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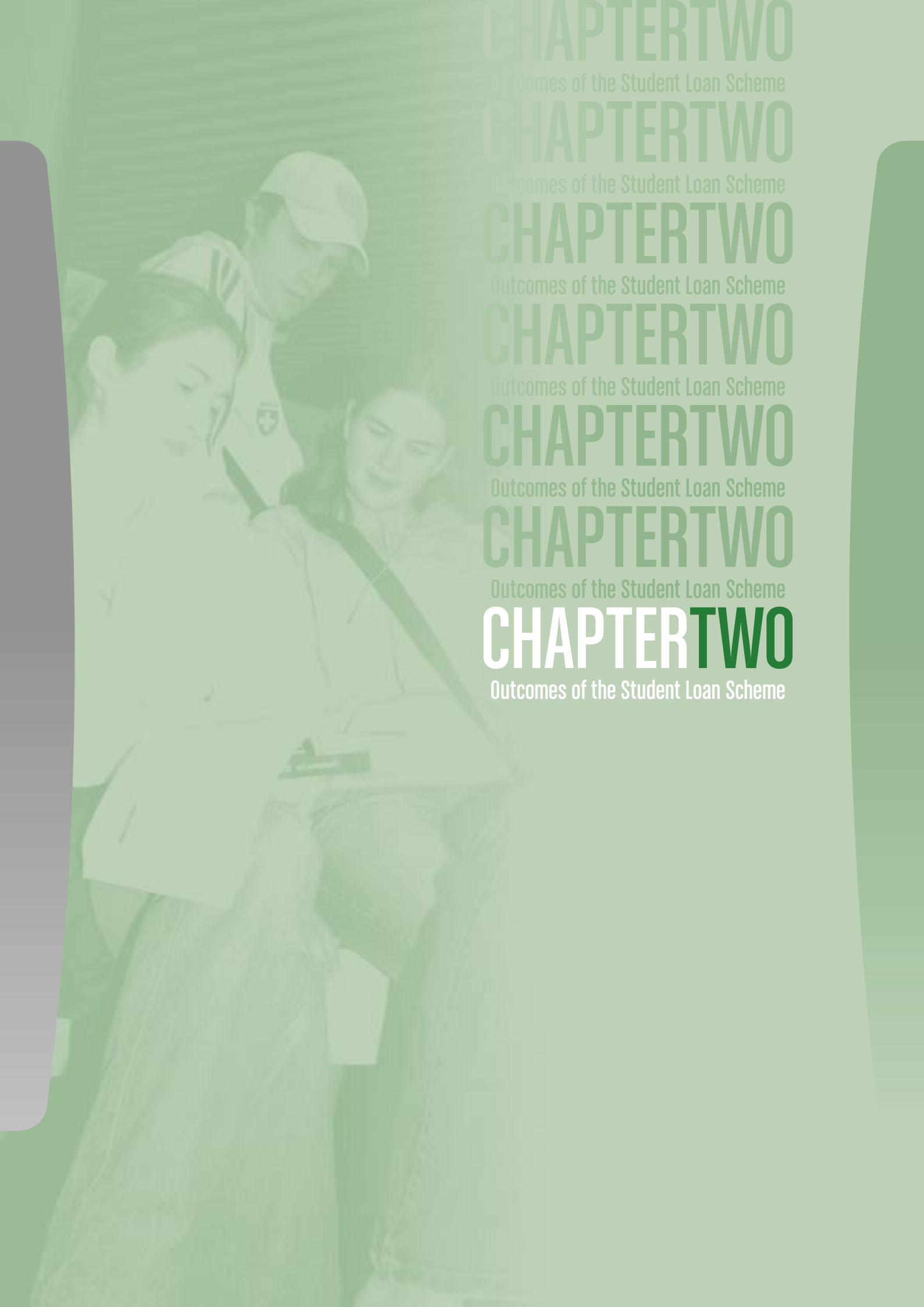
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2.0 Introduction

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

- It enables students to access money to pay their fees and, for some, to offset some of their living costs.
- It allows government to share the costs of tertiary education with students and their families, without imposing constraints on participation in tertiary education.
- Repayments are based on income. Borrowers who do not manage to earn a good income as a result of the study they have completed will repay much less or even nothing. People who do gain from their tertiary education pay their full share of the costs of their studies.

