit cards. Borrowers who are overseas can make an international money transfer, including fee-free repayments.

### Repayment bonus
From the 2009/10 tax year to the 2012/13 tax year, borrowers making repayments of $500 or more above their repayment obligation for that year received a 10 percent bonus. The voluntary repayment bonus was repealed as part of the Government’s 2012 Budget initiatives.

### Overdue repayments and late payment interest
Collection of overdue loan repayments is achieved in the same way as for overdue taxes. If repayment obligations are not met by the due date, late payment charges may apply to the unpaid amount. Up to March 2012 these late payment charges were called ‘late payment penalties’, but from April 2012 it changed to ‘late payment interest’. The charges are added to the unpaid amount from the day after the due date, and then monthly until the amount is paid in full. From 1 April 2013 to 31 March 2014, the late payment interest was 0.789 percent monthly. From 1 April 2014, the rate has been 0.759 percent monthly. The late payment interest rate is the loan interest rate plus 4 percent, calculated as a monthly rate.

Borrowers having difficulty paying an overdue student loan repayment can negotiate a repayment arrangement, and this reduces late payment interest charged if they meet the terms of the arrangement. A borrower may also negotiate a lower repayment amount if the compulsory repayment obligation would cause serious financial hardship. In certain circumstances, a borrower suffering hardship may have any overdue amount added back to the loan principal.

Inland Revenue may also refrain from collecting all or part of an overdue repayment obligation that is less than $334, with the overdue portion being added back to the loan principal.

### Write-offs
Loans are written off:
- in the event of the death or bankruptcy of the borrower
- if a borrower has a loan balance of less than $20 at the end of a tax year.

### Interest
New Zealand-based borrowers are not charged interest on their student loans. To be eligible, student loan borrowers must be living in New Zealand for 183 consecutive days or more, though some other borrowers may be treated as New Zealand-based in limited circumstances.13

Overseas-based borrowers do not qualify for an interest-free student loan and continue to be charged loan interest.

The interest rate for the tax year from April 2013 to March 2014 was 5.9 percent per annum, and 5.5 percent per annum for the tax year from April 2014 to March 2015.

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13 Some borrowers may qualify for exemption from interest charges if they are overseas and, for example, they are studying, or working as a volunteer. Full details are available on ird.govt.nz
**Student Loans Integrated Model (SLIM)**

SLIM is built on the integrated dataset on student loans and allowances. It was constructed by actuaries engaged by the Ministry of Education. Each year the integrated dataset is rebuilt to incorporate an extra year’s data. Following this, the model is revised and updated and is used by the consulting actuaries in preparing their valuation of the scheme. The experience of past borrowers forms the core of the model and is used to predict what present and future borrowers will do in the future.

Changes in the economic environment and policy changes also affect borrowing and repayment behaviour and, depending on timing, these impacts are not necessarily reflected in the data on which the model is built.

This year’s model was built on administrative data up until the end of March 2013 supplemented with transactional data up until April 2014. Adjustments are made to allow for changes that are not captured or only partially captured in the data, such as the change to pay period assessments.

SLIM benefits from a longitudinal dataset that becomes increasingly rich as further years of data are integrated each year. It gives agencies, researchers and the public a clearer understanding of the loan scheme’s probable future status and outcomes. It enables more accurate assessments of, for example, the likely effects of the loan scheme or of policy changes on different groups (such as ethnic groups or gender) and the borrowing and repayment behaviour of borrowers in different fields or levels of study. In this year’s model up to five years’ worth of data has been used to produce the predictive models.

SLIM is based on a large number of categorical and regression tree models and generalised linear models developed from the integrated dataset. The 2014 version of SLIM has 21 such sub-models. Together, these sub-models encapsulate former borrowers’ characteristics. These include borrowing and repayment behaviours, income growth, propensity to travel overseas, and other characteristics. A number of borrower features, including residency, income, study duration, amounts borrowed and voluntary repayments are modelled and projected into the future.

Each sub-model uses several predictive variables (for example, study-related fields such as the level of study undertaken and the completion status, or demographic fields such as age and gender, or loan-related data such as the loan balance, amount borrowed and so on). SLIM calculates the probabilities of an individual being enrolled or not enrolled, earning or not earning, or travelling overseas. It then proceeds to model the income of the individual and their repayment obligations. From there, the expected repayments in each year for each individual are calculated again using sub-models.

