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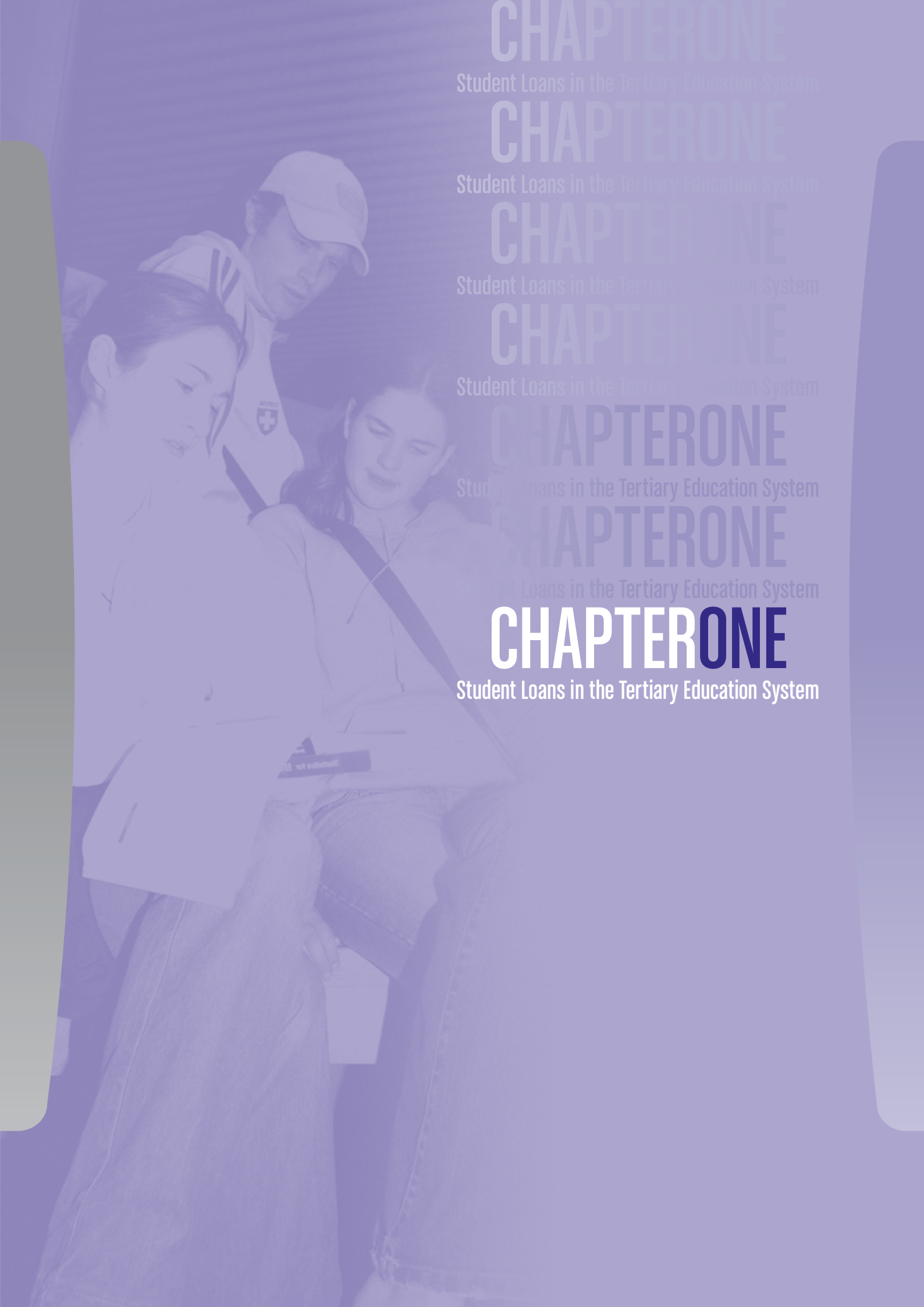
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1.0 Introduction

Government's priorities

Government has outlined three themes that have shaped its priorities:

- Economic Transformation
- Families - Young and Old
- National Identity.

These themes aim to ensure that all New Zealanders enjoy prosperity and a good quality of life, and to make New Zealand the best place in the world for future generations of New Zealanders to live.

The formal statement on the government priorities is available on the Department of the Prime Minister and Cabinet website www.dpmc.govt.nz/dpmc/publications/government-priorities.html.

The Tertiary Education Strategy

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

The first Tertiary Education Strategy was for the years 2002 to 2007 and took a broad and inclusive approach to cover the diversity of tertiary education. A new Tertiary Education Strategy for the years 2007 to 2012¹ was published in December 2006. It incorporates the Statement of Tertiary Education Priorities for 2008 to 2010 and continues the broad and inclusive direction of the previous strategy, while providing a sharper focus on the shifts required in tertiary education to achieve greater quality, relevance and value for money.