The loan scheme contributes to tertiary education outcomes:

- It helps people to gain qualifications that are of high quality and, therefore, improve their quality of life, employment opportunities and income prospects.
- It provides finance that reduces barriers to study.
- It shares the costs of tertiary education appropriately between government, students and their families.

- It targets the costs of tertiary education appropriately – so that those who do not benefit financially from their tertiary education are protected.

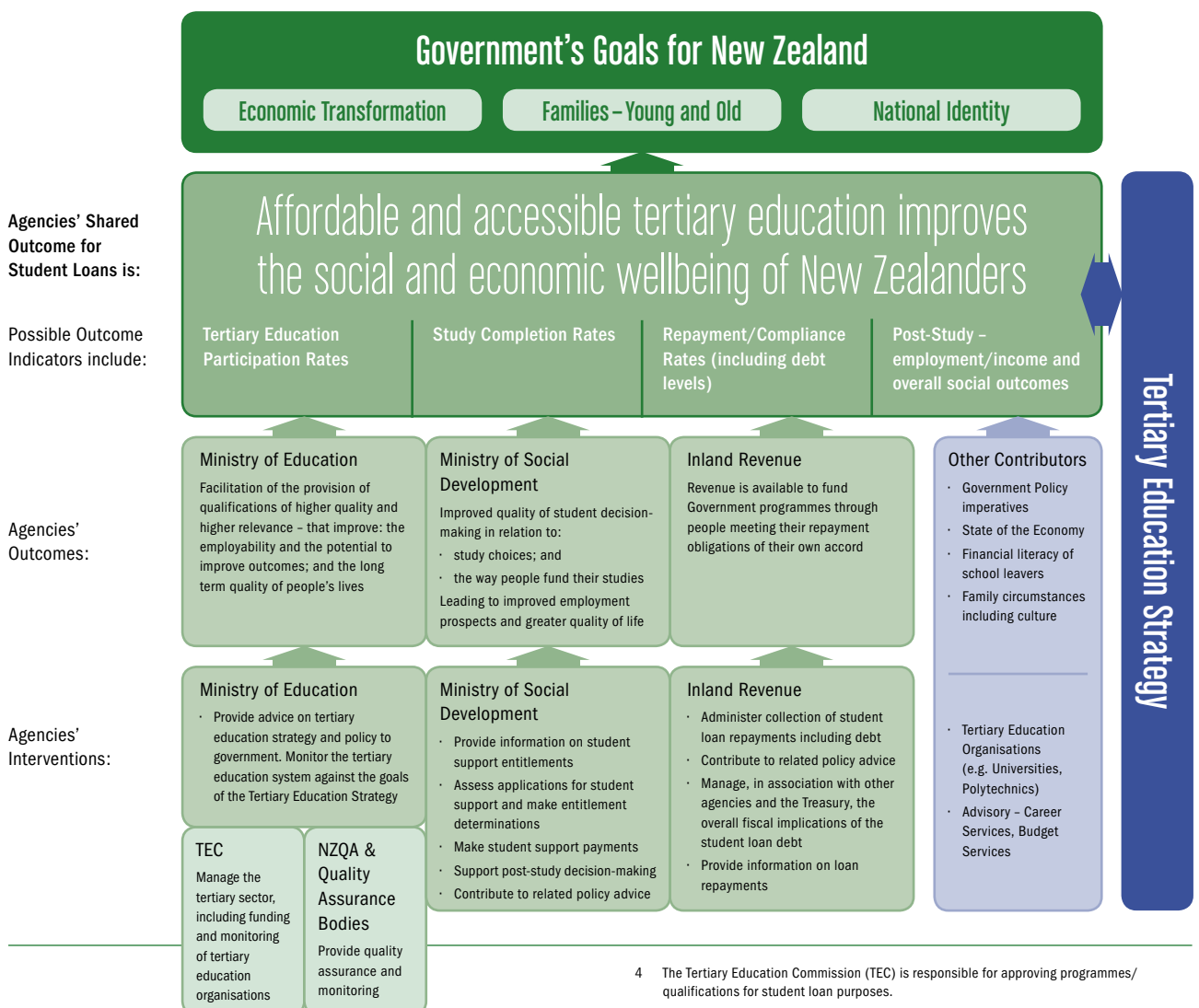
This chapter looks at the extent to which the loan scheme contributes to the affordability and accessibility of tertiary education and how that improves the outcomes for New Zealand and New Zealanders. It also explores any unintended outcomes of the loan scheme.