### Table 39 Variables and assumptions

<table>
<thead>
<tr>
<th>Area</th>
<th>Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic assumptions</strong></td>
<td>The Treasury publishes a central table of CPI inflation assumptions which are to be used in major accounting valuations for reporting to the Crown. These figures have been adopted for the valuation. The remaining economic assumptions are set by the consulting actuaries in consultation with the Treasury, Inland Revenue, the Ministry of Social Development and the Ministry of Education. For example, the long-term Average Weekly Earnings growth is expected to range between 2.8 percent and 3.1 percent over the next five years and then rise gradually to the long-term rate of 3.5 percent by 2022.</td>
</tr>
<tr>
<td><strong>Discount rates</strong></td>
<td>The carrying value of student loans is based on discount rates that are set at the time of lending. These incorporate a risk-free component and a risk premium. Prior to 1 January 2013, the discount rate was calculated each year for each new cohort of borrowers. After this date, the discount rate is calculated for each year of new lending as a more accurate reflection of the accounting standards. As with the CPI, the risk-free rates are as prescribed by the Treasury. The risk margin was determined by the consulting actuaries as 1.58 percent. The discounting used to compute the fair value, which is based on current risk-free rates and margins (risk margin and expenses), is equivalent to a single annual discount rate, which for this year’s valuation is estimated to be 6.62 percent.</td>
</tr>
<tr>
<td><strong>Income of borrowers</strong></td>
<td>Personal income growth from ‘career advancement’ is modelled from the experience of the loan scheme and from census data for longer durations. Salary inflation is imposed on top of this ‘career advancement’ analysis as an economic assumption.</td>
</tr>
<tr>
<td><strong>Transitions between being a student, employment and overseas</strong></td>
<td>Modelled from the recent experience of the loan scheme’s participants.</td>
</tr>
<tr>
<td><strong>Voluntary repayments</strong></td>
<td>The probability and amount of voluntary repayments are modelled from the experience of the loan scheme since the introduction of the interest-free policy but before the introduction of the (discontinued) voluntary repayment bonus scheme. The output from the sub-models is then adjusted to allow for the impact of moving to pay period assessments.</td>
</tr>
<tr>
<td><strong>Repayment threshold</strong></td>
<td>$19,084 until 31 March 2017 and increasing by annual CPI thereafter. This is then adjusted to allow for the impact due to moving to pay period assessments.</td>
</tr>
<tr>
<td><strong>Resident underpayments</strong></td>
<td>The probability and amount of underpayment by New Zealand-based borrowers have been modelled from recent data and adjusted for the expected impact due to moving to pay period assessments, and changes to the underpayments collection process.</td>
</tr>
<tr>
<td><strong>Bankruptcy</strong></td>
<td>Age-specific, graduated rates were constructed based on the experience of the loan scheme. For example, the rate of bankruptcy at age 40 is 2.54 per 1,000 borrowers each year.</td>
</tr>
<tr>
<td><strong>Mortality</strong></td>
<td>Based on the experience of the loan scheme, male mortality is assumed to be 95 percent of the New Zealand Life Tables 2005 and female mortality is assumed to be 100 percent of the New Zealand Life Tables 2005.</td>
</tr>
</tbody>
</table>
Appendix 2: Glossary

Academic year
The academic year is from 1 January to 31 December.

Active borrower
Someone who is currently borrowing from the scheme. Active borrowers will either be studying for the first time, or continuing with their study.

Active repayer
Borrowers who have made at least one repayment in the financial year, as distinguished from those borrowers who have not made payments.

Administration fee
A $40 fee charged by Inland Revenue for each year a borrower has a loan balance with Inland Revenue (except in those tax years that the borrower is charged an establishment fee by StudyLink). The fee is charged at the end of each tax year on 31 March.

Amortised cost
The amount that represents the initial fair value write-down plus interest unwind. The interest unwind rate effective at the initial fair value write-down is used to spread the interest over the life of the loan.

Annual maximum fee movement
The way that the government sets limits on the amount tertiary education providers may charge for tuition fees for programmes funded by the Government.

The annual maximum fee movement replaced the previous fee and course costs maxima (FCCM) policy from 2011.

