ANNUAL REPORT 2017/18

Student LOAN SCHEME

INCORPORATING THE FINANCIAL SCHEDULES FOR THE YEAR ENDED 30 JUNE 2018

New Zealand Government
Foreword

The Student Loan Scheme provides students with access to finance for tuition fees, living costs and other education-related costs to reduce cost barriers to tertiary education.

The scheme works together with student allowances, tuition subsidies and fees control to maintain the affordability of tertiary education for students. The Government’s commitment to its access and affordability objectives is also demonstrated by the introduction of first-year fees-free study for new tertiary students this year.

Next year we will have enough data to report more fully on the impact of the Fees-Free Tertiary Education and Training policy. However, data for the first six months of this year shows that students are borrowing less for their fees, with $168 million less being borrowed for tertiary fees compared with the first six months of 2017.

The Government’s investment to provide better support for students to obtain a tertiary level education directly enhances students’ lives through increased incomes, improving access to healthier homes and better wellbeing. This benefits the nation and society as a whole.

The agencies of the Ministry of Education, the Ministry of Social Development and Inland Revenue are responsible for the Student Loan Scheme deliverables and work together to collate the information in this Student Loan Scheme Annual Report 2017/18 to demonstrate its effectiveness.

Iona Holsted
Secretary for Education
# Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
<td>2</td>
</tr>
<tr>
<td>At a glance</td>
<td>4</td>
</tr>
<tr>
<td>Purpose</td>
<td>6</td>
</tr>
<tr>
<td><strong>CHAPTER ONE: THE LOAN SCHEME IN THE TERTIARY EDUCATION SYSTEM</strong></td>
<td>9</td>
</tr>
<tr>
<td>1.1 Government priorities</td>
<td>10</td>
</tr>
<tr>
<td>1.2 Access and participation</td>
<td>10</td>
</tr>
<tr>
<td>1.3 Student support background</td>
<td>13</td>
</tr>
<tr>
<td>1.4 Policy changes taking effect in 2019</td>
<td>14</td>
</tr>
<tr>
<td><strong>CHAPTER TWO: OUTCOMES</strong></td>
<td>15</td>
</tr>
<tr>
<td>2.1 Outcomes framework</td>
<td>16</td>
</tr>
<tr>
<td>2.2 Human capital and labour skills</td>
<td>17</td>
</tr>
<tr>
<td>2.3 Affordability for borrowers and taxpayers</td>
<td>19</td>
</tr>
<tr>
<td>2.4 Unintended outcomes</td>
<td>21</td>
</tr>
<tr>
<td><strong>CHAPTER THREE: THE STATE OF PLAY—HOW THE SCHEME IS WORKING</strong></td>
<td>23</td>
</tr>
<tr>
<td>3.1 Borrowing in 2017</td>
<td>24</td>
</tr>
<tr>
<td>3.2 Repayment performance</td>
<td>31</td>
</tr>
<tr>
<td>3.3 Loan balances and borrower segments</td>
<td>35</td>
</tr>
<tr>
<td>3.4 Repayment times</td>
<td>38</td>
</tr>
<tr>
<td><strong>CHAPTER FOUR: COSTS OF THE SCHEME</strong></td>
<td>41</td>
</tr>
<tr>
<td>4.1 Cost of lending</td>
<td>43</td>
</tr>
<tr>
<td>4.2 Impairment</td>
<td>44</td>
</tr>
<tr>
<td>4.3 Cash cost</td>
<td>45</td>
</tr>
<tr>
<td>4.4 Impact on the operating balance</td>
<td>46</td>
</tr>
<tr>
<td>4.5 Measures of value in the accounts</td>
<td>47</td>
</tr>
<tr>
<td>4.6 Historical costs</td>
<td>49</td>
</tr>
<tr>
<td>4.7 Cost of Crown ownership</td>
<td>50</td>
</tr>
<tr>
<td>4.8 Agency costs</td>
<td>51</td>
</tr>
<tr>
<td><strong>CHAPTER FIVE: FINANCIAL SCHEDULES</strong></td>
<td>53</td>
</tr>
<tr>
<td>5.1 Financial schedules for the year ended 30 June 2018</td>
<td>54</td>
</tr>
<tr>
<td>5.2 Schedule of revenue and expenditure</td>
<td>55</td>
</tr>
<tr>
<td>5.3 Schedule of assets</td>
<td>56</td>
</tr>
<tr>
<td>5.4 Schedule of cash flows</td>
<td>57</td>
</tr>
<tr>
<td>5.5 Statement of accounting policies</td>
<td>58</td>
</tr>
<tr>
<td>5.6 Notes to the financial schedules</td>
<td>60</td>
</tr>
<tr>
<td><strong>AUDITOR’S REPORT</strong></td>
<td>64</td>
</tr>
<tr>
<td><strong>APPENDICES</strong></td>
<td>67</td>
</tr>
<tr>
<td>Appendix 1: Management and design of the scheme in 2017/18</td>
<td>68</td>
</tr>
<tr>
<td>Appendix 2: Student Loans Integrated Model (SLIM)</td>
<td>72</td>
</tr>
<tr>
<td>Appendix 3: Information resources supporting study choices</td>
<td>74</td>
</tr>
<tr>
<td>Appendix 4: Glossary</td>
<td>75</td>
</tr>
</tbody>
</table>
At a glance

170,037 students took out a loan in 2017

The average amount borrowed in 2017 was $9,220

69% of students who were eligible took out a student loan in 2017

719,187 people had a student loan as at 30 June 2018

The average student loan balance at 30 June 2018 was $22,065

The forecast median repayment time for borrowers who left study in 2016 and stayed in New Zealand was 6.8 years

Borrowing in 2017

• There were 42,136 new borrowers in 2017, a decrease of 5.5 percent compared with 2016
• The total amount borrowed was $1.57 billion
• Students used 67 percent of the total they borrowed to pay for course fees
• For the first time since 2013, the number of borrowers at masters and honours levels decreased, following the trend of all other levels of study

• Of all the 170,037 active student loan borrowers:
  › 60 percent were female
  › 40 percent were male
  › 63 percent were European
  › 19 percent were Māori
  › 14 percent were Asian
  › 10 percent were Pacific people
Since 1992, about 1.30 million people have taken out a student loan.

In 2017/18, the number of borrowers with overdue payments decreased by 1.6%.

Students have borrowed a total of $26.1 billion since 1992.

Value of the Student Loan Scheme in 2017/18
- The nominal value of all loans was $15.9 billion
- The cost of lending was 44.43 cents in every dollar lent (a total of $594 million) over the year ended 30 June 2018
- The carrying value of the loan scheme (or the value of the loan asset) was $9.3 billion

Repayments in 2017/18
- 42,465 borrowers repaid their loans in full in the year to 30 June 2017
- Overdue student loan debt was $1.3 billion; overseas-based borrowers owed 91 percent of the amount overdue
- 47 percent of overseas-based borrowers are taking positive actions towards repaying their student loan
- $960.7 million of repayments was made through the Inland Revenue Pay As You Earn (PAYE) system; this is 7.3 percent higher than 2016/17 due to an increase in the number of borrowers in employment and making repayments
- $387.4 million of repayments was made directly by borrowers
- The forecast median repayment time for all borrowers who left study in 2016 was 8.2 years

$1.35 billion was collected in loan repayments in 2017/18.
Of the borrowers with overdue payments in 2017/18, 74% were overseas-based.
Purpose

The purpose of this annual report is to inform Parliament and the New Zealand public about the performance of the Student Loan Scheme in 2017/18. It includes the audited financial schedules for the year ending 30 June 2018.

The report describes how the Student Loan Scheme operated in the context of the New Zealand tertiary education system and the goals of the Government’s Tertiary Education Strategy. It explains the contribution made by the scheme in enabling access to tertiary education as well as issues and changes announced over the past year.

It also looks at the outcomes of the scheme and provides detailed information about the students who used the scheme, their borrowing and repayments. Finally, the report gives a detailed financial analysis of the costs and the valuation of the scheme.

Sources of data

This report uses data from the following sources:

The Ministry of Social Development provides information on active borrowers.

Inland Revenue provides information on repayments, loan balances and borrower segments.

The Ministry of Education provides tertiary education data as well as information on borrowing before 2000.

This data is in the Integrated Data Infrastructure (IDI). Statistics New Zealand manages the IDI according to the requirements of the Statistics Act 1975. Information from the IDI has been made available in line with strict privacy and confidentiality protocols developed with guidance from the Privacy Commissioner.

Data on student loans and allowances in the IDI includes (but is not limited to):

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

The IDI dataset has been updated with records to 31 March 2017.

Data from these sources is complemented by information drawn from the Census, the Household Labour Force Survey and other published data sources. Each figure and table states the source of its data.

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

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

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 provides information for the most recent year and is also linked to historical data to take advantage of improvements in data quality. Revised data is used in this report, so readers might notice small changes in historical data compared with that in previous reports.
Timeframes

Different timeframes apply to the data series depending on the nature of the activity. Unless otherwise stated, in this annual report:

- application and borrowing data is for the 2017 calendar year (January to December) in keeping with the academic year
- financial data, including repayment data, is based on the government’s 2017/18 fiscal year (July to June).

Key terms

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. Declaration of ethnicity is not mandatory and students may choose to select more than one ethnicity.

Student support

Student support refers to the Student Allowances Scheme and the Student Loan Scheme, which act together to provide financial assistance directly to students while studying.

Student allowances provide eligible 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. Student allowances do not have to be repaid.

Student loans provide funding for tuition fees as well as a contribution towards course-related costs and living costs for full-time students. All amounts borrowed under the loan scheme have to be repaid.

Student loans are currently available to students who are enrolled in approved courses of study provided they meet eligibility criteria and performance conditions. Eligibility criteria are set out in Appendix 1.

Definitions

Many of the terms used in this report are specific to the Student Loan Scheme. Specialised terms and their definitions are provided in a glossary in Appendix 4.
Chapter 1

THE LOAN SCHEME IN THE TERTIARY EDUCATION SYSTEM

1.1 Government priorities ................................................................. 10
1.2 Access and participation ........................................................ 10
1.3 Student support background ................................................. 13
1.4 Policy changes taking effect in 2019 ...................................... 14
1.1 Government priorities

The Tertiary Education Strategy1 (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 Government plans to develop and implement a new Tertiary Education Strategy to launch in 2019. It will form part of the Government’s broader programme of work to begin a 30-year strategic approach to education. The Education Summits and ongoing Education Conversation are providing an opportunity to have a wide-ranging discussion about the future of our education system, including tertiary and training.

The tertiary funding and student support systems contribute to student outcomes by supporting access and affordability to tertiary education through tuition subsidies, fees-free payments and student loans and allowances.

1.2 Access and participation

Student support has helped to 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 (EFTS) numbers2 and the rate of participation in tertiary education from 1994 to 2017.

The number of domestic students enrolled in tertiary education increased by 40 percent: from 246,000 students in 1994 to 343,000 students in 2017, with a peak of over 452,000 students in 2005. The number of domestic EFTS reached a peak in 2010.

Since 2005, the participation rate in tertiary education has declined. Changes to strengthen the quality and relevance of certificate-level qualifications between 2005 and 2011 reduced the number of these qualifications offered by providers and led to a subsequent decline in enrolments.

The labour market also has a significant influence on decisions on whether or not to study. The stronger labour market since 2010 has contributed to declining participation rates in tertiary education.

---


2 The differences between student numbers and EFTS numbers relate to the proportion of part-time students enrolled and the study load they enrol for.
Figure 2 Participation by domestic students by qualification level

![Graph showing participation rates by qualification level](image)

Table 1 Participation by domestic students in tertiary education

<table>
<thead>
<tr>
<th>Qualification Level</th>
<th>2015 (000)</th>
<th>2016 (000)</th>
<th>2017 (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1-4 certificates</td>
<td>358</td>
<td>353</td>
<td>342</td>
</tr>
<tr>
<td>Level 5-7 certificates/diplomas</td>
<td>82</td>
<td>79</td>
<td>77</td>
</tr>
<tr>
<td>Bachelors or higher</td>
<td>29</td>
<td>28</td>
<td>27</td>
</tr>
<tr>
<td>Non-degree</td>
<td>13</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>123</td>
<td>120</td>
<td>117</td>
</tr>
</tbody>
</table>

Source: Ministry of Education.

Notes:
1. The participation rates have been age standardised, based on the structure of the New Zealand population in 2017, to enable comparisons to be made between qualification levels over time.
2. The participation rate by qualification level is the percentage of the population aged 15 and over who were enrolled at any time during the year with a tertiary education provider in formal qualifications of more than 0.03 EFTS.

Figure 2 shows that over the past 10 years the participation rate of students has decreased for Level 1-4 certificates and Level 5-7 certificates/diplomas. The participation rate in higher levels of tertiary education has decreased slightly from the peak during the Global Financial Crisis.

Table 1 has additional information on participation in tertiary education. The table shows that, in 2017:
- female participation rates in provider-based tertiary education were higher than male participation rates
- the participation rate decreased for all demographic groups
- Māori had the highest participation rate of all ethnicities.

Table 2 Funding of tertiary education

<table>
<thead>
<tr>
<th>Funding Category</th>
<th>2015/16 (000)</th>
<th>2016/17 (000)</th>
<th>2017/18 (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student loans—fair value write-down on new borrowings</td>
<td>659</td>
<td>662</td>
<td>594</td>
</tr>
<tr>
<td>Government allowances</td>
<td>486</td>
<td>465</td>
<td>510</td>
</tr>
<tr>
<td>Tuition subsidies, fees-free and PBRF</td>
<td>2,326</td>
<td>2,385</td>
<td>2,514</td>
</tr>
<tr>
<td>Total</td>
<td>3,471</td>
<td>3,512</td>
<td>3,618</td>
</tr>
</tbody>
</table>


Notes:
1. Tuition subsidies are represented by the Student Achievement Component.
2. PBRF is the Performance-Based Research Fund.
3. Fees-free represents the amount spent on paying tuition fees for Fees-Free eligible learners.
4. The following items of expenditure are not covered: industry training, community education, scholarships, Youth Guarantee, centres of research excellence, administration of tertiary education, and capital expenditure.
5. Government expenditure is exclusive of GST.