2.1 Student Loan Scheme outcomes

The agencies that manage the scheme have developed a statement of their shared outcomes for the loan scheme:

Affordable and accessible tertiary education improves the social and economic well-being of New Zealanders.

The diagram below illustrates how the Ministry of Education, the Ministry of Social Development, Inland Revenue, the New Zealand Qualifications Authority and the Tertiary Education Commission⁴ each contribute to the shared outcome for student loans, it describes the linkage to each agency's outcomes and interventions and it explains how the loan scheme is linked to the government's goals for New Zealand. It also recognises the contributions of other government agencies to the shared outcome.



2.2 Evidence for Student Loan Scheme outcomes

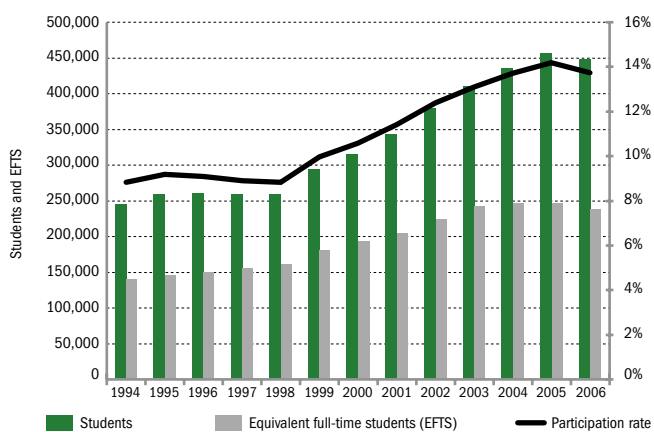
Increasing rates of participation in tertiary education

Participation in tertiary education in New Zealand has increased significantly since the loan scheme was introduced in 1992. As it has improved and maintained the affordability of tertiary education, the student support system has helped move our tertiary education system from an elite system with relatively low participation, to a more accessible system with higher levels of participation.

Growth in participation is reflected in the following trends:

- The number of tertiary students (including domestic⁵ and international students) has nearly doubled, from 254,100 in 1994 to 491,000 in 2006.
- There were 448,400 domestic students in 2006.
- The proportion of all New Zealanders aged 15 and over who participated in tertiary education in 2006 rose to 13.7 percent, up from 8.9 percent in 1994.

Figure 4 Participation by domestic students in tertiary education 1994-2006



Notes:

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

Source: Ministry of Education.

The downturn in enrolments in 2006 was in response to the government's moves to strengthen the quality and relevance of tertiary education – especially non-degree tertiary education.

The expansion in enrolments has been especially marked among women, Māori and Pasifika. From 1994 to 2006:

- enrolments by women in public tertiary education providers grew by 56.8 percent
- enrolments in public providers by Māori and Pasifika grew by 284.7 percent.

⁵ Domestic students are New Zealand citizens, New Zealand permanent residents, or Australian citizens, who are treated as New Zealand citizens for the purpose of funding.

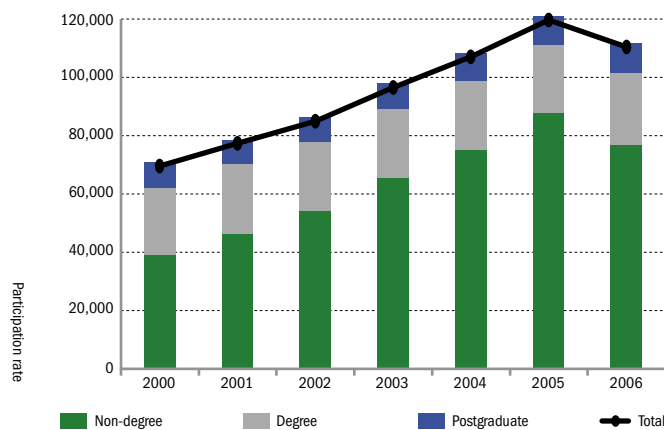
While the loan scheme is not the only factor contributing to increased participation, its introduction has enabled the government to provide funding for more places in tertiary education organisations. Without this funding, many providers would have to limit entry to courses.

More people with tertiary qualifications

As enrolments in tertiary education have risen, so has the number of people completing tertiary qualifications. Census data shows a steady rise in the number of people holding tertiary qualifications, especially at degree level, between 1996 and 2006:

- The number of people with a bachelors degree or higher qualification increased by almost 100 percent, from just over 224,000 to nearly 448,000.
- The proportion of the population aged 25 to 64 with a tertiary qualification rose from 10 percent in 1996 to 18 percent in 2006.