Approved qualification
A formally assessed qualification approved by the New Zealand Vice-Chancellors’ Committee or the New Zealand Qualifications Authority (NZQA) or bodies delegated by NZQA.

Borrower
Any person who has drawn from the Student Loan Scheme.

Borrowers overseas
Until 31 March 2007, a borrower living overseas was called a non-resident borrower and defined as a borrower not living in New Zealand in terms of section OE 1 of the Income Tax Act 1994.

From 1 April 2007, borrowers living overseas are referred to as ‘overseas-based borrowers’. An overseas-based borrower now includes anyone not eligible for an interest-free student loan.

Carrying value
The carrying value is the value of the Student Loan Scheme asset which is maintained in the scheme’s accounts. It increases during the year as new loans are issued and decreases as repayments are made. Adjustments are made each year following an annual valuation of the asset. Since 1 July 2005, valuations have been made in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

Cohort
A group of people with a common statistical factor. For example, a cohort could be a group of students for whom 2013 is their first year of tertiary education.

Compulsory fees or tuition fees
Compulsory fees charged for tuition by public and private tertiary education providers.

Compulsory repayments
Repayments a borrower must make on their loan.

For New Zealand-based borrowers, compulsory repayments commence when their earnings cross the income threshold. When this happens, loan repayments must be made to Inland Revenue, even if the borrower is still studying.

For overseas-based borrowers, compulsory repayments must be made to Inland Revenue twice a year. One instalment is due on 30 September, the other on 31 March. The amount to be repaid is based on the size of the borrower’s loan. For those who have successfully applied for a repayment holiday, repayment will begin after they have been away for one year. For more details about repayment rates for overseas-based borrowers, visit the Inland Revenue Department website, ird.govt.nz/studentloans.

Course
A component of education encompassing teaching, learning, research and assessment. Papers, modules and unit standards are all terms that are sometimes applied to courses. A course or collection of courses forms a programme of study which, if completed successfully, results in the award of a qualification.

Course-related costs
These are the additional expenses associated with tertiary study that are not compulsory for all students. These can include such costs as equipment, textbooks, field trips, and transport to and from classes.

Equivalent full-time student (EFTS)
A measure used to count tertiary student numbers. A student taking a normal year’s full-time study generates one equivalent full-time student unit. Part-time or part-year students are fractions of a unit.

Establishment fee
A $60 fee charged by StudyLink each year when a borrower establishes a new loan account with StudyLink.
Fair value
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Fee and course costs maxima policy (FCCM)
This policy replaced the fee stabilisation policy from 2004. There are three dimensions to this policy: an increase in subsidy rates, an annual fee movement limit, and a set of maximum fee levels. The policy rationale was to provide certainty for students as to future costs, while allowing providers some flexibility in setting their fees.

Fee stabilisation policy
The fee stabilisation policy was introduced in 2001 to prevent increases in tuition fees before the FCCM policy was developed. The policy involved institutions agreeing not to increase their fees and the government increasing tuition fee subsidies.

Fiscal year
Government’s accounting year — starting on 1 July and ending on 30 June.

Formal education/study
Learning opportunities within the New Zealand tertiary education system can be categorised as formal and non-formal. Formal study contributes towards a recognised qualification, while non-formal study does not contribute towards a recognised qualification.

Full-time
Any programme of study undertaken by a student that is either:
− 32 weeks or more and at least 0.8 equivalent full-time student units (this is designated full-time, full-year), or
− 12 weeks or more and at least 0.3 equivalent full-time student units or the equivalent on a pro rata basis (for example, 24 weeks and 0.6 equivalent full-time student units is designated full-time, part-year).

This definition is used to determine eligibility for the living costs component of the student loan and for student allowances. It was used in applying the student loan full interest write-off for full-time students, which has now been replaced by a full interest write-off for New Zealand-based borrowers (interest-free student loans).

Governance
The process of steering or directing the activities and priorities of an organisation, group or process. With respect to student loans governance, the Student Loan Scheme Governance Group was set up in 2010 to provide collective oversight and ownership of the scheme. The group is made up of representatives from the Ministry of Education, the Ministry of Social Development, the Treasury and Inland Revenue. See Appendix 1 for a description of the various roles and responsibilities, including governance, of the Student Loan Scheme.