Table 2 shows the number of government-funded (Student Achievement Component) EFTS places was 216,000 in 2017. The decrease in recent years reflects the decrease in participation in tertiary education.

Using the write-down on new borrowings to represent student loan expenditure, government expenditure in 2017/18 was $594 million, a decrease of $68 million compared with the previous financial year. Part of the reason for this decrease was a reduction in borrowing for tuition fees following the introduction of the Fees-Free policy in 2018. Expenditure on student allowances was $510 million in 2017/18 (up $45 million on the previous year) and expenditure on tuition subsidies (Student Achievement Component funding, Fees-Free, and the Performance-Based Research Fund) was $2,514 million (up $129 million on the previous year). The significant increase relates to Fees-Free which was not relevant in the previous year.
Some major trends in tertiary education

Shift to higher-level qualifications

In 2017, there were over 223,000 domestic EFTS enrolled in tertiary study (12 percent below the peak in 2010). There was a decline of 24 percent in the number of domestic EFTS at the certificate 1-4 level between 2007 and 2017, while the numbers enrolled at degree level and above rose by 13 percent.

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 2017, 51 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 26 percent.

The shift to enrolments in higher-level qualifications is also reflected in the data on student loan uptake. Figure 3 shows that, in 2008, 60 percent of borrowers were enrolled in qualifications at bachelors level or higher. By 2017, the proportion had risen to 73 percent. Over the same period, the proportion of borrowers enrolled in Level 1-4 certificates decreased from 28 percent to 17 percent.

More enrolments by younger people

The trend towards enrolment in higher-level qualifications has been complemented by the trend towards a higher proportion of 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. This trend can also be seen in data on student loans. Figure 4 shows that between 2008 and 2017 the percentage of borrowers aged 26 or under rose from 68 percent to 74 percent.

Figure 3: Trends in the level of study among borrowers

Source: Ministry of Social Development and Ministry of Education.

Figure 4: Trends in the age profile of borrowers

Source: Ministry of Social Development.
1.3 Student support background

The student support system enables all New Zealanders to participate in tertiary education and training. The main elements of student support are the Student Loan Scheme and the Student Allowances Scheme. These supports are complemented by tuition subsidies which contribute to the cost of tuition. They are also complemented by the subsidisation of fees for particular groups of students including those undertaking first-year fees-free tertiary education and training or foundation-level tertiary education.

A key challenge for the government is to manage the cost to taxpayers while at the same time ensuring that tertiary education remains affordable for students.

The proportion of costs met by government and students and their families has varied over time, reflecting changing Government priorities. For example:

- in the 2000s, to maintain student affordability, more of the costs shifted to government (e.g. via the interest-free policy, expansion of student allowances eligibility, and fee controls)
- following the Global Financial Crisis, changes were made that shifted more of the costs back to students and their families by focusing on performance incentives and improving the way student support targets those most in need
- since 2015, costs have started to shift back to government with targeted increases being made to living support for student allowance recipients who are sole parents, have dependent children, or have high accommodation costs
- in 2018, the Government increased its contribution to tertiary education costs to improve accessibility and affordability, by increasing the amount of living cost support through loans, allowances and introducing the Fees-Free Tertiary Education and Training policy for first-time learners.

A list of the student support policy changes since 1989 can be found on the Education Counts website: educationcounts.govt.nz/publications/tertiary_education/annual/2555/student-loan-scheme-annual-report-2018

Alongside policy changes, improvements have been made to the quality of information available to students to support good choices and investment in tertiary education, and to achieve better outcomes for students and taxpayers (see Chapter 2 and Appendix 3).

---

Student loans

Some of the main ways the government manages student loan debt for students is through the interest-free policy introduced in 2006 and the Fees-Free Tertiary Education and Training policy for first time learners, introduced in 2018.

The Government made policy changes to help reduce the cost of the Student Loan Scheme for taxpayers in response to the Global Financial Crisis. These changes included restricting the eligibility of borrowers who were less likely to repay their student loans, or where the economic returns were likely to be low for the borrower and the government.

Changes have been made to increase student loan repayments from New Zealand-based borrowers, including increasing the repayment rate in 2013 from 10 cents to 12 cents in every dollar earned over the repayment threshold.

The collection of student loan repayments from overseas-based borrowers remains a priority. These borrowers have much lower repayment compliance and slower repayment times than New Zealand-based borrowers (see Chapter 3).

Measures introduced since 2010 to improve repayment compliance include initiatives to track borrowers, making it easier for overseas-based borrowers to make repayments, and strengthened enforcement measures.

Current activity focuses on contacting borrowers in Australia who are in default on their student loans. Inland Revenue exchanges data for matching with the Australian Taxation Office several times a year. In 2017-18 records for 128,930 customers were sent for matching. Of these, matches were found for 85,147 customers.

To ensure that the Student Loan Scheme continues to support broad participation in tertiary education and assist students to meet the rising costs of living, the maximum amount that can be borrowed for living costs increased by $50 from 1 January 2018.
Student allowances

Student allowances are designed to support students from low-socioeconomic backgrounds. During the Global Financial Crisis, student allowances were refocused towards students in their initial years of study.

As the economy improved, extra funding was directed to student allowance recipients with children, as Government considered these students to be most in need of additional living support. To improve incentives to study, sole parents were given access to the same level of accommodation support through their student allowance as they would get if they were receiving a benefit. Student allowance rates have also been increased for low-income families with dependent children.

From the beginning of 2018, the Government increased student allowance rates by $50 net per week to provide better support for students to meet the rising costs of living. This change meant that some students who previously did not receive an allowance due to personal or parental income became entitled to a student allowance. The maximum rates of Accommodation Benefit and Accommodation Supplement, available to some students, also increased in 2018.

Fees-Free Tertiary Education and Training

The Government has committed to making a greater investment in tertiary education for students and trainees by introducing the Fees-Free Tertiary Education and Training policy.

From 1 January 2018, first-time eligible students in provider-based study can receive the equivalent of one year of fees-free tertiary education, while apprentices and trainees in eligible programmes of at least 120 credits can receive two years of fees-free training.

The Fees-Free Tertiary Education and Training policy aims to make study or training more affordable and accessible to those who have not yet received the benefits of tertiary education. Learners can also spread their fees-free entitlement over multiple years, supporting flexible lifelong learning options including part-time and part-year study.

Further information can be found on the Tertiary Education Commission website: feesfree.govt.nz

1.4 Policy changes taking effect in 2019

Increasing the student loan borrowing limit for long undergraduate programmes

From 1 January 2019, students in specific long undergraduate programmes will be eligible for an additional three EFTS of student loan on top of the seven EFTS life-time limit.

People studying medicine, dentistry, optometry and veterinary science will be able to access student loans for a maximum of 10 EFTS of study to complete their qualification.

To apply for the EFTS extension a student must be in one of the following long undergraduate programmes:

- Bachelor of Medicine and Bachelor of Surgery (MBChB)
- Bachelor of Optometry (BOptom)
- Bachelor of Dental Surgery (BDS) or Bachelor of Dentistry with Honours (BDS) Hons
- Bachelor of Veterinary Science (BVSc).

Further information can be found on the StudyLink website: studylink.govt.nz

This policy replaces the existing EFTS extension of loan borrowing for students in long undergraduate programmes. This provision has been available for students who had completed at least an undergraduate degree prior to entering their long undergraduate programmes (graduate-entry students).
Chapter 2

OUTCOMES

2.1 Outcomes framework ................................................................. 16
2.2 Human capital and labour skills ............................................. 17
2.3 Affordability for borrowers and taxpayers ............................. 19
2.4 Unintended outcomes ............................................................... 21
2.1 Outcomes framework

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 Zealand. 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.

This chapter outlines how the scheme is working towards the outcomes and explores evidence of any unintended outcomes.

Figure 5 shows the outcomes framework for the scheme and identifies the indicators we monitor to assess whether it is achieving the desired outcomes.

<table>
<thead>
<tr>
<th>Vision Statement</th>
<th>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</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Outcomes</td>
<td>Enhanced human capital and labour skills</td>
</tr>
<tr>
<td>Immediate Outcomes</td>
<td>More borrowers gain relevant qualifications that assist employment</td>
</tr>
<tr>
<td>This will mean that...</td>
<td>• students make better-informed study choices</td>
</tr>
<tr>
<td></td>
<td>• more borrowing is focused towards quality, high-level courses</td>
</tr>
<tr>
<td></td>
<td>• more graduates find relevant employment</td>
</tr>
</tbody>
</table>
2.2 Human capital and labour skills

Human capital refers to abilities and skills acquired through investment in education and training that enhance income-earning potential. Many economists measure gains in human capital by looking at earnings, based on the reasoning that an employer pays for the value the worker creates. 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.

Analysis of data shows that employers pay a premium to those who have completed qualifications. For instance, Table 3 shows that, on average, young people who complete a bachelors degree and go into the workforce earn 39 percent above the national median earnings five years after graduation.

<table>
<thead>
<tr>
<th>Qualification level</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctorate</td>
<td>162</td>
<td>176</td>
<td>196</td>
</tr>
<tr>
<td>Masters degree</td>
<td>116</td>
<td>134</td>
<td>160</td>
</tr>
<tr>
<td>Honours, postgraduate certificate and diploma</td>
<td>119</td>
<td>132</td>
<td>158</td>
</tr>
<tr>
<td>Graduate certificate and diploma</td>
<td>122</td>
<td>129</td>
<td>155</td>
</tr>
<tr>
<td>Bachelors degree</td>
<td>101</td>
<td>116</td>
<td>139</td>
</tr>
<tr>
<td>Level 5-7 certificates/ diplomas</td>
<td>78</td>
<td>87</td>
<td>105</td>
</tr>
<tr>
<td>Level 4 certificates</td>
<td>71</td>
<td>80</td>
<td>98</td>
</tr>
<tr>
<td>Level 1-3 certificates</td>
<td>71</td>
<td>80</td>
<td>97</td>
</tr>
</tbody>
</table>

Source: Statistics New Zealand IDI, Ministry of Education interpretation.

1. These numbers are based on earnings for young domestic graduates in the 2015 and 2016 tax years relative to national median earnings for those aged between 16 and 64 years in the 2016 tax year. Earnings in the 2015 tax year are converted to 2016 dollars using the wages and salary component of the Labour Cost Index.

2. Earnings are only calculated for young domestic graduates who are not:
   • overseas for nine or more months in the year
   • doing any further formal study at a government-funded tertiary education provider
   • on a main benefit for more months than they are employed and who receive wages and salary earnings, paid parental leave and/or accident compensation payments for at least four months in a tax year and/or receive any self-employment earnings.

3. “Young” means graduates aged:
   • 21 years or under for Level 1-4 certificates
   • 23 years or under for Level 5-7 certificates/diplomas
   • 24 years or under for three-year bachelors degrees, with each year of additional study requirement adding a year to the age cut-off for longer qualifications
   • 26 years or under for graduate certificates/diplomas, bachelors with honours degrees, or postgraduate certificates/diplomas
   • 27 years or under for masters
   • 29 years or under for doctoral students.

Different age cut-offs are used to control for differences in qualification lengths. This means that the labour market experience of all graduates is more similar. However, in some cases, differences in graduates’ ages may themselves influence earnings.

4. Results at each qualification level are for all students who have completed a qualification at this level, including those who continue on to do a higher-level qualification at a later date.
Figure 6 shows the median and lower and upper quartile earnings for young New Zealand graduates in the first 11 years after completing their qualification. Young graduates are those who moved to tertiary education more or less directly from school and who are more likely to be completing their first period of tertiary education and entering the labour market full-time for the first time.

Education is likely to have more of a direct influence on earnings for young graduates than for older graduates, who perhaps already hold qualifications or have a number of years of work experience.

Figure 6 also reflects that the higher the qualification, the higher the expected earnings. Five years after graduation:

- the median earnings of young bachelors degree graduates were 31 percent above those with a Level 5-7 certificate/diploma and 42 percent above those with a Level 1-3 certificate
- the median earnings of young masters degree graduates were 15 percent higher than those with a bachelor's degree, and 65 percent higher than those with a Level 1-3 certificate.

Further information about outcomes for young domestic graduates can be found in a series of factsheets available on the Education Counts website: educationcounts.govt.nz/publications/tertiary_education/education-outcomes/the-post-study-earnings-and-destinations-of-young-domestic-graduates

Information to help study and career decisions

A number of government agencies provide information and tools to supplement the career information and advisory services provided by schools and tertiary education organisations.

The functions of Careers New Zealand transferred to the Tertiary Education Commission on 1 July 2017. The Tertiary Education Commission's career service has a focus on providing high-quality careers information and strengthening connections between education and employment.

Information is available to students to help them consider their study options and make informed decisions. It includes information on the outcomes of tertiary education so students can assess the likely value of the different options available.

Appendix 3 summarises the information that is available from various agencies.
2.3 Affordability for borrowers and taxpayers

Sharing the costs of tertiary education

The shared benefits of education

Tertiary education has benefits for individuals, society and the economy. The previous section shows there is an economic benefit from education. People who gained higher qualifications have higher earnings on average and make a greater contribution to the economy through their tax payments.

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.

Sharing the costs

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 30 percent in 2017.