Figure 5 Domestic students completing tertiary qualifications by level 2000-2006



Notes:

1. Data relates only to domestic students.
2. Where a student completes two qualifications at different levels in a year, each of these completions is recorded in the appropriate category in that year. The total, however, is a count of the unique students completing qualifications in that year.

Source: Ministry of Education.

While the graph shows a downturn in the number of completions in 2006, this is a consequence of a 12 percent fall in the number of completions of non-degree qualifications that followed the government's moves to strengthen the quality and relevance of non-degree provision. There was a 4 percent increase in postgraduate completions and a 5 percent increase for degree-level qualification completions.

Economic benefits

Qualifications gained in the New Zealand tertiary education system, with the support of the loan scheme, lead to greater earnings. This indicates that employers value the skills acquired during tertiary study. This is an indicator of the acquisition of human capital and therefore the extent to which our student support system and the tertiary education sector contribute to our national economic development.⁶

⁶ Human capital is a way of thinking about the skills people possess. Earnings are one way of measuring differences in human capital between different groups.

Data from the Household Labour Force Survey shows that those who complete a bachelors degree or higher earn, on average, more than 2.5 times the amount that someone without qualifications can expect to earn. Statistics from the integrated dataset show that employers pay a premium for completed qualifications. Of bachelors degree students who have left study, data shows that after five years those who graduated enjoy a 33 percent income margin over those who did not.⁷ After seven years, the margin rises to 37 percent.

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

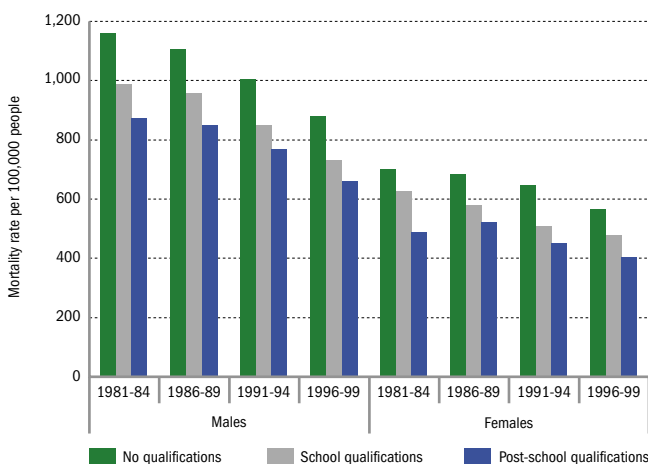
- People with no qualifications had an unemployment rate of 4.1 percent.
- People with school qualifications had an unemployment rate of 3.9 percent.
- People with higher degrees had an unemployment rate of 2.5 percent.

Benefits to wellbeing

Two recent studies by the Ministry of Social Development show that people with tertiary qualifications in New Zealand have higher living standards. A Ministry of Education report⁸ describes the relevant parts of these studies.

University of Otago researchers have also found that those with tertiary qualifications have improved mortality rates,⁹ as illustrated in Figure 6.

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



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

Source: Atkinson, J. (2005) New Zealand Census-Mortality Study Web Table, Department of Public Health, Wellington School of Medicine and Health Sciences, University of Otago. <http://www.otago.ac.nz/NZCMSWebTable> [Accessed 10 June 2006].

2.3 Changes in behaviour

Borrowing behaviour

The most useful way of looking at borrowing behaviour is by considering uptake rates – the proportion of people eligible to take out a loan who actually do so. The uptake rate across the loan scheme as a whole rose in 2006 from 49 percent to 56 percent. Uptake rates are strongly influenced by the balance between full-time and part-time enrolments. Part-time students have a lower incidence of borrowing as the costs they face are lower and many have other sources of finance: the most useful way of looking at changes in borrower behaviour is to focus on how full-time students use the loan scheme.

The estimated uptake rate among full-time students rose to 82 percent in 2001 but ranged between 72 percent and 76 percent between 2003 and 2005. In 2006 it rose to 82 percent.

Figure 7 Student loan uptake rates for full-time students 1999-2006



Source: Ministry of Education and Ministry of Social Development.