Impairment
A change in the value of a long-term asset.

Income year or tax year
From 1 April to 31 March the following year. For example, in this report the 2012/13 tax year is referred to as the 2013 tax year, ending on 31 March 2013.

Industry training organisations (ITOs)
These are organisations that develop high-quality, systematic training arrangements (through tertiary institutions, private training establishments and the workplace) for employees in their industry.

Institutes of technology
An alternative name for polytechnics.

Institutes of technology and polytechnics (ITPs)
Institutes of technology and polytechnics are public tertiary education institutions characterised by diverse vocational and professional programmes.

Integrated data infrastructure (IDI)
The IDI is managed by Statistics New Zealand. It combines:
− information collected by tertiary education providers on students, enrolments and courses
− information collected by StudyLink on borrowing under the loan scheme and student allowances payments
− data on student loan balances, repayments, income and tax status from Inland Revenue
− data on student loan borrowing from the now-defunct student loan account manager provided by Inland Revenue and the Ministry of Education.

Interest
Refer to “Total interest rate.”

Interest-free student loans
From 1 April 2006, student loans for borrowers living in New Zealand for 183 consecutive days or more (about six months), and for borrowers who are exempt, are interest-free. This is the 183-day requirement.

Interest unwind
An item of revenue to the Student Loan Scheme. As time moves on, loans on the balance sheet come closer to being repaid and are therefore worth more to the owner. In effect this increase in value is a partial reversal, or unwinding, of the initial reduction in value brought about by the discounting process.

Interest write-offs
In some previous years, interest has been charged on student loans. There were a number of provisions under which this interest was written off or cancelled. From 1 April 2007, interest write-offs ceased to exist due to the introduction of interest-free student loans. For more detail refer to previous years’ reports and the web document at www.educationcounts.govt.nz.

Late payment interest
Charges on unpaid amounts if repayment obligations are not met by the due date (previously late payment penalties).
Lead official
An appointed or authorised member of a government agency that directs or governs a project.

Loan balance
In this report, the term 'loan balance' means the total amount owed by an individual to Inland Revenue which was borrowed under the Student Loan Scheme. This amount may also be referred to as 'debt'.

Negative impairment
When a valuation results in an increase in the value of an asset, the resulting change in value is called a reversal of an impairment or a negative impairment.

New borrowers
Borrowers who entered the loan scheme for the first time in a given year.

New Zealand-based borrowers
All borrowers who qualify for an interest-free student loan. Since 1 April 2006, if borrowers live in New Zealand for six months (183 days) or more, interest charged to their loan balance is written off daily.

Nominal value
The total amount owed by borrowers at a point in time, including loan principal, interest, fees and penalties.

Non-degree
Non-degree level applies to programmes of study and qualifications that are not at degree or postgraduate level.

Non-formal education/study
Learning opportunities in the New Zealand tertiary education system can be categorised as formal and non-formal. Non-formal study does not contribute towards a recognised qualification.

Other tertiary education providers (OTEPs)
Providers recognised by the Minister of Education under section 321 of the Education Act 1989 as bodies that provide an educational or developmental service or facility.

Overseas-based borrowers
All borrowers who are not eligible for an interest-free student loan. Borrowers are no longer eligible for an interest-free student loan if they travel overseas for a period longer than six months (184 days), or for more than 31 days during the 183-day qualifying period.

Part-time
A programme of study that is less than full-time.

Pasifika
This is a collective term for people of Samoan, Cook Islands, Tongan, Niuean, Tokelauan, Fijian and other mixed Pasifika heritage. It includes a variety of combinations of ethnicities, recent migrants and third, fourth and fifth generation New Zealanders.

Pay period repayment threshold
The amount which can be earned in a pay period in New Zealand, before student loan repayments need to be made from salary or wages for borrowers using a main job tax and repayment code. From 1 April 2013, borrowers who earn over the pay period repayment threshold have 12 cents for every dollar above the threshold deducted to pay their loan. The pay period repayment threshold is based on the annual repayment threshold (for example, if a borrower is paid weekly, the annual repayment threshold is divided by 52).

PAYE
If income is from salary, wages, benefits or taxable pensions, tax is deducted automatically under the PAYE (pay as you earn) system. Employees who are taxed under the PAYE system and have a student loan must indicate this by selecting a certain tax code. This ensures that borrowers make the correct repayments on their student loan according to their level of income.