While the government’s share was nominally 70 percent in 2017, in practice it is much 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 81 percent after taking the implicit subsidy into account.

The data in this section does not yet reflect the impact of the Government’s Fees-Free Tertiary Education and Training policy, which was introduced in 2018. This will mean in future years the government share of the cost of tertiary education will increase and the cost burden to students will reduce.

The costs of the loan scheme to students

A way of assessing the cost of the loan scheme to students is to consider their loan balances when they leave study.

Figure 7 Median loan balance on leaving study

[Graph showing median loan balance on leaving study]

Source: Statistics New Zealand IDI.

Figure 7 shows the median loan balance of students at the time they left study between 2000 and 2016. Over this period the median loan balance on leaving study increased by 123 percent, from $8,360 to $18,650. After adjusting for inflation, the increase in the median loan balance was 58 percent (from $8,360 to $13,212). This increase is resulted from the increase in course fees over time and also reflects that many students are studying for longer to achieve higher-level qualifications.

The time it takes to repay loans is a further way to assess the cost of the loan scheme to students. Information on actual and forecast repayment times is in Section 3.4.

---

3 The graph starts from 2000, which is the year that interest was removed for full-time, full-year students and part-time students on low incomes.
**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.

**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 Annual Maximum Fee Movement policy and new policies on fees for foundation-level qualifications (and the first-year Fees-Free Tertiary Education and Training policy for new entrants from 2018) all constrain the volume of lending.

**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. This means that, over time, what is paid back is less in real terms than what was borrowed because a dollar borrowed interest-free today has more value than that dollar when it is paid back in the future.

Repayments from borrowers in New Zealand are income contingent. This means that borrowers with low incomes are not required to make repayments, and therefore some loans may never be repaid. These policies have a significant effect on the overall costs that make up the discount factors applied to new loans.

The policy that loans are written off if a borrower dies or is declared bankrupt also has an impact on the cost of lending, although the impact is relatively small compared with the income-contingent repayment and the interest-free policies.

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. However, in times of higher unemployment or low earnings growth, more people will 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.

**Figure 8 Cost of lending in cents per dollar lent**

![Graph showing cost of lending in cents per dollar lent from 2009 to 2018.]

**Source:** Ministry of Education.

The cost per dollar lent is the key measure of the cost of new loans. Figure 8 shows that this cost has varied over time, depending on the external economic factors and lending policies that affect the value of the loan scheme. These are discussed in detail in Section 4.1 of this report.

**Figure 9 Ratio of carrying value of the Student Loan Scheme to nominal value at 30 June**

![Graph showing ratio of carrying value of the Student Loan Scheme to nominal value from 2007 to 2018.]

**Source:** Ministry of Education.

Another important measure of the financial performance of the loan scheme is the ratio of the carrying value of the asset to the nominal value. The value of the scheme in the Crown’s accounts on 30 June 2018 was 58.6 percent of the total amount of money on loan or nominal value. Figure 9 shows the ratio has been stable for the past four years. See Section 5.6 for a detailed explanation of this measurement.
2.4 Unintended outcomes

The Student Loan Scheme is a targeted scheme with income-contingent repayments. This means that there will be some people who are unable to make repayments at times for a variety of reasons, including when they have no income or their income is below the repayment threshold. For the loan scheme to be sustainable to the government in the long term, it is important that borrowers repay their loans within a reasonable timeframe.

Initiatives have been introduced to help reduce the numbers who repay slowly, or who never repay at all. These include the introduction of a performance requirement for students to retain loan eligibility, an annual and life-time limit on the study for which students can borrow, adjusted overseas-based borrower repayment obligations, and improved collection activity by Inland Revenue. In addition to these measures, the Youth Guarantee and fees-free Levels 1 and 2 tertiary policies help reduce student loan costs for people who undertake lower-level study and whose income when they leave study may not be enough for them to repay their student loans fully.

Are borrowers left with large debts for many years?

In the past, those who took time out from the workforce would often see their nominal loan balance increase as base interest was added to their account, while their repayments had stopped.

Borrowers who remain in New Zealand have short repayment times. Half of those who left study in 2016 and remain in New Zealand are forecast to repay their loan in 6.8 years, while three-quarters will have repaid in 11.4 years.

Borrowers who spend time outside New Zealand have longer forecast repayment times. Half of those who left study in 2016 and are not always New Zealand-based are forecast to repay their loan in 15.2 years. See Section 3.4 for more information on repayment times.

Other unintended outcomes

There is very little statistical empirical research of the social impacts of income-contingent student loan schemes such as we have in New Zealand. The research that is available is dated now, but indicates that the presence of income-contingent loans has no adverse effects in these areas. For a review of this research refer to previous annual reports: educationcounts.govt.nz/publications/tertiary_education/annual

There are also very few surveys on the impact of student loans on life choices, particularly in the New Zealand context, and their findings are mixed. For this reason it is difficult to draw any conclusions from them. Some of these surveys have concluded that students may be encouraged to go overseas after completing study 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. Such surveys generally canvass students’ future intentions rather than record their actual behaviours.4

Other surveys suggest that student loan debt does not have adverse consequences on individuals or on their career preferences. For example, a 2009 survey of University of Canterbury students suggests those with high debt levels were as happy as those with no debt and that student loan debt did not have any implications for academic performance.5 A 2017 longitudinal survey assessing career preferences upon graduation in the health care disciplines at Auckland University found that, while financial support is a determining factor in career choices, there is no significant effect related to the level of student loan debt.6

4 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

3.1 Borrowing in 2017 ................................................................. 24
3.2 Repayment performance ...................................................... 31
3.3 Loan balances and borrower segments ................................. 35
3.4 Repayment times ................................................................. 38
3.1 Borrowing in 2017

Borrower uptake

This section shows that in the 2017 calendar year:

- there was a decrease in the number of active borrowers (i.e. students who borrowed from the loan scheme in the year), while the average amount borrowed increased
- there was a decrease in the uptake of loans by both full-time and part-time students
- the number of active borrowers at all levels of study decreased.

Number of borrowers

Since the Student Loan Scheme was introduced in 1992, about 1.30 million people have taken out a student loan. This represents around one-third of the New Zealand population aged 15 years and over in 2017.

Figure 10 shows that the number of students using the loan scheme has been decreasing since 2010. In 2017:

- a total of 170,037 students borrowed under the loan scheme—a decrease of 3.9 percent (6,901 fewer borrowers) from 2016
- there were 42,136 new borrowers—a decrease of 5.5 percent (2,430 fewer new borrowers) from 2016
- the number of total active borrowers represented over 4 percent of the estimated population living in New Zealand aged 15 years and over.

The decrease in the number of active borrowers in 2017 is consistent with the reduction in the number of people participating in tertiary education, mainly due to the strengthening labour market.

Changes to student support policy since 2010 that reduced access to student support have also had an impact on the number of students using the loan scheme. A summary of changes is available on the Education Counts website: educationcounts.govt.nz/publications/tertiary_education/annual/student_loan_scheme_annual_reports/student-loan-scheme-annual-report-2018

Loan uptake

Figure 11 shows the number of students eligible to borrow who used the loan scheme (see Appendix 1 for information on eligibility criteria). In 2017, the overall uptake rate was 68.9 percent of eligible students. This was a decrease on the 69.7 percent uptake rate in 2016.

The changes in the uptake rate of student loans over time is partly a consequence of changes to loan policy, but also reflects economic conditions. The introduction of the interest-free loan policy in 2006, together with the rise in tertiary enrolments as the economy went into recession in 2008, contributed to an increase in the number of active borrowers up until 2010. The decrease in the number of active borrowers since 2010 is consistent with the reduction in the number of people participating in tertiary education as the labour market has been strengthened.

Figures 12 and 13 show the number of active borrowers by full-time and part-time status from 2008 to 2017. The rate of eligible full-time students accessing the loan scheme fell from 80.9 percent (152,561 students) in 2016 to 80.3 percent (146,550 students) in 2017. Uptake rates remain higher than they were before 2006, when the interest-free student loan policy was introduced.

7 The New Zealand estimated resident population aged 15 years and over in 2017 was 3,862,300.
8 The overall uptake rate reflects the mix of full-time and part-time borrowers.

Figure 10 Number of total active borrowers and new active borrowers in each academic year

Source: Ministry of Social Development and Statistics New Zealand IDI.

The overall uptake rate reflects the mix of full-time and part-time borrowers.
As the economy has strengthened since 2011, the uptake rate of eligible part-time students has decreased from 49.0 percent (33,932 students) in 2011 to 37.4 percent (24,377 students) in 2016 and to 36.6 percent (23,487 students) in 2017. The trend may also be partly due to policy changes introduced in 2012 that meant part-time, full-year students could no longer borrow for course-related costs.

Amounts borrowed

Historical trends in borrowing

Since 1992, students have borrowed a total of $26.1 billion through the Student Loan Scheme.\(^9\)

The total amount borrowed and the number of borrowers each year are shown in Figure 14.

As enrolments in tertiary education increased during the 1990s and fees increased, the total amount borrowed per year grew significantly. 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 significant rise in total borrowing between 1999 and 2000.

From 2001 to 2005, the total amount borrowed each year was relatively stable, partly because controls on fees since 2001 meant that fees, the largest component of borrowing, stabilised. In 2006, the introduction of interest-free student loans for New Zealand-based borrowers contributed to an increase in the number of borrowers. From 2005 to 2006, the number of borrowers increased by 8.4 percent and the amount borrowed by 11.8 percent.

Increased levels of enrolment in tertiary education in 2009 resulted in a significant rise in the number of students using the loan scheme. The number of active borrowers reached a peak in 2010, when 212,485 students borrowed $1,551 million. In 2011, the number of borrowers in the scheme fell for the first time since 2005, reflecting a reduction in tertiary education enrolments.

---

\(^9\) Net of refunds to StudyLink to 30 June 2018 (including administration charges).
Since 2010, the trend of decreasing numbers of active borrowers has continued. The total amount borrowed each year has also started to decline in the last two years, after a period of being relatively stable.

The number of active borrowers fell by 3.9 percent from 176,938 students in 2016 to 170,037 students in 2017. The total amount borrowed fell by 2.1 percent from $1,602 million in 2016 to $1,568 million in 2017.

**Average and median borrowing**

Figure 15 shows the average and median amounts borrowed from 2008 to 2017. From 2010, fees were regulated by the Annual Maximum Fee Movement policy, under which providers are permitted to increase fees, but only within limits. The introduction of interest-free student loans in 2006 and growth in fees have contributed to a gradual increase in both the average and median amounts borrowed.

In 2017, the average amount borrowed was $9,220, an increase of 1.8 percent ($167) on the previous year. The median amount borrowed in 2017 increased by 2.2 percent ($181) on 2016 to $8,267. The rise in borrowing amount was mainly due to fee increases.

**Loans by component**

Most borrowers use the loan scheme to pay for course fees charged by tertiary education providers. Full-time students can also borrow for living costs and up to $1,000 for course-related costs.

In 2017:

- 93 percent of borrowers (158,484 students) used a student loan to pay for course fees
- 23 percent (39,507 students) used a student loan to pay fees only (i.e. they did not borrow to pay for living costs or course-related costs)
- 65 percent of borrowers (110,861 students) used a student loan to help meet course-related costs
- 55 percent of borrowers (94,161 students) used a student loan to help meet their living costs.

**Figure 16 Total amounts drawn by loan component**

Figure 16 shows the amount borrowed by loan component. Of the total amount borrowed in 2017 (including establishment and administration fees):

- 66.7 percent ($1,039 million) was used to pay for course fees
- 26.3 percent ($410 million) was used to pay for living costs
- 7.0 percent ($109 million) was used to pay for course-related costs.

These percentages were almost the same as in 2016. There has been an increase in the percentage of the total amount borrowed to pay for course fees since 2000, when this accounted for 60.5 percent of the total amount borrowed. The percentage has been relatively stable at around 67 percent since 2011.

The course fee entitlement has never been directly capped (although fee control policies have affected borrowing amounts). By contrast, the maximum course-related cost entitlement has been capped at $1,000 for a number of years. The maximum entitlement for living costs was capped until 2008, and from 2009 has been annually indexed to inflation.
Table 4 shows the average and median amounts borrowed by loan component for the period 2008 to 2017. Over this period, the average amount borrowed to pay for course fees increased by 38.3 percent.

In 2017, compared with the previous year, the average amount borrowed to pay for course fees increased by 1.6 percent ($105) to $6,558.

- living costs increased by 2.2 percent ($92) to $4,351
- course-related costs decreased by 0.3 percent ($3) to $982.

Living support

Students are supported through student loans, student allowances, or a combination of both. Student allowance entitlements depend on personal and family circumstances and do not have to be repaid. Living costs borrowed as part of a student loan must be repaid.

For the 2017/18 tax year, full-time students could borrow up to $231.92 a week for living costs from the loan scheme, less any student allowances they received. The maximum entitlement is adjusted for inflation on 1 April each year.

In 2017:

- 39.9 percent of students receiving student allowances also used the loan scheme for living costs (a decrease of 1.2 percent from 2016)
- 15.3 percent of students who used the loan scheme for living costs also received a student allowance (a decrease of 1.1 percent from 2016).

Table 5 shows the number of students receiving student allowances and using loans to pay for living costs, and the average amounts received in 2017.