The Tertiary Education Strategy 2007/12 (the structure of which is illustrated in Appendix 1) provides new goals and a new focus for the tertiary education system. The three areas of focus are:

- success for all New Zealanders through lifelong learning
- creating and applying knowledge to drive innovation
- strong connections between tertiary education organisations and the communities they serve.

The Tertiary Education Strategy identifies the contribution of the student support system to meeting tertiary education outcomes.

'The government will continue to support broad-based participation in lifelong learning by New Zealanders through:

- *Supporting affordable, equitable access to tertiary education through tuition subsidies and a range of student support, including student allowances, merit- and needs-based scholarships, and student loans which are interest-free for students who remain in New Zealand*
- *Ensuring that students' own financial contributions through fees are affordable, predictable and fair.'*

The following sections provide further detail on how funding policy and student support policy currently contribute to these government objectives.

1.1 Funding tertiary education

As tertiary education is one of the keys to development and growth, all countries want to expand their tertiary education systems and use tertiary education to raise the level of skills in their population. However, this costs a great deal. Most countries face a dilemma in meeting the increasing costs of an expanding system. In New Zealand, one way successive governments have approached this is by sharing the costs.

Tuition subsidies ensure the cost of tertiary education is shared between government and students and their families. Partial subsidies enable government to provide funding for more students than would otherwise be possible, and therefore expand participation. In addition, those subsidies acknowledge that the benefits of tertiary education are shared as illustrated by the following:

- A better-educated workforce means our economy has greater skills to call upon.
- Tertiary education has been found to contribute to improved outcomes in health and social cohesion.
- Individuals with tertiary education earn more on average than others and are less likely to be unemployed.
- Individuals with tertiary education report higher levels of satisfaction with their lives.

Many individuals, however, do not have the money to meet their share of the cost of tertiary education until they experience the benefit of their tertiary study several years into the future. The loan scheme enables those students to meet their share of tertiary education costs by allowing them to pay their share over time as their earnings increase.

While the share of the total costs of tertiary education borne by students rose from 28 percent in 1998 to 33 percent in 2000, it fell back to 26 percent by 2007 due to fee stabilisation and rising subsidy rates.

1.2 Funding policy and its effect on tertiary fees

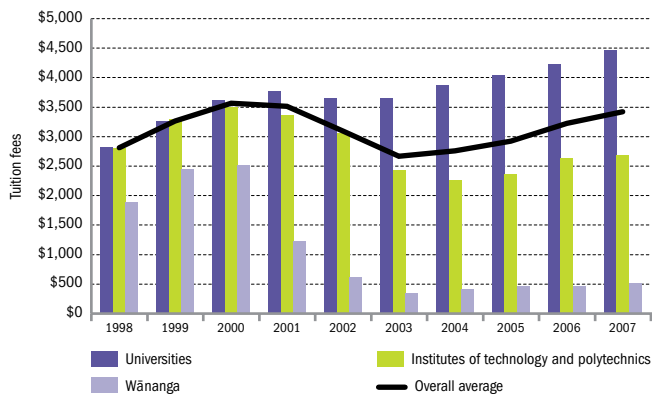
Between 1998 and 2000, the funding rates paid to tertiary education providers were reduced. This led to providers increasing their fees; the average tuition fee per equivalent full-time student in public tertiary education institutions increased by 27 percent (from \$2,806 to \$3,562) during this period.

From 2001, government introduced policies aimed at stabilising fees and the average fee per equivalent full-time student fell by 24 percent (from \$3,513 to \$2,664) between 2001 and 2003. The extent of the fall in average fees from 2001 to 2003 was magnified by several polytechnics and wānanga reducing their fees for some qualifications to zero during this time. The average fee per equivalent full-time student then increased by 24 percent (from \$2,759 to \$3,417) between 2004 and 2007. Some of this increase was due to a fall in the proportion of students in low-cost courses, especially in wānanga.

¹ The Strategy can be found at www.minedu.govt.nz/educationSectors/TertiaryEducation/PolicyAndStrategy/ReleaseOfTheSecondTertiaryEducationStrategy.aspx.

Figure 1 shows the trends in average tuition fees per equivalent full-time student in universities, institutes of technology and wānanga and the overall average fee for the years 1998 to 2007.

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



Source: Ministry of Education and Tertiary Education Commission.