Private training establishments (PTEs)
These are private providers of tertiary education registered with the New Zealand Qualifications Authority.

Programme of study
A programme of study is a collection of courses, classes or work that leads to a qualification.

Qualification
An official award given in recognition of successful completion of a programme of study that has been quality assured by a recognised quality assurance agency. All recognised qualifications must be registered on the New Zealand Qualifications Authority’s Register of Quality Assured Qualifications.

Repayment deductions
Amounts deducted by employers from a borrower’s salary or wages when a borrower’s income exceeds the repayment threshold and where the borrower has notified their employer of their student loan repayment obligation by using the appropriate tax code.

Repayment holiday
From 1 April 2012, borrowers who go overseas for six months (184 days) can apply to Inland Revenue for a one-year repayment holiday. Prior to this, an automatic three-year repayment holiday was in place. Borrowers must provide contact details for an alternative New Zealand contact person when applying for the repayment holiday. A repayment holiday means that borrowers won’t have to make any repayments on their loan during this time. Interest, however, will continue to accumulate on the loan during this period.
Repayment obligation
The amount a borrower must repay toward their loan in any given income year. For New Zealand-based borrowers, this is calculated as the amount by which the borrower’s net income exceeds the repayment threshold, at the rate of 12 cents in the dollar. The amount of repayment for overseas-based borrowers is based on the size of their loan.

Repayment threshold
The amount a New Zealand-based borrower can earn in a year before having to make repayments on their loan. Once a person earns more than the threshold, they must pay 12 cents for every dollar earned over the threshold. The repayment threshold was set at $19,084 in the 2011/12 income year and will be held at that level until 31 March 2017. (See also ‘Pay period repayment threshold.’)

Student Achievement Component (SAC)
The Student Achievement Component is the government’s contribution to Tertiary Education Organisations (TEOs) for the direct costs of teaching, learning, and other costs driven by learner numbers. It is calculated in Equivalent Full Time Student (EFTS) units and provides funding to reflect the volume and mix of provision agreed in a TEO’s investment plan.

Student allowances
Income-tested grants provided to support living costs while studying.

Student Loans Integrated Model (SLIM)
The stochastic model used to provide an annual valuation of the loan scheme and price policy options. Refer to Appendix 1 for more details.

Study status
This refers to whether a person is studying full-time or part-time.

StudyLink
An organisation responsible for the delivery and administration of student loan payments, student allowances and the Jobseeker Support (student hardship). StudyLink is part of the Ministry of Social Development.

Tax year
From 1 April to 31 March the following year.

Tertiary education
Tertiary education comprises all involvement in post-school learning activities, including industry training and community education. It also includes in-school programmes such as Gateway and the Secondary-Tertiary Alignment Resource (STAR).

Tertiary education institutions (TEIs)
Public providers of tertiary education. TEIs are universities, institutes of technology and polytechnics, and wānanga. On 1 January 2007, the last two remaining colleges of education merged with their local universities.

Tertiary education organisations (TEOs)
These are all institutions and organisations that provide or facilitate tertiary education. They include tertiary education providers and industry training organisations.

Tertiary education providers (TEPs)
All institutions and organisations that provide tertiary education. These include public tertiary education institutions, private training establishments, other tertiary education providers and government training establishments.

Tertiary Education Strategy (TES)
Document that sets the Government’s goals and priorities for New Zealand’s tertiary education system so that it contributes to New Zealand’s national goals and is closely connected to enterprise and local communities.

Total interest rate
The interest charged on loans. Interest is adjusted annually from 1 April. The total interest rate:
- was 6.4 percent for 2012/13
- was 5.9 percent for 2013/14
- will be 5.5 percent for 2014/15.

From 1 April 2006, only overseas-based borrowers are liable for interest.

Tuition fees or compulsory fees
Compulsory fees charged for tuition by public and private tertiary education providers.

Voluntary repayments
Any student loan repayment that is made over and above a borrower’s compulsory repayment obligation. It excludes overpayments.

Wānanga
A public tertiary institution that provides programmes with an emphasis on the application of knowledge regarding ahuatanga Māori (Māori traditions) according to tikanga Māori (Māori custom).
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