Table 4 Average and median amounts borrowed by component

<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>
</tr>
</thead>
<tbody>
<tr>
<td>Course fees ($)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</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>
<td>6,074</td>
<td>6,323</td>
<td>6,453</td>
<td>6,558</td>
</tr>
<tr>
<td>Median</td>
<td>4,618</td>
<td>4,744</td>
<td>5,084</td>
<td>5,422</td>
<td>5,666</td>
<td>5,925</td>
<td>6,189</td>
<td>6,426</td>
<td>6,610</td>
<td>6,758</td>
</tr>
</tbody>
</table>

| Living costs ($)  |       |       |       |       |       |       |       |       |       |       |
| Average       | 3,875 | 3,815 | 3,832 | 3,710 | 3,774 | 3,944 | 4,036 | 4,179 | 4,259 | 4,351 |
| Median        | 4,256 | 3,900 | 3,851 | 3,537 | 3,599 | 3,800 | 3,958 | 4,250 | 4,460 | 4,643 |

| Course-related costs ($)  |       |       |       |       |       |       |       |       |       |       |
| Average       | 955   | 987   | 992   | 990   | 988   | 988   | 987   | 988   | 985   | 982   |
| Median        | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |

Source: Ministry of Social Development.

Table 5 Student allowances compared with student loan living cost borrowing

<table>
<thead>
<tr>
<th></th>
<th>Number of students</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>39,289</td>
<td>$7,846</td>
<td>$7,846</td>
<td>$7,846</td>
</tr>
<tr>
<td>Student allowances and living costs loan</td>
<td>26,063</td>
<td>$6,061</td>
<td>$1,968</td>
<td>$8,030</td>
</tr>
<tr>
<td>Living costs loan only</td>
<td>68,098</td>
<td>$5,263</td>
<td>$5,263</td>
<td>$5,263</td>
</tr>
</tbody>
</table>

Source: Ministry of Social Development.

The number of students using a loan to pay for living costs and/or receiving student allowances is shown in Figure 17.
In 2017:

- 133,450 students used the loan scheme to pay for living costs and/or received a student allowance, a 4.6 percent decrease (6,423 fewer students) from 2016
- 39,289 students received a student allowance only, a 6.2 percent decrease (2,589 fewer students) from 2016
- 26,063 students received a student allowance and also used the loan scheme to pay for living costs, a decrease of 10.6 percent (3,087 fewer students) from 2016
- 68,098 students used the loan scheme to pay for living costs, a decrease of 1.1 percent (747 fewer students) from 2016.

Sub-sector

The average course fees borrowed by sub-sector are shown in Figure 18. Students at universities, polytechnics and private training establishments had an increase in the average course fees borrowed during the period 2008 to 2017.

Table 6 has lending information broken down into the components of a student loan by sub-sector.

### Table 6 Components of lending by sub-sector

<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>Number of borrowers</th>
<th>Lending million ($)</th>
<th>Average borrowing ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Course fees</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>University</td>
<td>96,644</td>
<td>685</td>
<td>7,083</td>
</tr>
<tr>
<td>Polytechnic</td>
<td>41,893</td>
<td>210</td>
<td>5,009</td>
</tr>
<tr>
<td>Wānanga</td>
<td>2,112</td>
<td>8</td>
<td>3,645</td>
</tr>
<tr>
<td>PTE</td>
<td>17,835</td>
<td>137</td>
<td>7,696</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>158,484</td>
<td>1,039</td>
<td>6,558</td>
</tr>
<tr>
<td><strong>Course-related costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>University</td>
<td>62,836</td>
<td>61</td>
<td>970</td>
</tr>
<tr>
<td>Polytechnic</td>
<td>30,716</td>
<td>30</td>
<td>982</td>
</tr>
<tr>
<td>Wānanga</td>
<td>2,869</td>
<td>3</td>
<td>1,035</td>
</tr>
<tr>
<td>PTE</td>
<td>14,440</td>
<td>15</td>
<td>1,026</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>110,861</td>
<td>109</td>
<td>982</td>
</tr>
<tr>
<td><strong>Living costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>University</td>
<td>61,233</td>
<td>293</td>
<td>4,785</td>
</tr>
<tr>
<td>Polytechnic</td>
<td>21,195</td>
<td>77</td>
<td>3,613</td>
</tr>
<tr>
<td>Wānanga</td>
<td>1,338</td>
<td>5</td>
<td>3,758</td>
</tr>
<tr>
<td>PTE</td>
<td>11,013</td>
<td>37</td>
<td>3,355</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>94,779</td>
<td>412</td>
<td>4,342</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>170,176</td>
<td>1,560</td>
<td>9,165</td>
</tr>
</tbody>
</table>

Source: Ministry of Social Development.

Notes:
1. Borrowers are limited to $1,000 per loan contract for course-related costs. Some borrowers have more than one contract in a calendar year; hence the average amount borrowed for course-related costs can exceed $1,000 per borrower.
2. PTE is private training establishment.
3. Borrowers who were enrolled in more than one sub-sector in the year have been counted in each sub-sector.

It shows that to pay for course fees, on average, students at private training establishments borrowed the most and, despite having the highest fees increase in 2017, students at wānanga borrowed the least. University students on average borrowed more for living costs than any other group of students and this contributed to their also borrowing the highest average amount in total ($10,276).
## Qualification level

Table 7 gives a breakdown of active borrower numbers and the amount borrowed by level of qualification. Overall, the number of active borrowers decreased by 3.9 percent (6,901 fewer borrowers) in 2017. The largest decrease was in borrowers studying at below degree levels. This has been the trend since 2010, as students who might take qualifications at this level are more likely to enter the workforce when the labour market is strong.

The number of borrowers studying at bachelor’s and doctorate levels has also fallen since 2012. In 2017, the number of borrowers studying at masters, honours and postgraduate certificate/diploma levels has decreased for the first time since 2013. Table 8 shows the median leaving balance by qualification for students who gained a qualification in 2016 and then left tertiary study. It also shows forecast median repayment times.

This data reveals that, although students can expect to build up a larger student loan debt if they decide to pursue higher-level qualifications, they can also expect to be able to pay off this debt more quickly.

As shown in Table 8, students who left study with a postgraduate qualification in 2016 had the highest median debt; however, they are forecast to take less time to pay off these debts than students with a Level 5-7 certificate/diploma or a bachelor’s degree.

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

<table>
<thead>
<tr>
<th>Qualification level</th>
<th>2013 n</th>
<th>2014 n</th>
<th>2015 n</th>
<th>2016 n</th>
<th>2017 n</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ avg</td>
<td>$ avg</td>
<td>$ avg</td>
<td>$ avg</td>
<td>$ avg</td>
</tr>
<tr>
<td>Doctorates</td>
<td>1,541</td>
<td>1,517</td>
<td>1,499</td>
<td>1,476</td>
<td>1,433</td>
</tr>
<tr>
<td>Masters, honours, postgraduate certificates and postgraduate diplomas</td>
<td>19,295</td>
<td>19,876</td>
<td>20,811</td>
<td>21,609</td>
<td>21,448</td>
</tr>
<tr>
<td>Bachelors degrees, graduate certificates and graduate diplomas</td>
<td>106,349</td>
<td>105,330</td>
<td>103,971</td>
<td>102,596</td>
<td>100,649</td>
</tr>
<tr>
<td>Level 5-7 certificates/diplomas</td>
<td>22,100</td>
<td>20,675</td>
<td>19,930</td>
<td>18,903</td>
<td>17,422</td>
</tr>
<tr>
<td>Level 1-4 certificates</td>
<td>42,807</td>
<td>39,052</td>
<td>36,262</td>
<td>32,316</td>
<td>30,033</td>
</tr>
<tr>
<td>Other</td>
<td>165</td>
<td>27</td>
<td>64</td>
<td>38</td>
<td>52</td>
</tr>
<tr>
<td><strong>Total borrower numbers</strong></td>
<td><strong>192,257</strong></td>
<td><strong>186,477</strong></td>
<td><strong>182,537</strong></td>
<td><strong>176,938</strong></td>
<td><strong>170,037</strong></td>
</tr>
<tr>
<td><strong>Average borrowed for all qualifications</strong></td>
<td><strong>$8,315</strong></td>
<td><strong>$8,587</strong></td>
<td><strong>$8,888</strong></td>
<td><strong>$9,053</strong></td>
<td><strong>$9,220</strong></td>
</tr>
</tbody>
</table>

Source: Ministry of Social Development.

Note: Some borrowers were enrolled in qualifications at more than one level.

### Table 8 Median debt and repayment time for leavers

<table>
<thead>
<tr>
<th>Qualification level</th>
<th>2016 Median leaving balance ($)</th>
<th>2016 Median post-study repayment time (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level 1-4 certificates</td>
<td>9,510</td>
<td>7.7</td>
</tr>
<tr>
<td>Level 5-7 certificates/diplomas</td>
<td>17,280</td>
<td>8.6</td>
</tr>
<tr>
<td>Bachelors, graduate certificates/diplomas</td>
<td>32,390</td>
<td>9.0</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>36,770</td>
<td>7.5</td>
</tr>
<tr>
<td>Male</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level 1-4 certificates</td>
<td>8,470</td>
<td>6.1</td>
</tr>
<tr>
<td>Level 5-7 certificates/diplomas</td>
<td>18,350</td>
<td>8.0</td>
</tr>
<tr>
<td>Bachelors, graduate certificates/diplomas</td>
<td>33,800</td>
<td>8.6</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>42,360</td>
<td>7.8</td>
</tr>
<tr>
<td>Female</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level 1-4 certificates</td>
<td>10,250</td>
<td>9.0</td>
</tr>
<tr>
<td>Level 5-7 certificates/diplomas</td>
<td>16,660</td>
<td>9.0</td>
</tr>
<tr>
<td>Bachelors, graduate certificates/diplomas</td>
<td>31,550</td>
<td>9.2</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>32,920</td>
<td>7.3</td>
</tr>
</tbody>
</table>

Source: Statistics New Zealand IDI and Ministry of Education Student Loans Integrated Model.

Note: The population is those who studied in 2016, completed a qualification at the level shown in 2016 and did not study in 2017.
## Demographics of active borrowers

### Table 9 Demographic characteristics of new active student loan borrowers

<table>
<thead>
<tr>
<th></th>
<th>New active borrowers</th>
<th>2016</th>
<th>2017</th>
<th>2016-2017 change</th>
<th>No.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total number</strong></td>
<td></td>
<td>44,566</td>
<td>42,136</td>
<td>-2,430</td>
<td>-5.5</td>
<td></td>
</tr>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td></td>
<td>25,420</td>
<td>24,268</td>
<td>-1,152</td>
<td>-4.5</td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td></td>
<td>19,146</td>
<td>17,868</td>
<td>-1,278</td>
<td>-6.7</td>
<td></td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average age</td>
<td></td>
<td>22</td>
<td>22</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median age</td>
<td></td>
<td>19</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20 years and under</td>
<td></td>
<td>31,627</td>
<td>29,919</td>
<td>-1,708</td>
<td>5.4</td>
<td></td>
</tr>
<tr>
<td>21-26 years</td>
<td></td>
<td>6,116</td>
<td>5,733</td>
<td>-383</td>
<td>-6.3</td>
<td></td>
</tr>
<tr>
<td>27-50 years</td>
<td></td>
<td>6,010</td>
<td>5,736</td>
<td>-274</td>
<td>-4.6</td>
<td></td>
</tr>
<tr>
<td>Over 50 years</td>
<td></td>
<td>813</td>
<td>748</td>
<td>-65</td>
<td>-8.0</td>
<td></td>
</tr>
</tbody>
</table>

### Table 10 Demographic characteristics of all active student loan borrowers

<table>
<thead>
<tr>
<th></th>
<th>All active borrowers</th>
<th>2016</th>
<th>2017</th>
<th>2016-2017 change</th>
<th>No.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total number</strong></td>
<td></td>
<td>176,938</td>
<td>170,037</td>
<td>-6,901</td>
<td>-3.9</td>
<td></td>
</tr>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td></td>
<td>105,778</td>
<td>102,230</td>
<td>-3,548</td>
<td>-3.4</td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td></td>
<td>71,160</td>
<td>67,807</td>
<td>-3,353</td>
<td>-4.7</td>
<td></td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average age</td>
<td></td>
<td>25</td>
<td>25</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median age</td>
<td></td>
<td>22</td>
<td>22</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20 years and under</td>
<td></td>
<td>59,564</td>
<td>57,425</td>
<td>-2,139</td>
<td>-3.6</td>
<td></td>
</tr>
<tr>
<td>21-26 years</td>
<td></td>
<td>70,862</td>
<td>68,433</td>
<td>-2,429</td>
<td>-3.4</td>
<td></td>
</tr>
<tr>
<td>27-50 years</td>
<td></td>
<td>42,711</td>
<td>40,699</td>
<td>-2,012</td>
<td>-4.7</td>
<td></td>
</tr>
<tr>
<td>Over 50 years</td>
<td></td>
<td>3,801</td>
<td>3,480</td>
<td>-321</td>
<td>-8.4</td>
<td></td>
</tr>
</tbody>
</table>

### Table 11 Average amount borrowed by active student loan borrowers

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2016-2017 change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Female</strong></td>
<td>$8,818</td>
<td>$8,963</td>
<td>145</td>
</tr>
<tr>
<td><strong>Male</strong></td>
<td>$9,402</td>
<td>$9,608</td>
<td>206</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$9,053</td>
<td>$9,220</td>
<td>167</td>
</tr>
</tbody>
</table>

**Source:** Ministry of Social Development.

**Notes:**
1. New active borrowers are those entering the loan scheme for the first time in 2017.
2. Borrowers can select more than one ethnicity so the sum may not add to 100 percent.
3. All percentages are of total new active borrowers.
Leaving balances

Figure 19 shows the median leaving balances of male and female borrowers in the leaving cohorts from 1997 to 2016. Between 1999 and 2008, male borrowers left with larger median loan balances than females. However, since 2009 this trend has reversed, with female borrowers’ median leaving balances at $18,950 and those of males at $18,120 in 2016.

Between 1997 and 2016, the female median loan balance increased by 140 percent. When adjusted for inflation, the increase was 63 percent.