The increase in uptake rates among full-time students between 1999 and 2001 reflects the introduction in 2000 of the 'no interest while studying' policy. The 2006 increase in borrowing uptake reflects the introduction of the interest-free student loans policy in April 2006.

Changes in repayment behaviour

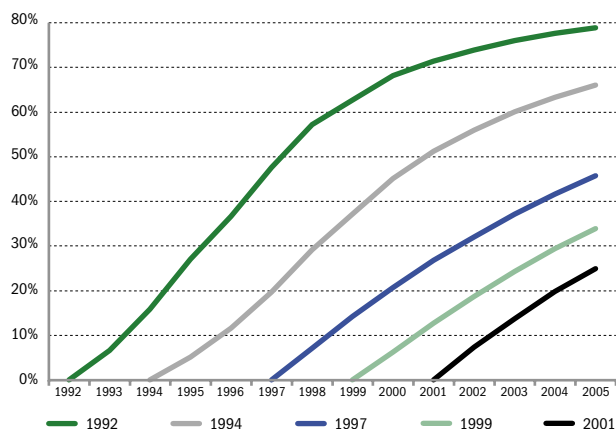
The following graph shows the percentage of people who have completely repaid their loans according to the year that they left study.

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

8 Smart, W. (2006) *Outcomes of the New Zealand tertiary education system – a synthesis of the evidence*, Wellington: Ministry of Education.

9 Smart (2006) op cit.

Figure 8 Percentage of borrowers fully repaid by 31 March in each year – those who left study in 1992, 1994, 1997, 1999 and 2001



Source: Statistics New Zealand, integrated dataset.

By 1997, almost half of those who left study in 1992 had repaid in full. However, this cohort had very low borrowings as fees were relatively low and they had had only one year's borrowing.

Leavers in 1997 and later repaid their loans more slowly. Of those who left study in 1997, around 45 percent had repaid by 31 March 2006 – eight years after leaving study. A quarter of those who left in 2001 had repaid by 31 March 2006.

Those who left study in 2000 and later appear to be repaying slightly more quickly than the cohorts of the late 1990s. This trend is likely to be a consequence of:

- fee stabilisation policies that have operated since 2001 (see chapter 1.1)
- high employment in the last five or six years.

Looking to the future, the forecast median repayment time is seven years. There is more information on forecasts in chapter 5.

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

2.4 Unintended outcomes

Some people have suggested that the loan scheme may discourage home ownership and cause people to delay having children. As well, some people have said that many people – especially women – may never repay their loans. This section explores the evidence for signs of these outcomes.

The impact on home ownership, having children and mental health

A recent study¹⁰ on household wealth explored the statistical relationships between the presence and size of student loans and home ownership. It conducted a similar analysis of the relationship between loans and having children.

This study reached the following conclusions:

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

A recent Australian study, published in the *Journal of Population Research*, looked at whether Australia's Higher Education Contribution Scheme or HECS – which has many similarities with student loans in New Zealand – has affected the birth rate in that country. The research compared university-educated women with and without HECS debts yet similar in other significant ways. It found that HECS cannot be blamed for falling fertility rates.

A recent statistical study by researchers from the Universities of Canterbury and Otago, using a longitudinal dataset, found that the presence of a student loan 'had little observable effect' on the subjects' mental health or residence in New Zealand.¹¹

Non-repayment

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

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

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

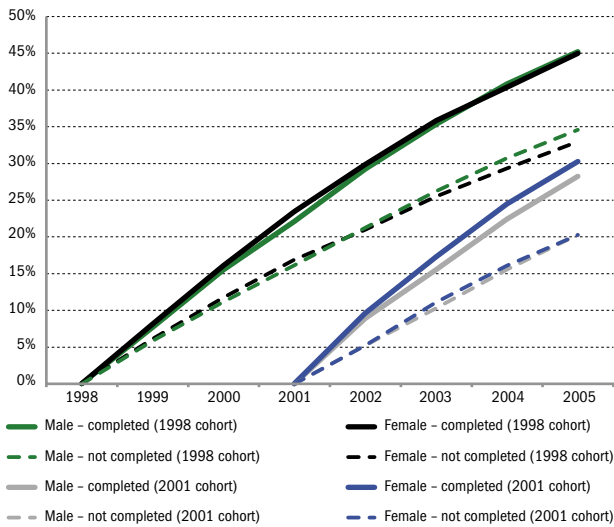
It is evident from Figure 8 in chapter 2.3 that, as time goes on, the number repaying in full increases each year, but at a decreasing rate. There are some borrowers who never succeed in repaying their loan completely and some who make no progress towards repayment over an extended period.

