

CHAPTER THREE

Changes to the Student Support System

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3.0 Introduction

Government monitors the student support system to ensure it continues to facilitate access to tertiary education, and that it adheres to the principles introduced in the *Student Support in New Zealand* discussion document (see chapter 1.4).

As part of its ongoing monitoring and review the government has announced changes to the Student Loan Scheme, the Student Allowances Scheme and the Bonded Merit Scholarship Scheme in Budget 2008 (see chapter 3.4).

3.1 How the Student Loan Scheme has changed since 1992

Table 3 compares the Student Loan Scheme as it was when introduced in 1992 and as it operated in 2007. The comparison shows that, while there have been some major changes to features of the scheme since 1992, the fundamentals remain much the same.

Table 3 Student Loan Scheme – comparison of features in January 1992 with January 2007

Features	1992	2007
Compulsory fees	Amount charged by provider except limited to \$4,500 for students at private training establishments only. ³² Included students' association fee. Direct-credited to borrower or provider.	Limited to the amount charged by the provider or the relevant fee maximum under the FCCM, ³³ whichever is less. Includes compulsory students' association fees. Direct-credited to provider only.
Course-related costs	Up to \$1,000 p.a. – no evidence required.	Up to \$1,000 p.a. – evidence/justification required.
Living costs (for full-time students only)	Up to \$4,500 less any student allowances – available in three instalments for full-year students.	Up to \$150 p.w. less any student allowances – paid weekly.
Interest	8.2 percent.	6.9 percent but all interest written off at the end of the tax year for all New Zealand-based borrowers.
Administration fee	\$50 payable once for each loan account.	
Eligibility	New Zealand citizens, permanent residents of New Zealand, refugees.	
Academic requirements	Students must have passed at least half of the work taken in the preceding two years of tertiary study.	None
Parental consent	None required.	Required for borrowers under 18 years of age.
Bankrupts and 'no asset procedure' debtors	Undischarged bankrupts are not entitled to student loans.	Undischarged bankrupts are not entitled to student loans. 'No asset procedure' debtors ³⁴ may have student loans but their existing loans are not written off.
Prisoners	Prison inmates were ineligible.	Prison inmates on approved offender management programmes can borrow tuition fees and course-related costs.
Repayment threshold	\$12,670 p.a. to 31/03/93.	\$17,160 p.a. to 31/3/07.
Repayment rate	10 cents for every \$1 earned above the repayment threshold.	
Repayment for borrowers overseas	\$1,000 plus interest or one fifteenth of the loan balance plus interest, whichever is less.	Based on level of loan balance (see Table 28 in Appendix 2).
Repayment holiday	None	Three-year repayment holiday for overseas travel after study.
Interest write-off	Base interest was written off for NZ residents if not currently borrowing and income below \$12,760 or, if the compulsory repayment due was less than the base interest incurred, the difference was written off.	Full interest write-off for NZ-based borrowers only.
Minimum repayment to loan accounts manager	\$200	\$100 to StudyLink (or a lower amount by agreement).
Penalty for overdue repayments	2 percent per month (details in Student Loan Scheme Act 1992).	1.5 percent per month on amounts greater than \$333.
Capital write-off	Loans are written off on death of borrower. Loans are written off on bankruptcy.	

3.2 Student support policy changes 1989 to 2003

Table 4 sets out some of the key policy changes in student allowances and student loan policy since 1988. The objectives of the more recent policy changes have been focused more on the affordability of tertiary education than on participation objectives per se. (It is important to appreciate that changes in one scheme will impact on the other scheme (e.g. an expansion of allowances will reduce student loan borrowings and vice versa)).

32 Private training establishment students were not eligible unless their provider was government funded or their course was recognised for student allowances purposes.