Over the same period, the male median leaving balance increased by 130 percent, or 56 percent when adjusted for inflation.

The largest volume of borrowing has tended to be by students at bachelors level. Figure 19 also tracks the leaving balances of students at this level who left study between 1997 and 2016. Throughout this period, male borrowers who studied bachelors-level qualifications left study with higher median loan balances than female borrowers.

The level of loan balance at the time of leaving depends on many factors, such as the field of study, the tertiary education provider, and the individual’s pass rate.

3.2 Repayment performance

Analysis of repayments

The factors that affect the amount of loan repayments are:

- the size of the borrower segment actively repaying loans
- economic conditions that influence employment and incomes
- legislative changes to repayment obligations
- the proportion of borrowers in New Zealand and overseas\(^\text{10}\)
- 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.\(^\text{11}\)

This section deals with these factors in more detail.

Trends

Table 12 shows that in the year to June 2018 repayments were around $1,348 million, an increase of 5.9 percent from last year.

Table 12 Loan repayments

<table>
<thead>
<tr>
<th>Repayments</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAYE</td>
<td>843.4</td>
<td>895.5</td>
<td>960.7</td>
</tr>
<tr>
<td>From borrower</td>
<td>365.4</td>
<td>377.4</td>
<td>387.4</td>
</tr>
<tr>
<td>Total</td>
<td>1,208.9</td>
<td>1,272.9</td>
<td>1,348.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Annual % change</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAYE</td>
</tr>
<tr>
<td>From borrower</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: Statistics New Zealand IDI and Ministry of Education Student Loans Integrated Model.

Notes:
1. The amount shown is the median loan balance in dollars following the last year of study.
2. Bachelors level includes people studying at graduate certificate and diploma level.

The annual repayment threshold for New Zealand-based borrowers increased to $19,448 on 1 April 2018. Repayment deductions through PAYE were 7.3 percent higher in 2017/18 than in 2016/17 (a higher rate of increase than the previous year). This was due to an increase in the number of borrowers in employment and making repayments. Borrowers’ incomes have also increased slightly, leading to higher repayments.

---

\(^{10}\) At 30 June 2018, around 85 percent of borrowers were New Zealand-based.

\(^{11}\) Contact details for overseas-based borrowers are imperative; without them it is very difficult to encourage compliance from overseas.
Table 13 Loan repayments directly from borrowers

<table>
<thead>
<tr>
<th>Repayments</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand-based</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ million</td>
<td>149.4</td>
<td>162.5</td>
<td>166.1</td>
</tr>
<tr>
<td>Annual % change</td>
<td>11.3</td>
<td>8.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Overseas-based</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$ million</td>
<td>216.1</td>
<td>214.8</td>
<td>221.3</td>
</tr>
<tr>
<td>Annual % change</td>
<td>17.0</td>
<td>-0.6</td>
<td>3.0</td>
</tr>
<tr>
<td>Total/overall</td>
<td>365.4</td>
<td>377.4</td>
<td>387.4</td>
</tr>
<tr>
<td>$ million</td>
<td>14.6</td>
<td>3.3</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

Table 13 shows the payment received directly from borrowers.

The amount repaid directly by borrowers increased by 2.6 percent on the previous year. This increase is slightly smaller than last year, but significantly lower than earlier years. This is because the rate at which repayments by overseas-based borrowers was increasing has slowed.

The number of overseas-based borrowers making repayments increased on the previous year and this can be attributed to the successful information-matching agreement with the Australian Taxation Office that has allowed Inland Revenue to identify and make contact with more borrowers living in Australia.

Loans fully repaid

In the year to June 2017, 42,465 borrowers repaid their loans in full. More than 570,000 borrowers have repaid their loans since the scheme began, and Inland Revenue has collected $14,101 million in repayments.

Figure 20 shows the number of loans repaid over the last 10 years. The increase in repayments from 2008 reflects:

- policy and administration changes:
  - the increase in the repayment rate from 10 cents to 12 cents in the dollar
  - the cancellation of the voluntary repayment bonus on 1 April 2013, which may have contributed to the spike in repayments that year as borrowers fully repaid while still eligible for the bonus
- better management of collections by Inland Revenue, which led to better compliance.

Write-off due to death or bankruptcy

The loan balances of borrowers who die or who are declared bankrupt are written off. Table 14 shows that, in the year to 30 June 2018, $32.2 million was written off due to bankruptcy and $31.1 million due to the death of the borrower.

Table 14 Write-offs due to bankruptcy or death

<table>
<thead>
<tr>
<th>Write-offs</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bankrupt ($m)</td>
<td>17.6</td>
<td>19.9</td>
<td>32.2</td>
</tr>
<tr>
<td>Deceased ($m)</td>
<td>14.7</td>
<td>12.6</td>
<td>31.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of cases</th>
<th>Bankrupt</th>
<th>Deceased</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/16</td>
<td>483</td>
<td>973</td>
</tr>
<tr>
<td>2016/17</td>
<td>514</td>
<td>817</td>
</tr>
<tr>
<td>2017/18</td>
<td>827</td>
<td>2,605</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

The increase in write-offs due to bankruptcy is a result of a backlog of write-offs being processed by Inland Revenue this year. It is possible that there is also an increase in the rate of bankruptcy, which would lead to this result continuing in future years.

The increase in write-offs due to death is a result of Inland Revenue undertaking a data matching exercise with the Department of Internal Affairs that identified a large number of accounts that needed to be closed due to deaths. In the future, Inland Revenue will have access to this data more frequently and will be able to take more timely action.

Administrative and legal processes associated with bankruptcy and the notification of a death mean that there is often a delay before write-offs are made in Inland Revenue’s administrative system.

12 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.
Overdue repayments

Trends

Table 15 gives a summary of overdue repayments by New Zealand-based and overseas-based borrowers. In 2018, the total overdue amount rose by 9.5 percent on 2016/17. This is less than the 12.4 percent increase in the previous year and has continued to slow over the past two years.

Table 15 Overdue student loan repayments at 30 June

<table>
<thead>
<tr>
<th>Overdue repayments</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>% Change 2017-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand-based</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overdue amount ($m)</td>
<td>91.2</td>
<td>99.3</td>
<td>116.2</td>
<td>17.0</td>
</tr>
<tr>
<td>No. of borrowers</td>
<td>24,108</td>
<td>24,707</td>
<td>26,021</td>
<td>5.3</td>
</tr>
<tr>
<td>Average amount outstanding ($)</td>
<td>3,782.3</td>
<td>4,019.1</td>
<td>4,466.0</td>
<td>11.1</td>
</tr>
<tr>
<td>Overseas-based</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overdue amount ($m)</td>
<td>982.6</td>
<td>1,107.3</td>
<td>1,205.2</td>
<td>8.8</td>
</tr>
<tr>
<td>No. of borrowers</td>
<td>80,622</td>
<td>78,308</td>
<td>75,375</td>
<td>-3.7</td>
</tr>
<tr>
<td>Average amount outstanding ($)</td>
<td>12,188.2</td>
<td>14,140.3</td>
<td>15,990.0</td>
<td>13.1</td>
</tr>
<tr>
<td>Total/overall</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overdue amount ($m)</td>
<td>1,073.8</td>
<td>1,206.6</td>
<td>1,321.5</td>
<td>9.5</td>
</tr>
<tr>
<td>No. of borrowers</td>
<td>104,730</td>
<td>103,015</td>
<td>101,396</td>
<td>-1.6</td>
</tr>
<tr>
<td>Average amount outstanding ($)</td>
<td>10,253.2</td>
<td>11,712.8</td>
<td>13,032.6</td>
<td>11.3</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

As in the previous year, the increase in overall default and the average amount overdue was driven by defaulting overseas-based borrowers. The overdue amount owed by this group rose by 8.8 percent, significantly less than the 12.7 percent increase the previous year, and around half of the increase in earlier years.

Slower growth from previous years can be attributed to increased awareness of repayment obligations due to media attention, advertising, direct marketing and targeted collection activity. As more contact information becomes available, the ability to contact overseas-based borrowers increases, and so more of these borrowers are making repayments.

Overdue repayments from New Zealand-based borrowers rose by 17.0 percent ($16.9 million) between 2016/17 and 2017/18. This was driven by an increase in the number of overseas-based borrowers returning to New Zealand. The overdue repayments of overseas-based borrowers become New Zealand-based default when these borrowers return to New Zealand for more than 183 days.

Tables 16 and 17 show the age of overdue repayments for the last three years. The proportion of overdue repayments over two years old has increased since last year, and the proportion over five years old continues to increase, largely because of the continuing non-compliance of many overseas-based borrowers. The longer borrowers are out of New Zealand, the less engaged they are with their student loans. More than 74 percent of overseas-based borrower default is more than two years old, compared with 71 percent in 2017, with the largest increase coming in overdue repayments over five years old.

Table 16 Age of overdue repayments at 30 June

<table>
<thead>
<tr>
<th>Age of overdue repayments</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-1 month</td>
<td>9.2</td>
<td>0.9</td>
<td>6.7</td>
</tr>
<tr>
<td>2-3 months</td>
<td>168.8</td>
<td>15.7</td>
<td>167.0</td>
</tr>
<tr>
<td>4-6 months</td>
<td>9.2</td>
<td>0.9</td>
<td>7.1</td>
</tr>
<tr>
<td>7-12 months</td>
<td>12.0</td>
<td>1.1</td>
<td>13.5</td>
</tr>
<tr>
<td>1-2 years</td>
<td>166.8</td>
<td>15.5</td>
<td>167.6</td>
</tr>
<tr>
<td>2-5 years</td>
<td>330.7</td>
<td>30.8</td>
<td>382.9</td>
</tr>
<tr>
<td>&gt;5 years</td>
<td>577.1</td>
<td>35.1</td>
<td>461.8</td>
</tr>
<tr>
<td>Total</td>
<td>1,073.8</td>
<td>100.0</td>
<td>1,206.6</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

Table 17 Age of overdue repayments by location at 30 June 2018

<table>
<thead>
<tr>
<th>Age of overdue repayments</th>
<th>New Zealand-based borrowers</th>
<th>Overseas-based borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ million</td>
<td>%</td>
<td>$ million</td>
</tr>
<tr>
<td>0-1 month</td>
<td>4.9</td>
<td>3.5</td>
</tr>
<tr>
<td>2-3 months</td>
<td>13.1</td>
<td>11.3</td>
</tr>
<tr>
<td>4-6 months</td>
<td>4.4</td>
<td>3.8</td>
</tr>
<tr>
<td>7-12 months</td>
<td>4.0</td>
<td>3.5</td>
</tr>
<tr>
<td>1-2 years</td>
<td>15.4</td>
<td>13.3</td>
</tr>
<tr>
<td>2-5 years</td>
<td>34.4</td>
<td>29.6</td>
</tr>
<tr>
<td>&gt;5 years</td>
<td>40.0</td>
<td>34.4</td>
</tr>
<tr>
<td>Total</td>
<td>116.2</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

There was a 3.7 percent reduction in the number of overseas-based borrowers in default in June 2018 compared with June 2017.
Inland Revenue continues to make changes to its marketing campaigns and collection activity to engage with borrowers before they go overseas, to educate them on their obligations while they are away, with a view to reducing the number of borrowers who get into default after they leave New Zealand.

**Improving repayment compliance**

New Zealand-based borrower default makes up a small percentage (8.8 percent) of the overall student loan default. While it has been relatively static since the introduction of the pay-period repayments and real-time collection, New Zealand-based borrower default is increasing over time. This is due to overseas-based borrowers returning to New Zealand with default and some self-employed borrower default. Inland Revenue is working to improve compliance with these borrowers by focusing on short-term overdue repayments to mitigate the longer-term impact, as well as engaging with returned overseas-based borrowers quickly after they come back into the country.

Borrowers who are living overseas make up 74 percent of those in default, and owe 91 percent of the student loan default. The amount owed by overseas-based borrowers increased by $98 million from last year. This is due to the majority of overseas-based borrowers not meeting their repayment obligations and late payment interest being applied to their repayment obligations.

Inland Revenue has run student loans marketing campaigns for a number of years. The main goal is to increase the number of borrowers living overseas who make the required repayments on time. Inland Revenue aims to engage with overseas-based borrowers, New Zealand-based borrowers looking to move overseas and nominated persons, through appropriate messaging for each group.

Throughout the year, Inland Revenue has online advertising and social media posts. During the months when repayments are due, Inland Revenue sent emails and texts with specific messages to customers based on their previous payment history. There were good results from the March/April 2018 marketing campaign for the 31 March due date for overseas-based borrowers:

- 5.8 percent more customers than the previous year had met their full repayment obligation by 30 April 2018.

- The total value of repayments from all overseas-based borrowers during the campaign period was $51.0 million. This was $3.9 million less than in 2017. This may have been due to more overseas-based borrowers making regular repayments during the year.
- 47.2 percent of overseas-based borrowers are taking positive actions towards repaying their student loan. This is 1.8 percent more than last year.

Inland Revenue introduced a preventative assistance team into its Student Loan Collections stream in August 2017. Their main focus is to make contact with borrowers who have been overseas for 4-5 months to educate them on what it means to be an overseas-based borrower once they have been outside of New Zealand for more than six months.

Almost 1,500 borrowers were contacted over a period. The conversation highlighted to new overseas-based borrowers:

- repayment holiday opportunities
- interest charges on the loan while overseas
- repayment due dates
- repayment options—emphasising smaller, manageable payments
- fee-free global money transfer options.

Of the 1,500 borrowers contacted and educated, those borrowers who met their obligations more than doubled compared with new overseas-based borrowers from the previous year, showing that preventative measures gain successful results.

Another 6,000 borrowers were emailed with the same information, with a successful opening rate of 65 percent, significantly higher than other student loan email campaigns.