The following graph shows that the probability of repaying a loan depends on whether the borrower has completed a qualification but gender has little effect.

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

11 Kemp, S., Horward, J. & Fergusson, D. (2006) Student loan debt in a New Zealand cohort study, *New Zealand Journal of Educational Studies*, Wellington: New Zealand Council for Educational Research and New Zealand Association for Research in Education. This paper reports on a statistical analysis of the student loan characteristics of people in the Christchurch Health and Development Survey dataset. This is a longitudinal dataset with extensive family and academic information on people born in Christchurch in 1977. The study related the subjects' loan characteristics to their family and demographic characteristics.

Figure 9 Percentage of borrowers who left study in 1998 and 2001 who had completely repaid their loans by 31 March 2005 by gender and completion status



Notes:

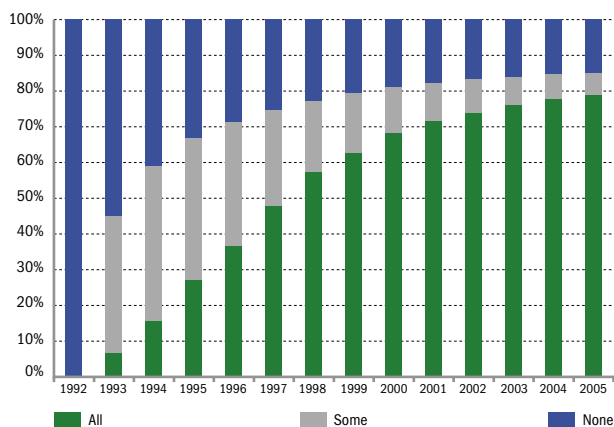
1. The leaving cohorts are those who last studied in 1998 and 2001, had borrowed from the loan scheme, and had a student loan balance of \$10 or more at 31 March in the following year. Excluded are 3.4 percent who had repaid their student loan before 31 March in the year after leaving study.
2. Full repayment is deemed to occur when the student loan balance has fallen below \$10, and includes both tax non-resident and tax resident borrowers.
3. A student is deemed to have completed if he/she successfully completed a qualification in his/her last year of study.

Source: Statistics New Zealand, integrated dataset.

Figure 9 shows that women tend to repay slightly more quickly in the first few years after leaving study. Over time, however, the gap closes. By 2001, the proportion of men who had completed a qualification in 1997 and who had repaid in full had gone beyond the proportion of women. Among those who hadn't completed, the lines crossed in 2003, but the differences are slight.

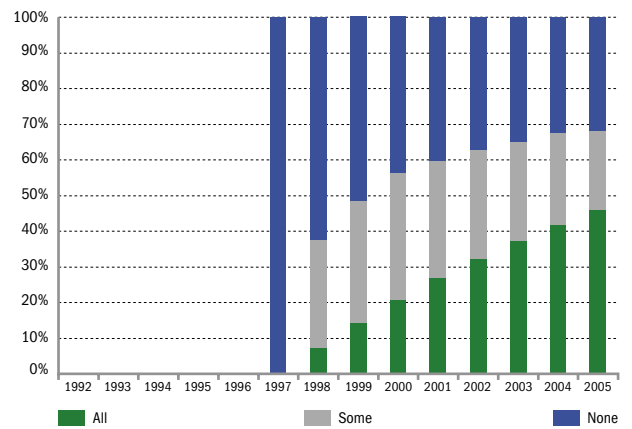
Information from the integrated dataset indicates that a proportion of borrowers are unlikely to repay their loans in full. Around 15 percent of the 1992 leavers had repaid nothing of their loans 13 years after leaving study.

Figure 10a Proportions of borrowers who left study in 1992 who had repaid all, some or none of their student loans by 31 March 2005



Source: Statistics New Zealand, integrated dataset.

Figure 10b Proportions of borrowers who left study in 1997 who had repaid all, some or none of their student loans by 31 March 2005



Source: Statistics New Zealand, integrated dataset.

An analysis of those borrowers who last studied in 1997 showed that those who had made no progress at all in reducing the size of their loans by the end of 2004:

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

It is not yet possible to look at the effects of interest-free loans on those who make little progress towards repayment. While there will always be some people whose progress to repayment is slow, the numbers who make no progress will reduce.

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