33 Fee and course costs maxima policy.

34 This is an insolvent debtor status put in place by the Insolvency Act 2006 as an alternative to bankruptcy.

Table 4 Student support policy changes 1989–2003

	Student Allowances Scheme	Student Loan Scheme
1989	Student Allowances introduced. (Parentally income tested for 16 to 19 year olds) General Fees Grant (maximum \$387).	
1990	Parental income adjustment introduced (\$2,200) for parents with more than one child aged 16 to 19 undertaking post-compulsory education. Fees Grant abolished.	
1991	Personal income limit increased from \$129.16 to \$135.13 per week before tax (originally \$4,000 per annum before tax). Student allowances extended to full-time students at private training establishments. Student allowances abolished for secondary school students but reinstated for a limited group of students.	
1992	Parental income test extended to students under 25 years of age. The parental income threshold increased from \$26,832 to \$28,080 per annum before tax. Student allowances reinstated for secondary students aged 18 prior to 1 January in their year of study.	Student Loan Scheme introduced. Only students at private training establishments attracting government funding are eligible to receive student loans for tuition fees (up to \$4,500) and course-related costs. Students enrolled in private training establishment qualifications recognised for student allowances purposes can borrow for living costs.
1993	The second chance provision removed. The courses of national importance provision abolished.	Academic requirement abolished.
1994 – 1995	No change	No change
1996	No change	Private training establishment students can borrow for all components of the Student Loan Scheme if their qualification is registered on the qualifications framework and offered by an accredited provider. Changes to interest rate setting. The rate is set using the average of past and prospective 10-year bond rates plus a margin of 0.9 percent.
1997	No change	Full-time students can borrow up to \$150 per week for living costs (less any allowances entitlement). Prior to this a borrower who was a full-time, full-year student had a maximum entitlement of \$4,500 in each academic year. The limit on fees borrowing for private training establishment students increased from \$4,500 to \$6,500.
1998	No change	No change
1999	Administration transferred from Ministry of Education to Work and Income. Five year entitlement changed to 200 weeks. Weekly instead of fortnightly payments.	The Student Loan Scheme was tightened as follows: <ul style="list-style-type: none"> · living costs entitlement paid in fortnightly direct-credited instalments (previously there were three annual instalments throughout the year) · compulsory fees entitlement paid directly to providers (not to students) · maximum course-related costs entitlement reduced from \$1,000 to \$500 · parental consent required before students under 18 can have access to student loans · payment of student union fees through the compulsory fees component abolished.
2000		Administration transferred from Ministry of Education to Work and Income. Living costs paid weekly in arrears instead of fortnightly. 50 percent of compulsory repayments, less the inflation component, go to repayment of principal. Interest abolished for full-time, full-year students and part-time or part-year students on low incomes. Interest rate frozen at 7 percent for 2000/01. Payment of compulsory student union fees through the compulsory fees component reinstated. Course-related costs increased to \$1,000.
2001		New interest-setting mechanism using average 10-year bond rate over preceding January–December. The margin on the interest rate for administration and death and bankruptcy write-offs revised down from 0.9 to 0.8 percent.
2002		Tuition fee and course-related costs components extended to prison inmates on approved offender management programmes. Integrated dataset established. Actuarial valuation for reporting fair value of scheme and risk to the Crown. Administration costs margin in interest rate revised from 0.4 percent to 0.5 percent to take account of cost increases.
2003	Access to student allowances for 16 and 17 year olds who have completed year 13 or NCEA Level 3.	New simulation model for determining the fair value, the doubtful debt provision and the economic cost of the scheme.

3.3 More recent changes to the Student Loan Scheme 2004 to 2008

Part-time, part-year students

In 2004, part-time, part-year students undertaking a course load of 0.3 equivalent full-time student units or more were given access to the tuition fee component of the Student Loan Scheme. This access did not include the living costs or course-related costs components.

From 1 January 2005, students studying between 0.25 and 0.3 equivalent full-time student units were given access to student loans for tuition fees. The right of these students to borrow was subject to conditions:

- The course had to meet certain requirements, for example, have a job-related element.
- The student had to be in employment or studying for a qualification that will lead to employment.

In 2007, the vocational and employment requirements above for part-time, part-year students undertaking a course load of between 0.25 and 0.30 equivalent full-time student units were removed.

Private training establishment students

In 2005, the \$6,500 limit on fee borrowing for private training establishment students was removed as part of decisions made concerning the fee and course costs maxima. Instead, students' tuition fee borrowing entitlement is limited to the amount charged by the provider or the relevant fee and course costs maxima, whichever is less.

No asset procedure debtors

From 2006, no asset procedure debtors were able to access the Student Loan Scheme. (The 'no asset procedure' is an alternative to bankruptcy for people who become insolvent but have few assets.) A no asset procedure debtor cannot have their loan written off.

Interest rate setting

A new methodology for setting interest rates was approved in February 2006. The total interest rate is based on the five-year average of the 10-year bond rate to December in the year preceding the tax year to which the rate will apply (to two decimal places) plus a margin of 0.74 percent.

Interest rates

The student loan interest rate was 7 percent per annum from 1 April 1999 to 31 March 2006. The rate was set at 6.9 percent for 2006/07, 6.8 percent for 2007/08 and 6.7 percent for 2008/09. From 1 April 2006, only overseas-based borrowers are liable for interest.