In 2018, overseas-based borrowers:

- made up 15 percent of all borrowers (2017: 15 percent)
- made up 74 percent of all borrowers with overdue repayments (2017: 76 percent)
- had 91 percent of the amount overdue (2017: 92 percent).
3.3 Loan balances and borrower segments

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

Number of borrowers

At 30 June 2018, there were 719,187 student loan borrowers, compared with 732,973 last year. The large increase between 2011 and 2012 shown in Figure 22 was due to the changes in the way loans were administered when the Student Loan Scheme Act 2011 took effect.\(^\text{13}\) Since then, the number of new borrowers entering the scheme has tended to be balanced by those who repay their loan in full and leave the scheme, creating a flat trend in the growth of borrower numbers. The introduction of first-year fees-free study for new students in 2018 has also contributed to the slight fall in borrower numbers.

Nominal value of loan balances

The nominal value of all loans was $15.9 billion at 30 June 2018. This is an increase of $134 million, or 0.8 percent, over the year, and a smaller increase than the previous year. The nominal value includes all borrower obligations—the loan principal outstanding, interest and late payment interest.

Over the year, the total loan balances increased as a result of:

- lending through the Ministry of Social Development, including establishment fees (see Section 3.1)
- interest applied to loans held by overseas-based borrowers
- late payment interest
- establishment/administration fees
- and were reduced by:
  - payments received from borrowers (see Section 3.2)
  - loans written off due to death, bankruptcy, or small balances.\(^\text{14}\)

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

Figures 21 and 22 demonstrate that the decline in the number of borrowers in the scheme combined with the nominal balance increase means that each borrower, on average, now owes more.

![Figure 21 Number of borrowers at 30 June](source: Inland Revenue administration data.)

![Figure 22 Aggregate nominal balances of student loans at 30 June](source: Inland Revenue administration data.)

Figure 23 shows the average and median values since 2009. The range of loan balances is shown in Table 18.

![Figure 23 Average and median loan balances at 30 June](source: Inland Revenue administration data.)

\(^{13}\) In April 2012, Inland Revenue received two intakes of information about loans. The first was a bulk transfer from the Ministry of Social Development 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.

\(^{14}\) A loan with a balance of less than $20 can be written off.
• Approximately 3.6 percent of overseas-based borrowers have balances above $100,000 and 17.9 percent have balances over $50,000, compared with 0.6 percent and 7.9 percent respectively for New Zealand-based borrowers.

These large balances are a result of overseas-based borrowers being charged interest on their loans, as well as the high level of non-compliance and subsequent late payment interest.

Figure 25 shows the age distribution of New Zealand-based and overseas-based borrowers. The largest groups of New Zealand-based borrowers are in their early twenties, which includes students still studying. Overseas-based borrowers tend to leave New Zealand once they have finished study and therefore are likely to be in their late twenties to early thirties.

Borrower segments

Figure 26 compares those in New Zealand with those overseas for the last five financial years.

The analysis highlights the following activity segments:

1. borrowing—the group described in Section 3.1 who are currently borrowing from the scheme
2. borrowing and repaying—students who are borrowing, but their income is above the threshold and they are repaying previous loans, or making voluntary repayments
3. repaying—the largest borrower segment, which consists of borrowers who have completed their study and are repaying their loans. They are described in more detail in Section 3.2
4. inactive scheme participants—borrowers who have a positive outstanding loan balance, but did not have any interaction with the scheme in 2017/18.

### Table 18 Range of loan balances at 30 June 2018

<table>
<thead>
<tr>
<th>Balance range</th>
<th>Number</th>
<th>%</th>
<th>Cumulative (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1 - 1,999</td>
<td>55,529</td>
<td>7.7</td>
<td>7.7%</td>
</tr>
<tr>
<td>$2,000 - 3,999</td>
<td>51,792</td>
<td>7.2</td>
<td>14.9</td>
</tr>
<tr>
<td>$4,000 - 5,999</td>
<td>53,455</td>
<td>7.4</td>
<td>22.4</td>
</tr>
<tr>
<td>$6,000 - 7,999</td>
<td>48,329</td>
<td>6.7</td>
<td>29.1</td>
</tr>
<tr>
<td>$8,000 - 9,999</td>
<td>43,147</td>
<td>6.0</td>
<td>35.1</td>
</tr>
<tr>
<td>$10,000 - 14,999</td>
<td>91,612</td>
<td>12.7</td>
<td>47.8</td>
</tr>
<tr>
<td>$15,000 - 19,999</td>
<td>74,704</td>
<td>10.4</td>
<td>58.2</td>
</tr>
<tr>
<td>$20,000 - 24,999</td>
<td>63,789</td>
<td>9.0</td>
<td>67.1</td>
</tr>
<tr>
<td>$25,000 - 29,999</td>
<td>52,796</td>
<td>7.3</td>
<td>74.4</td>
</tr>
<tr>
<td>$30,000 - 34,999</td>
<td>39,109</td>
<td>5.4</td>
<td>79.8</td>
</tr>
<tr>
<td>$35,000 - 39,999</td>
<td>32,356</td>
<td>4.5</td>
<td>84.3</td>
</tr>
<tr>
<td>$40,000 - 44,999</td>
<td>25,997</td>
<td>3.6</td>
<td>88.0</td>
</tr>
<tr>
<td>$45,000 - 49,999</td>
<td>19,059</td>
<td>2.7</td>
<td>90.6</td>
</tr>
<tr>
<td>$50,000 - 54,999</td>
<td>15,148</td>
<td>2.1</td>
<td>92.7</td>
</tr>
<tr>
<td>$55,000 - 59,999</td>
<td>12,031</td>
<td>1.7</td>
<td>94.4</td>
</tr>
<tr>
<td>$60,000 - 79,999</td>
<td>23,760</td>
<td>3.3</td>
<td>97.7</td>
</tr>
<tr>
<td>$80,000 - 99,999</td>
<td>8,879</td>
<td>1.2</td>
<td>98.9</td>
</tr>
<tr>
<td>$100,000 - 119,999</td>
<td>3,893</td>
<td>0.5</td>
<td>99.5</td>
</tr>
<tr>
<td>$120,000 - 139,999</td>
<td>1,919</td>
<td>0.3</td>
<td>99.7</td>
</tr>
<tr>
<td>&gt; $139,999</td>
<td>1,883</td>
<td>0.3</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Total: 719,187

Source: Inland Revenue administration data.

Note: The range of loan balances by New Zealand-based borrowers and overseas-based borrowers is available on the Education Counts website: educationcounts.govt.nz/publications/tertiary_education/annual/student_loan_scheme_annual_reports/student-loan-scheme-annual-report-2018

### Figure 24 Distribution of loan balances at 30 June 2018

Source: Inland Revenue administration data.

Figure 24 shows that overseas-based borrowers are likely to have higher balances compared with New Zealand-based borrowers:

- Fifty-four percent of overseas-based borrowers have loan balances over $20,000 and 40 percent of New Zealand-based borrowers do.
Twenty-seven percent of New Zealand-based borrowers are inactive as at 30 June 2018. Inactive New Zealand-based borrowers make up 23 percent of total borrowers, but only have 17 percent of the total balance owing. Around 37 percent of all New Zealand-based borrowers have incomes under the repayment threshold as at 30 June 2018.

Of overseas-based borrowers as at 30 June 2018, 54 percent are inactive. Inland Revenue often does not have current contact details for these borrowers and most have overdue repayments. However, this group has declined steadily from 62 percent in 2014/15. This segment makes up 8 percent of total borrowers, but only have 17 percent of the default amount as at 30 June 2018.

Of the 169,000 active borrowers as at 30 June 2018, 53 percent are also repaying, compared with 48 percent last year. The average nominal loan balance of this group is $30,300 compared with $26,600 for the entire borrowing group overall.

Compared with the previous year, there has been a 1.8 percent increase in the borrowing and repaying group, but the group only borrowing declined by 18 percent. This is consistent with the overall decline in enrolments and loan uptake since 2010 (see Sections 1.2 and 3.1).
3.4 Repayment times

This section has information on 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 student loans in particular
- the strength of the labour market
- whether a borrower stays in New Zealand or spends long periods overseas
- the amount borrowed.

Estimates of the time taken for former students to repay are made from the Ministry of Education’s Student Loans Integrated Model (see Appendix 2). This model uses IDI data to make projections of repayment times. Although there are limitations on the ability of models to predict future behaviour, this model has proved reliable in its forecasting to date.

Forecast repayment times

Table 22 looks at the expected repayment times of recent tertiary leavers—those who left study in 2016. Forecast repayment times are calculated using actual repayment data to the end of March 2018 and projections from the Student Loans Integrated Model (see Appendix 2).

The forecast median repayment time for all borrowers is 8.2 years. This is the time it will take for half of the borrowers who left study in 2016 to have fully repaid their loans. This is very similar to the forecast median repayment time for borrowers who left study in 2015 (8.3 years).

Whether a borrower stays in New Zealand or goes overseas makes a significant difference to the forecast repayment times. The forecast median repayment time for 2016 leavers who remain in New Zealand is significantly less (6.8 years) than for those who spend some time overseas (15.2 years).

The 25th percentile column shows the forecast time it will take for one-quarter of borrowers to have fully repaid their loans (4.3 years for all 2016 leavers).

The 75th percentile is the forecast time it will take for three-quarters of borrowers to have fully repaid their loans (14.5 years for all 2016 leavers).

<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</td>
<td>4.3</td>
<td>8.2</td>
</tr>
<tr>
<td>By gender</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>40.1</td>
<td>3.9</td>
<td>7.4</td>
</tr>
<tr>
<td>Female</td>
<td>59.9</td>
<td>4.6</td>
<td>8.8</td>
</tr>
<tr>
<td>By level of study</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level 1-4 certificates</td>
<td>3.6</td>
<td>8.2</td>
<td>19.2</td>
</tr>
<tr>
<td>Level 5-7 certificates/diplomas</td>
<td>4.2</td>
<td>8.4</td>
<td>15.6</td>
</tr>
<tr>
<td>Bachelors and graduate certificates/diplomas</td>
<td>5.0</td>
<td>8.3</td>
<td>13.1</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>4.1</td>
<td>7.4</td>
<td>11.8</td>
</tr>
<tr>
<td>By ethnicity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>European</td>
<td>4.1</td>
<td>7.6</td>
<td>12.7</td>
</tr>
<tr>
<td>Māori</td>
<td>5.0</td>
<td>10.1</td>
<td>21.3</td>
</tr>
<tr>
<td>Pacific</td>
<td>4.9</td>
<td>9.5</td>
<td>19.0</td>
</tr>
<tr>
<td>Asian</td>
<td>4.3</td>
<td>7.8</td>
<td>13.1</td>
</tr>
<tr>
<td>By leaving debt band ($000)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt;5</td>
<td>14.3</td>
<td>0.9</td>
<td>2.1</td>
</tr>
<tr>
<td>5-10</td>
<td>16.0</td>
<td>2.7</td>
<td>4.8</td>
</tr>
<tr>
<td>10-15</td>
<td>12.4</td>
<td>4.1</td>
<td>6.7</td>
</tr>
<tr>
<td>15-20</td>
<td>10.1</td>
<td>5.0</td>
<td>7.9</td>
</tr>
<tr>
<td>20-25</td>
<td>9.3</td>
<td>5.7</td>
<td>8.5</td>
</tr>
<tr>
<td>25-30</td>
<td>7.7</td>
<td>6.6</td>
<td>9.6</td>
</tr>
<tr>
<td>30-35</td>
<td>6.3</td>
<td>7.2</td>
<td>10.3</td>
</tr>
<tr>
<td>35-40</td>
<td>5.2</td>
<td>7.7</td>
<td>10.8</td>
</tr>
<tr>
<td>40-45</td>
<td>4.5</td>
<td>8.4</td>
<td>11.6</td>
</tr>
<tr>
<td>45-50</td>
<td>3.2</td>
<td>9.1</td>
<td>12.5</td>
</tr>
<tr>
<td>50-55</td>
<td>2.6</td>
<td>9.5</td>
<td>12.9</td>
</tr>
<tr>
<td>55-60</td>
<td>2.2</td>
<td>10.2</td>
<td>13.6</td>
</tr>
<tr>
<td>60-65</td>
<td>1.6</td>
<td>10.5</td>
<td>14.2</td>
</tr>
<tr>
<td>65-70</td>
<td>1.0</td>
<td>11.1</td>
<td>15.4</td>
</tr>
<tr>
<td>&gt;70</td>
<td>3.6</td>
<td>13.1</td>
<td>18.2</td>
</tr>
</tbody>
</table>

By location

<table>
<thead>
<tr>
<th></th>
<th>Repayment times (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Always NZ-based</td>
<td>75.5 3.5 6.8 11.4</td>
</tr>
<tr>
<td>Not always NZ-based</td>
<td>24.5 8.9 15.2 n</td>
</tr>
</tbody>
</table>

Source: Statistics New Zealand IDI and Ministry of Education Student Loans Integrated Model.

Notes:
1. The ethnicity is reported using ‘multiple response’, meaning that people are counted in each broad ethnic group they identify with.
2. Shown are quartiles of post-study repayment time. This is a mixture of real experience and modelling.
3. ‘n’ indicates that full repayment is not seen to occur in the modelling.
Other notable aspects of the cohort of borrowers who left study in 2016 are that:

- females make up a greater proportion of borrowers than males and take slightly longer to fully repay
- median repayment times of those leaving with postgraduate qualifications are shorter than for those leaving with Level 1-4 certificates, Level 5-7 certificates/diplomas and bachelors qualifications, although they will likely have studied for longer and leave with larger loans. This reflects the higher incomes achieved by those with higher-level tertiary qualifications
- differences between repayment times by ethnicity are more pronounced at the 75th percentile
- people who leave with large debts will be repaying for decades to come, and half of the leavers with a debt of more than $70,000 will not have repaid after 18 years
- overseas-based borrowers have forecast repayment times more than twice as long as New Zealand-based borrowers.