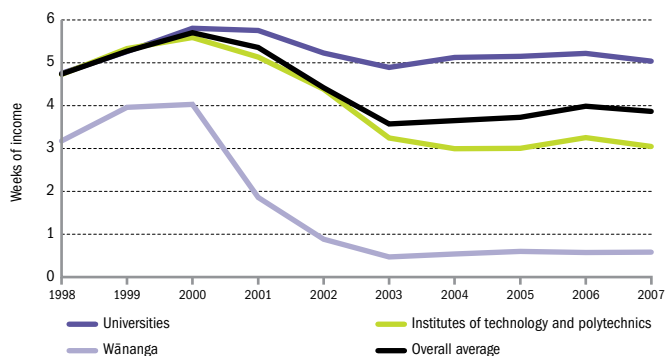
Notes:

1. Auckland University of Technology and Wellington Polytechnic are treated as universities for the entire period.
2. Data for the colleges of education is included in the university sub-sector as all colleges of education are now merged with universities.
3. Fees include GST.
4. The trends in fees in the institutes of technology and polytechnics and wānanga during the period 2000 to 2004 are influenced by the number of courses with zero fees offered in those sub-sectors.

The affordability of tertiary education

Fee stabilisation was introduced in 2001 and replaced by the fee and course costs maxima in 2004. This has meant that tertiary education has become more affordable since 2000, when the average full-year, full-time tuition fee at a university was equivalent to 5.8 weeks' average weekly income for the employed.² By 2007, this had fallen to 5.0 weeks' average weekly income. This is demonstrated in Figure 2.

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



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

Notes:

1. Auckland University of Technology and Wellington Polytechnic are treated as universities for the entire period.
2. Data for the colleges of education is included in the university sub-sector as all colleges of education are now merged with universities.
3. Fees include GST.
4. The trends in fees in the institutes of technology and polytechnics and wānanga during the period 2000 to 2004 are influenced by the number of courses with zero fees offered in those sub-sectors.

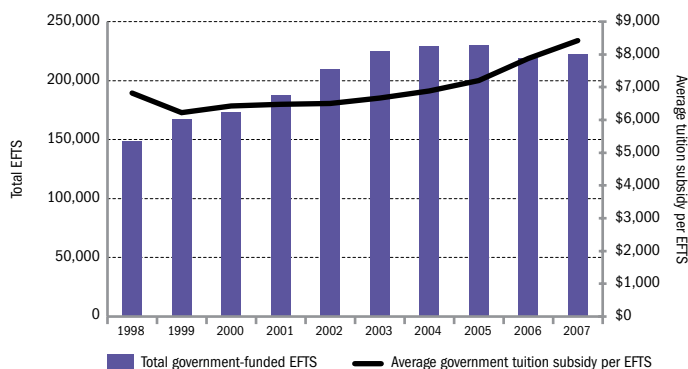
Increased spending on tuition subsidies

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

Since 2000, funding in the form of tuition subsidies has increased. In the 2007/08 fiscal year, \$2,185 million in tuition subsidies³ was allocated to tertiary education providers, compared with \$1,084 million in 1999/2000.⁴ The increased funding is due to an increase in tertiary student numbers and in subsidy rates.

As shown in Figure 3, between 2000 and 2007, the number of government-funded student places (measured in equivalent full-time student units) in formal education increased by 29 percent, from 173,000 to 223,000. Over the same period, the tuition subsidy rate (the funding per equivalent full-time student) increased by 31 percent for public tertiary education organisations.

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



Source: Ministry of Education and Tertiary Education Commission.

Notes:

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

The rapid increase in participation in tertiary education that began in the late 1990s began to flatten in 2004. Between 2004 and 2007 there was a reduction in funded enrolments (on an equivalent full-time student basis). This was partly in response to government moves to strengthen the relevance and quality of tertiary provision at certificate and diploma level, which led to a reduction in numbers in some qualifications.

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

2 The definition of employed is as in the *New Zealand Income Survey* at www.stats.govt.nz/products-and-services/info-releases/nzis-info-releases.htm.

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

4 Tuition subsidies are exclusive of GST.

Table 1 Government financial support for tertiary study 1997/98-2007/08

Fiscal year	Student allowances \$ million	Tuition subsidies \$ million	Student loans \$ million	Total \$ million	Total as a % of Gross Domestic Product
1997/98	344	1,052	652	2,047	2.1%
1998/99	378	1,114	618	2,110	2.1%
1999/2000	375	1,084	702	2,161	2.0%
2000/01	391	1,210	867	2,468	2.2%
2001/02	401	1,381	935	2,717	2.2%
2002/03	387	1,576	952	2,915	2.3%
2003/04	380	1,724	997	3,101	2.2%
2004/05	359	1,701	969	3,029	2.0%
2005/06	354	1,811	1,046	3,211	2.1%
2006/07	382	1,921	1,176	3,479	2.1%
2007/08	385	2,185	1,201	3,771	2.1%

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

Notes:

1. The tuition subsidy figure for 2007/08 is provisional.
2. Student allowances are before tax or gross amounts.
3. Tuition subsidies include appropriations to the Performance-Based Research Fund, for provider capability and Adult and Community Education.
4. Student loan amounts are capital amounts.
5. Funding is GST exclusive.