Interest-free loans

From 1 April 2006, the student loan interest-free policy for borrowers living in New Zealand and the offer of an amnesty on student loan penalties for certain borrowers who live overseas came into effect. All other interest write-off provisions were repealed on 1 April 2007.

Borrowers overseas

From 1 April 2007, new repayment provisions were put in place for borrowers overseas. These changes allow these borrowers to take a three-year repayment holiday and simplify the annual compulsory repayment obligation after that holiday. The amnesty on penalties for overseas borrowers was also extended by one year.

From 2007, overseas borrowers who are not eligible for a repayment holiday have had a new repayment obligation based on the size of their loan balance (refer to Table 28 in appendix 2).

Student allowances and student loan eligibility

From 2007, students who undertake qualifications that do not receive student component funding are no longer eligible for student loans and allowances. (Courses funded through other government streams, such as Ministry of Health medical training, are not affected by this policy change.)

Other key student support changes 2004 to 2008

Parental income threshold

There were three adjustments to the parental income threshold over this period, 20 percent in 2005 and 10 percent in both 2007 and 2008. The parental income threshold was also annually adjusted for inflation from 1 April 2005.

In 2006, the parental income threshold adjustment was increased for those with dependent children in post-compulsory education, with an increase for additional dependent children.

A parental income threshold adjustment for separated parents was also introduced in 2006.

Personal income limits

In 2006, the personal income limit was increased from \$135.13 to \$180 per week before tax and a dollar-for-dollar abatement introduced.

The personal income limit was annually adjusted for inflation from 1 April 2008.

Targeting of student allowances

In 2005, a number of changes were made to student allowances policy to better target support for students and to remove inconsistencies with the Human Rights Act 1993. These included removing the work history criterion of the independent circumstances allowance provision and removing marriage as grounds for independence from parents for under 25 year olds.

Scholarships

In 2004, Step Up Scholarships were introduced to help students from low-income backgrounds enter degree-level study in areas of skill shortage.

In 2006, the first Bonded Merit Scholarships were awarded to recognise high academic achievement in tertiary study.

Both these scholarships pay a substantial proportion of recipients' compulsory fees and include a bonding period on completion of study.

3.4 Student support initiatives in Budget 2008

The following initiatives announced in Budget 2008 will adjust the living costs entitlement of the Student Loan Scheme and widen access to the Student Allowances and Bonded Merit Scholarship Schemes. Increased access to student allowances and Bonded Merit Scholarships will mean that students are expected to borrow less under the loan scheme.

Indexing the student loan living costs component

From 1 April 2009, the student loan living costs component will be indexed to inflation following a one-off increase from \$150 per week to \$155 per week from 1 January 2009. Approximately 95,000 students a year are expected to benefit from this initiative.

Other student support policies

These policies reduce the need for some students to borrow from the loan scheme.

Student allowances parental income threshold increases

The student allowances parental income threshold will be increased by 10 percent from 1 January 2009. This change means that students whose parents' joint income is less than \$50,318.22 per annum will be eligible for a full allowance. The threshold was previously \$45,743.88.

This initiative also raises the cut-off point at which students become ineligible for student allowances from \$71,280.88 to \$82,237.80 per annum for those living away from home and from \$71,280.88 to \$75,855.32 per annum for those living at home – making more students from low- to middle-income families eligible for full or partial allowances. Some students will be entitled to higher allowances. Approximately 12,000 students will benefit from this initiative each year.

Lowering the age limit for student allowances parental income testing by one year

The age at which the student allowances parental income test no longer applies will be lowered by one year. The age limit reduces from 25 to 24 years of age. This change takes effect from 1 January 2009. The maximum rate of student allowances for those aged 24 also increases to that currently available to students aged 25 years and above. This policy will affect other aspects of the student allowances eligibility criteria that are linked to this policy. It is expected that more than 5,000 students will benefit from this policy each year.

Bonded Merit Scholarships

The number of Bonded Merit Scholarships offered to students in 2008 for the 2009 academic year will be increased from 1,000 to 1,500. The scholarship scheme recognises and rewards New Zealand's most academically capable students (from the second year of their first bachelors degree). They fund a maximum of \$3,000 per year of course fees for up to four years. Students are bonded to stay in New Zealand after they have graduated for the same time period as the duration of their study. The scheme was introduced in 2006 and there are currently about 2,460 students on the scheme.