Figure 27 shows repayment times by qualification level for leavers in each year between 1997 and 2016. In general those with higher qualifications consistently repay their loans more quickly, because of their higher incomes.

As a counter to this trend, however, there has been an increase in median repayment times in the last three years for all qualification levels except Level 1-4 certificates. This may be attributed to fee increases every year at tertiary providers that offer higher-level qualifications, while graduates’ incomes have been increasingly more modestly.

![Figure 27 Quartiles of actual and forecast repayment times by level of study](image-url)

Source: Statistics New Zealand IDI and Ministry of Education Student Loans Integrated Model.

Notes:
1. Shown are quartiles of student loan repayment time in years.
2. The data is a mixture of actual repayment performance and projection based on the most recent data available.
3. The middle line shows median repayment time following study.
Chapter 4

COSTS OF THE SCHEME

4.1 Cost of lending ............................................................. 43
4.2 Impairment ................................................................. 44
4.3 Cash cost ................................................................. 45
4.4 Impact on the operating balance ................................. 46
4.5 Measures of value in the accounts .............................. 47
4.6 Historical costs .......................................................... 49
4.7 Cost of Crown ownership ......................................... 50
4.8 Agency costs ............................................................. 51
### Student loan valuation terms

#### Definition: 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, loan interest, fees 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 2018 was **$15,869 million** (2017: $15,735 million).

#### Definition: 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 current view of future discount rates.

The **fair value** as at 30 June 2018 was **$9,929 million** (2017: $9,812 million).

#### Definition: carrying value
The carrying value is the value of the Student Loan Scheme asset which is reported 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.

The **carrying value** as at 30 June 2018 was **$9,302 million** (2017: $9,197 million).

#### Definition: fair value write-down on new borrowing
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 ‘fair value write-down’; it is the cost to the government of making this lending.

Over the year ending 30 June 2018, the government lent **$1,338 million** (2017: $1,485 million) with an associated **fair value write-down** expense of **$594 million** (2017: $662 million).

#### Definition: 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 write-down process.

#### Change in accounting standard from 1 July 2018
From 1 July 2018, the Crown will adopt Public Benefit Entity International Financial Reporting Standard 9 Financial Instruments (PBE IFRS 9), which will change the basis on which the Student Loan Scheme is reported. The most significant aspect of this change is that the value used in the scheme accounts will be the fair value.

---

15 For a detailed description see Statement of accounting policies in Chapter 5.
4.1 Cost of lending

The key measure of the loan scheme’s cost is the write-down on new borrowing, which estimates the long-term economic cost of lending (i.e. the government’s implicit subsidy) and enables full recognition of cost at the time funds are lent to the borrower. The write-down value is the difference between the estimated value of future repayments from students and the amount lent. It is recognised as a cost in the year of lending. This ‘full cost’ is an estimate limited by the accuracy of the projected repayments. Changes to the projections will change the value of the scheme. The amount of this change contributes to the impairment (see Section 4.2).

The accounts in Chapter 5 show that in 2017/18 lending was $1,338 million\(^{16}\) and an initial write-down on new borrowing expense of $594 million was directly associated with the lending. This means that our best estimate at the time of the life-time cost of this lending was $594 million—or on average 44.43 cents of each dollar lent.

There are several reasons why the cost of lending is large:

- there is no interest on the loan for New Zealand-based borrowers, which means that the longer it takes to repay, the less value the government receives from the repayments
- borrowers in New Zealand are only required to make repayments when income exceeds the threshold level ($374 per week until April 2019), so time spent out of the workforce delays repayments
- loans are written off by the government when a borrower dies or becomes bankrupt
- a large proportion of borrowers overseas do not meet their repayment obligation (see Sections 3.2 and 3.3).

\(^{16}\) $1,425 million of cash lending, less $97 million of refunded course fees plus $9 million of establishment fee lending.
4.2 Impairment

The student loan asset is valued every year. 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.

The impairment (or negative impairment) occurs when the scheme is revalued, and the new valuation differs from what is recorded in the carrying value.

At 30 June 2018, before the valuation, the carrying value of the loan scheme was $9,196 million. The valuation this year assessed the value of all loans at this date to be $106 million higher, at $9,302 million.

Factors that contributed to the impairment of the student loan portfolio during the 2017/18 financial year are discussed in Section 5.6.

Figure 29 shows how the impairment has moved over the last 13 years. 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. The financial health of the scheme improved between 2010 and 2012, but there was a downturn between 2013 and 2016 as a consequence of an adverse shift in the valuation in those years. In the last two years there has been a slight net increase in the value of the scheme.

Source: Ministry of Education.
4.3 Cash cost

An alternative measure of the cost of the scheme is the annual net cash cost—the difference between the amount lent and the repayments received. Historically, the government has lent more than it receives back, but this year and for the first time repayments exceeded the lending. The introduction of first-year fees-free study for new students in 2018 has reduced course fee lending by enough to make this happen.

Figure 30 shows lending and repayments in fiscal years from 2005/06 to 2017/18.

We see that in 2005/06, for every dollar the government received in repayments, it lent $2.02 to current students. This pattern of receiving one dollar in repayments and lending a further two dollars remained fairly static until 2011/12—an average of $2.07. However, in 2012/13 the pattern was broken. In that year the government lent $1.39 for every dollar received because of a sharp rise in repayments. This was caused by the increase in the repayment rate from 10 cents in the dollar to 12 cents in the dollar, combined with a surge of repayments associated with the removal of the voluntary repayment bonus. In 2013/14, this number increased a little to $1.46, but in the following three years the ratio fell so that last year it was $1.16. This year (2017/18) repayment exceeded the lending, meaning the government lent $0.99 for every dollar received in repayments.

Over the last 13 years, annual repayments have increased from $486 million per year to $1,348 million this year. Over the same period, lending has increased too. It rose from under $1,000 million in 2005/06 to about $1,500 million in 2010/11 and stayed close to that level up until 2016/17. This year (2017/18) lending was $1,328 million, which is $147 million lower than last year.

The excess of lending over repayments, the net cash out shown as the dotted line in Figure 30, reached a maximum of $771 million in 2009/10. Since then it has fallen steadily and last year reached $202 million. This year (2017/18), the repayments actually exceeded the lending by $20 million.

There are three drivers of this fall in the cash cost.

- The number of people borrowing in a year has fallen by 20 percent from a peak of 212,500 in 2010 to 170,037 in 2017. This has offset the increase in average lending and kept total lending around $1,500 million for a number of years.
- The increase in the repayment rate from 10 cents to 12 cents from 1 April 2013 has inflated repayments. While this increase was over five years ago, this increase is still generating increased repayments from lending which occurred before the change.
- The introduction of first-year fees-free study for new students from January 2018 has reduced course fees lending. Comparing the first six months of 2018 with a year earlier, overall course fees lending reduced by $168 million (19.2 percent).

17 With the exception of 2013/14, where the surge of repayment caused by the removal of the voluntary repayment bonus the year before caused the net cash out to increase from $416 million to $479 million.
4.4 Impact on the operating balance

The operating balance provides another way of measuring the net expenses of the loan scheme. In the operating balance the initial write-down on new borrowing is offset by income known as interest unwind. Any revaluation gain or loss (the impairment discussed previously) also changes the operating balance. The establishment fees charged to students every year they borrow also add to the operating balance.

Table 23 shows that over the 2017/18 year the interest unwind income exceeded the write-down on new lending. There was also the negative impairment of $106 million. Overall, the scheme made a gain of $125 million by this measure.

Table 23 Movement in the operating balance 2017/18

<table>
<thead>
<tr>
<th></th>
<th>$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial write-down on new lending</td>
<td>594</td>
</tr>
<tr>
<td>Interest unwind</td>
<td>-604</td>
</tr>
<tr>
<td>Establishment fee</td>
<td>-9</td>
</tr>
<tr>
<td>Impairment</td>
<td>-106</td>
</tr>
<tr>
<td><strong>Net expense</strong></td>
<td><strong>-125</strong></td>
</tr>
</tbody>
</table>

Source: Ministry of Education.

The operating balance view treats the scheme as if it were an entity. The loan portfolio generates an accounting return through the interest unwind, which helps to offset the cost of new lending.

Figure 31 shows the operating balance movement since 2005/06. The net expense for the Crown over the last 12 years (from 2006/07) has been $2,128 million, of which $356 million came from the past five years.
4.5 Measures of value in the accounts

Carrying value

The carrying value is the value of the Student Loan Scheme asset as maintained in the scheme accounts. The net cash over the year plus the change in the operating balance over the year gives the movement in the carrying value.

Over the year the carrying value is:

- increased by new lending (including establishment fees applied at the time each loan is first drawn)
- decreased by the initial write-down of that new lending
- decreased 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
- increased or decreased for any impairment resulting from a revaluation.

New lending over the year was $1,328 million and repayments were $1,348 million so there was a net cash inflow of $20 million. Over the year, the nominal loan balances increased by $134 million from $15,735 million to $15,869 million, and over this period the carrying value has risen by $106 million to $9,302 million.

The ratio of carrying value to nominal value was 58.4 percent in 2017 and has increased to 58.6 percent this year.

Fair value

As part of the annual valuation, the valuers undertake a measurement of the fair value, which is disclosed in a note to the financial schedules in Chapter 5. The fair value has increased from 62.4 to 62.6 percent of the nominal value (refer to Figure 33).

The outcome of the fair value calculations depends on current assessments of the level of future discount rates, as well as other factors such as policy changes and macroeconomic conditions which affect the carrying value. Last year the representative discount rate was 5.74 percent and this year it is 5.56 percent. This change has increased the fair value by $190 million. In addition, a change in the expense assumptions has decreased the value by $11 million. Offsetting these are the same factors which led to this year’s impairment—in fair value terms this is $114 million.

Over the 25-year horizon, repayments occurred on average after 8 years and 3 months in the 2016 valuation, 8 years flat in the 2017 valuation and 7 years and 7 months in the 2018 valuation. In the 2016 and 2017 valuations the predicted total repayments over 25 years amounted to 88.4 and 88.6 percent of nominal balance respectively. In the latest valuation this has fallen slightly to 87.4 percent.

Figure 32 Comparison of projected repayments

<table>
<thead>
<tr>
<th>Projection year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Student Loan Scheme Financial Statements.

Notes:
1. Shown are annual repayments in the valuations expressed as cents per nominal dollar on loan at the valuation date.
2. Only the first 25 years of projections are shown.

Figure 33 Nominal value, carrying value and fair value

<table>
<thead>
<tr>
<th>Year</th>
<th>Nominal value</th>
<th>Carrying value</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministry of Education.
### Table 24: Nominal and carrying value movements

<table>
<thead>
<tr>
<th>Notes</th>
<th>$ million—Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Nominal value</strong></td>
<td></td>
</tr>
<tr>
<td>Opening balance</td>
<td>7,499</td>
</tr>
<tr>
<td>New lending</td>
<td>8,370</td>
</tr>
<tr>
<td>Establishment fee</td>
<td>10,259</td>
</tr>
<tr>
<td>Administration fee</td>
<td>11,145</td>
</tr>
<tr>
<td>Repayment</td>
<td>12,070</td>
</tr>
<tr>
<td>Interest</td>
<td>12,969</td>
</tr>
<tr>
<td>Penalties</td>
<td>13,562</td>
</tr>
<tr>
<td>Voluntary repayment bonus</td>
<td>14,235</td>
</tr>
<tr>
<td>Death write-off</td>
<td>14,837</td>
</tr>
<tr>
<td>Bankruptcy write-off</td>
<td>15,340</td>
</tr>
<tr>
<td>Balancing item</td>
<td>15,735</td>
</tr>
<tr>
<td><strong>Closing balance</strong></td>
<td>15,869</td>
</tr>
<tr>
<td><strong>Carrying value</strong></td>
<td></td>
</tr>
<tr>
<td>Opening balance</td>
<td>6,465</td>
</tr>
<tr>
<td>New lending</td>
<td>6,011</td>
</tr>
<tr>
<td>Initial write-down on new borrowing</td>
<td>6,741</td>
</tr>
<tr>
<td>Establishment fee</td>
<td>6,790</td>
</tr>
<tr>
<td>Repayment</td>
<td>7,459</td>
</tr>
<tr>
<td>Interest unwind</td>
<td>8,291</td>
</tr>
<tr>
<td>Impairment</td>
<td>8,288</td>
</tr>
<tr>
<td><strong>Closing carrying value</strong></td>
<td>8,644</td>
</tr>
</tbody>
</table>

| Average cost of lending in cents per dollar (headline) | 31.17 |

**Source:** Ministry of Education and Inland Revenue.

**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. Prior to 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 he or she takes 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. This fee is only charged if a Ministry of Social Development establishment fee has not been charged in the same tax year. This was first charged in 2006.
6. The interest in 2008/09 is low because in that year $96 million was reversed due to over-charging interest on borrower accounts in prior years.
7. Prior to 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 prior years.
9. 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.
4.6 Historical costs

Table 24 shows the main financial parameters of the scheme over the last 13 years. Adding up figures in this table shows that over the last 13 years the scheme has:

- lent out $17,636 million to students
- received $11,281 million in repayments
- written down new lending over the period by $7,660 million (and also incurred an initial write-down of $1,415 million in 2006)
- experienced an aggregate impairment of $1,319 million
- booked $6,743 million in interest unwind income.