As Table 1 indicates, expenditure on tuition subsidies, student allowances and student loans was 2.1 percent of the country's gross domestic product in the 2007/08 fiscal year. As Table 1 shows, this has been more or less constant over the last decade.

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

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

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

Table 2 shows the distribution of government expenditure on tertiary education. In 2005, financial support for students accounted for 42 percent of government spending on tertiary education in New Zealand, the second highest of all OECD countries. OECD countries spend, on average, 18 percent of their public budgets for tertiary education on financial aid to students.

This high proportion in New Zealand is intended to maintain the diversity and open access of the New Zealand tertiary education system by providing students with access to tertiary education, regardless of their financial situation.

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

Table 2 Distribution of government spending on tertiary education in 2005

	Institutions	Financial aid to students	
		Student loans	Scholarships/ Other grants
New Zealand	58%	30%	12%
OECD average	82%	8%	10%

Source: OECD, *Education at a Glance: OECD indicators 2008*, Table B5.2.

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

1.3 A new approach to planning, funding and monitoring the tertiary education system

The wider tertiary education funding system has recently been changed to ensure that New Zealanders are able to access tertiary education that is of greater quality, relevance and value for money. A key part of the government's reforms has been to move away from the annually funded, demand-driven, input-based education system to a three-yearly, controlled and outcome-based system.

On 1 January 2008, the government implemented a new approach to planning, funding, quality assurance and monitoring in the tertiary education system. This approach is intended to support tertiary education organisations to shift their funding focus solely from participation to achievement and the long-term needs of stakeholders. Changes have been made to increase the focus on wise investment decisions, supported by capability-building and collaborative working relationships.

The new investment system is now managed by using three-year plans to allocate the funding. The government determines how much is allocated to each sub-sector (universities, institutes of technology and polytechnics, etc). The funding may alter over time as account is taken of inflation pressures, expected demographic change, student demand and competing priorities within and outside the education sector. These changes will give greater funding certainty to the government, and to tertiary education organisations.

Implications for student loans and allowances

While student loans and allowances are outside the direct control of the new funding and planning arrangements, it is likely to lead to a slowdown in their uptake. Only qualifications funded by government can be approved for the purpose of student loans and allowances – so people who choose to do other courses will not be eligible for student loans or allowances.

In addition, other factors are expected to have different effects on the uptake of student loans, allowances and the level of borrowing:

- Continuation of the stabilisation of tuition fees will manage the effect of fees on student loan borrowing.
- The current Statement of Tertiary Education Priorities (see chapter 1.0) would be likely to result in more people progressing into tertiary education, succeeding, and spending more time in tertiary education at a higher level of study. This means that the uptake of student loans and allowances and the amount borrowed would be likely to increase over time.

The Statement of Tertiary Education Priorities is designed to provide both students and the taxpayer with better value for their investment in tertiary education. If students study at higher qualification levels, their income is likely to be higher after study. In addition, some fields of study will give students better returns. Thus the factors associated with high borrowing are related to higher incomes and quicker repayment. Analysis of information from the integrated dataset on student loans and allowances supports these conclusions.⁵

5 Nair, B. (2007) *Measuring the returns on investment in tertiary education three and five years after study*, Wellington: Ministry of Education. Available from www.educationcounts.govt.nz/publications/tertiary-education (June 2007).

1.4 The student support system

Reducing barriers to participation

The student support system aims to enhance access to tertiary education by reducing financial barriers to participation. It has two main components, the Student Loan Scheme and the Student Allowances Scheme,⁶ both of which provide direct funding to students. All New Zealand students enrolled in approved qualifications⁷ can access the loan scheme, whereas student allowances are only available to students who meet income-based and age-related eligibility criteria. The government also gives financial support to some students through a range of scholarships.

Principles of the student support system

The government's 2003 discussion document *Student Support in New Zealand* introduced the following principles that underpin the student support system and reinforce the Tertiary Education Strategy 2007/12:

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

How the system compares internationally

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

In addition:

- income-tested allowances are available for students from low- to middle-income backgrounds
- the loan scheme offers more protection to lower-income earners than some other international schemes (e.g. those with fixed repayment plans such as in Canada or the USA) as repayments are based on income for those who remain in New Zealand
- The interest-free student loan policy means the loans of borrowers living in New Zealand will not increase.

6 Information on student allowances is available on the StudyLink website at www.studylink.govt.nz.

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

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

1.5 Student Loan Scheme

Tertiary Education Strategy access and affordability objectives

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

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

Shared responsibility

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

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