The net result of the movements over the period shows that the asset was worth $6,465 million in 2005 and is now worth $9,302 million.
4.7 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 5.56 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 (2.71 percent), the Risk Premium (2.34 percent), and the costs of collection and administration of the scheme (0.51 percent).

The proxy of the Crown’s cost of holding the asset on 30 June 2018 is set out in Table 25 below.

<table>
<thead>
<tr>
<th>Table 25 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.
4.8 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 to implement new policies.

Table 26 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.

Table 26 Student Loan Scheme administration costs

<table>
<thead>
<tr>
<th></th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Social Development</td>
<td>16.2</td>
<td>13.4</td>
<td>15.0</td>
<td>15.1</td>
<td>16.5</td>
</tr>
<tr>
<td>Inland Revenue</td>
<td>33.5</td>
<td>33.9</td>
<td>36.1</td>
<td>37.8</td>
<td>38.7</td>
</tr>
<tr>
<td>Ministry of Education</td>
<td>0.7</td>
<td>0.7</td>
<td>0.8</td>
<td>0.8</td>
<td>0.9</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>0.8</td>
</tr>
<tr>
<td>Total</td>
<td>51.1</td>
<td>48.7</td>
<td>52.6</td>
<td>54.4</td>
<td>56.9</td>
</tr>
</tbody>
</table>


Note: All amounts exclude GST.

Table 27 shows the administrative costs from Table 26 in light of the scale of the scheme. The cost ratios for the scheme have remained relatively stable over the last five years.

Table 27 Estimated cost ratios

<table>
<thead>
<tr>
<th></th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Social Development cost for each dollar advanced</td>
<td>1.07</td>
<td>0.88</td>
<td>0.99</td>
<td>1.02</td>
<td>1.24</td>
</tr>
<tr>
<td>Inland Revenue cost for each dollar collected</td>
<td>3.25</td>
<td>3.04</td>
<td>2.99</td>
<td>2.97</td>
<td>2.87</td>
</tr>
<tr>
<td>Total cost as a percentage of turnover</td>
<td>2.01</td>
<td>1.85</td>
<td>1.93</td>
<td>1.98</td>
<td>2.13</td>
</tr>
</tbody>
</table>


Note: All amounts exclude GST.

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—its 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 the Ministry of Social Development 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.
Chapter 5

FINANCIAL SCHEDULES

5.1 Financial schedules for the year ended 30 June 2018 ......................... 54
5.2 Schedule of revenue and expenditure ............................................. 55
5.3 Schedule of assets ..................................................................... 56
5.4 Schedule of cash flows ................................................................. 57
5.5 Statement of accounting policies ................................................ 58
5.6 Notes to the financial schedules ................................................... 60
5.1 Financial schedules for the year ended 30 June 2018

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 2018 of $9,302 million ($9,197 million at 30 June 2017).
### Table 28 Schedule of revenue and expenditure for the year ended 30 June 2018

<table>
<thead>
<tr>
<th></th>
<th>2016/17 Actual $m</th>
<th>2017/18 Budget* $m</th>
<th>2017/18 Actual $m</th>
<th>2018/19 Forecast* $m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest unwind</td>
<td>602.5</td>
<td>601.0</td>
<td>603.7</td>
<td>584.0</td>
</tr>
<tr>
<td>Establishment fees</td>
<td>10.0</td>
<td>10.3</td>
<td>9.2</td>
<td>9.0</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>612.5</td>
<td>611.3</td>
<td>612.9</td>
<td>593.0</td>
</tr>
<tr>
<td><strong>Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impairment/(impairment reversal)</td>
<td>-62.0</td>
<td>100.0</td>
<td>-106.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Fair value write-down on new borrowings</td>
<td>661.7</td>
<td>676.0</td>
<td>594.3</td>
<td>610.0</td>
</tr>
<tr>
<td><strong>Total expenditure</strong></td>
<td>599.7</td>
<td>776.0</td>
<td>488.3</td>
<td>610.0</td>
</tr>
<tr>
<td><strong>Net surplus/(deficit)</strong></td>
<td>12.8</td>
<td>-164.7</td>
<td>124.6</td>
<td>-17.0</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 of New Zealand for the year ended 30 June 2018.  
  • Details of the consolidated movements are shown in Note 1.
## 5.3 Schedule of assets

**Table 29** Schedule of assets as at 30 June 2018

<table>
<thead>
<tr>
<th></th>
<th>2016/17</th>
<th>2017/18</th>
<th>2017/18</th>
<th>2018/19</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student loans</td>
<td>1,269.0</td>
<td>1,427.0</td>
<td>1,310.0</td>
<td>1,535.0</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>1,269.0</td>
<td>1,427.0</td>
<td>1,310.0</td>
<td>1,535.0</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student loans</td>
<td>7,927.8</td>
<td>7,783.2</td>
<td>7,991.6</td>
<td>7,681.7</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>7,927.8</td>
<td>7,783.2</td>
<td>7,991.6</td>
<td>7,681.7</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>9,196.8</td>
<td>9,210.2</td>
<td>9,301.6</td>
<td>9,216.7</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 of New Zealand for the year ended 30 June 2018*.
- Details of the consolidated movements are shown in Note 1.
## 5.4 Schedule of cash flows

<table>
<thead>
<tr>
<th>Table 30 Schedule of cash flows for the year ended 30 June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Actual $m</strong></td>
</tr>
<tr>
<td><strong>Budget</strong> $m</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
</tr>
<tr>
<td><strong>Cash was provided from:</strong></td>
</tr>
<tr>
<td>1,272.8 Repayments received</td>
</tr>
<tr>
<td>97.6 Refunded course fees</td>
</tr>
<tr>
<td>Cash disbursed for:</td>
</tr>
<tr>
<td>-1,572.6 New borrowings</td>
</tr>
<tr>
<td>-202.2 Net cash inflow/(outflow) from investing activities</td>
</tr>
<tr>
<td>-202.2 Net student loan cash inflow/(outflow)</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 of New Zealand for the year ended 30 June 2018.
- Details of the consolidated movements are shown in Note 1.
5.5 Statement of accounting policies

These financial schedules are for the year ended 30 June 2018 and include forecast financial schedules for the year ended 30 June 2019. They have been combined to provide a single view of actual and forecast information.

References to the financial schedules incorporate the actual, budget and 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.

Statement of compliance
The financial schedules have been prepared in accordance with the requirements of the Public Finance Act 1989, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP) as defined in the Financial Reporting Act 2013, and the Treasury Instructions.

The financial schedules, including the comparatives, have been prepared in accordance with Tier 1 Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS).

The financial schedules are presented in New Zealand dollars rounded to the nearest $100,000.

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 2017/18 are those included in The Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2018.


The budget and forecast figures have been prepared in accordance with the requirements of the Public Finance Act 1989 to communicate forecast financial information for accountability purposes. They are compliant with PBE Financial Reporting Standard 42: Prospective Financial Statements.

The figures combine budgets and forecasts for Vote Revenue and Vote Social Development, as applicable.

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 up to 18 April 2018.

The key assumption in the preparation of 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 2018: budget.govt.nz/budget/forecasts/befu2018.htm

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 to the budget through 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 2018/19 will be incorporated into The Supplementary Estimates of Appropriations for the Government of New Zealand for the Year Ending 30 June 2019.

Financial instruments
StudyLink (Ministry of Social Development) administers the initial capital lending and issues student loans. Loans and any associated transactions are then transferred to Inland Revenue. Inland Revenue holds the total nominal debt, administers the initial fair value write-down expense and any subsequent impairment and is responsible for collection of the debt.

Student loans are designated as loans and receivables under PBE IPSAS 29: Financial Instruments: Recognition and Measurement.
Student loans are recognised initially at fair value, plus transaction costs. They are subsequently measured at amortised cost using the effective interest rate method, and are adjusted for impairments. Fair value on initial recognition of student loans is determined by projecting forward expected repayments and discounting them back at an appropriate discount rate. The difference between the amount of the loan and the fair value on initial recognition is expensed. The subsequent measurement at amortised cost is determined using the same effective interest rate as at initial recognition. This rate is used to spread the Crown’s interest income across the life of the loan and determines the loan’s carrying value at each reporting date.

Allowances for amounts Inland Revenue doesn’t expect to collect are recognised when there is objective evidence that Inland Revenue will not be able to collect all amounts due according to the original terms of the loans. Impairment losses are incurred 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 the event has an impact on the estimated future cash flows of the loan that can be reliably measured. The amount of the provision is the difference between the asset’s carrying amount and the estimated impaired value.

Impairment losses can be reversed where there is evidence that the impaired value of the loan has increased.

Interest

Interest is calculated on the nominal student loan account balances on a daily basis at a rate determined by the government and was 4.4 percent per annum in the period 1 April 2017 to 31 March 2018. 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 accounting policies since the date of the last audited financial schedules.

Standards issued and not yet effective

Financial instruments

In January 2017, the External Reporting Board issued PBE IFRS 9: Financial Instruments. This replaces PBE IPSAS 29: Financial Instruments: Recognition and Measurement. PBE IFRS 9 is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The main changes under the standard are:

- new financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost
- a new impairment model for financial assets based on expected losses, which may result in the earlier recognition of impairment losses.

Inland Revenue will adopt PBE IFRS 9 in 2018/19. This is consistent with the Treasury’s decision to adopt PBE IFRS 9 for the Financial Statements of the Government of New Zealand in 2018/19.

Inland Revenue has assessed the effects of the new standard on the non-departmental financial schedules. Student loans will be reported at fair value, rather than at their current measurement basis of amortised cost. This valuation change will result in a one-off increase to the value of the student loan asset of $628 million.

There have been no other new relevant standards and interpretations issued this year and no other new standards and interpretations have been early adopted.

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.
### Table 31: Consolidated movements schedule for the year ended 30 June 2018

<table>
<thead>
<tr>
<th>2016/17</th>
<th>2017/18</th>
<th>2017/18</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Consolidated Actual $ million</td>
<td>Consolidated Actual $ million</td>
<td>Inland Revenue $ million</td>
</tr>
<tr>
<td>15,339.9</td>
<td>Opening nominal balance</td>
<td>15,734.9</td>
<td>15,734.9</td>
</tr>
<tr>
<td>1,572.6</td>
<td>New borrowings</td>
<td>1,424.9</td>
<td>0.0</td>
</tr>
<tr>
<td>0.0</td>
<td>Borrowings transferred</td>
<td>0.0</td>
<td>1,337.5</td>
</tr>
<tr>
<td>-1,272.8</td>
<td>Repayments</td>
<td>-1,348.1</td>
<td>-1,348.1</td>
</tr>
<tr>
<td>-97.6</td>
<td>Refunded course fees</td>
<td>-96.6</td>
<td>0.0</td>
</tr>
<tr>
<td>119.8</td>
<td>Interest</td>
<td>111.1</td>
<td>111.1</td>
</tr>
<tr>
<td>33.2</td>
<td>Administration and establishment fees</td>
<td>32.0</td>
<td>22.8</td>
</tr>
<tr>
<td>72.4</td>
<td>Penalties</td>
<td>73.8</td>
<td>73.8</td>
</tr>
<tr>
<td>-32.5</td>
<td>Deaths and bankruptcies</td>
<td>-63.4</td>
<td>-63.4</td>
</tr>
<tr>
<td>-0.1</td>
<td>Voluntary repayment bonus</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>15,734.9</td>
<td>Closing nominal balance</td>
<td>15,868.6</td>
<td>15,868.6</td>
</tr>
<tr>
<td>-6,538.1</td>
<td>Adjustment due to initial fair value recognition and impairment</td>
<td>-6,567.0</td>
<td>-6,567.0</td>
</tr>
<tr>
<td>9,196.8</td>
<td>Total carrying value</td>
<td>9,301.6</td>
<td>9,301.6</td>
</tr>
<tr>
<td>8,981.9</td>
<td>Opening carrying value</td>
<td>9,196.8</td>
<td>9,196.8</td>
</tr>
<tr>
<td>-1,272.8</td>
<td>Repayments</td>
<td>-1,348.1</td>
<td>-1,348.1</td>
</tr>
<tr>
<td>-97.6</td>
<td>Refunded course fees</td>
<td>-96.6</td>
<td>0.0</td>
</tr>
<tr>
<td>10.0</td>
<td>Establishment fees</td>
<td>9.2</td>
<td>0.0</td>
</tr>
<tr>
<td>1,572.6</td>
<td>New borrowings</td>
<td>1,424.9</td>
<td>0.0</td>
</tr>
<tr>
<td>-661.7</td>
<td>Fair value write-down on new borrowings</td>
<td>-594.3</td>
<td>-594.3</td>
</tr>
<tr>
<td>0.0</td>
<td>Borrowings transferred</td>
<td>0.0</td>
<td>1,337.5</td>
</tr>
<tr>
<td>62.0</td>
<td>Impairment</td>
<td>106.0</td>
<td>106.0</td>
</tr>
<tr>
<td>602.5</td>
<td>Interest unwind</td>
<td>603.7</td>
<td>603.7</td>
</tr>
<tr>
<td>214.9</td>
<td></td>
<td>104.8</td>
<td>104.8</td>
</tr>
<tr>
<td>9,196.8</td>
<td>Student loans carrying value</td>
<td>9,301.6</td>
<td>9,301.6</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, loan interest, fees and late payment interest. 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 at amortised cost using the effective interest rate method and including the annual impairment figure.

Fair value on initial recognition of student loans is determined by projecting forward the 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.

Statistics New Zealand collates most of the data for this model from Inland Revenue, the Ministry of Education and the Ministry of Social Development. The data covers borrowings, repayments, income, educational factors and socioeconomic factors. It is current up to 31 March 2017. In addition, supplementary data from Inland Revenue and New Zealand Customs Service about loan transactions and borrowers’ cross-border movements for the period up to 31 March 2018 is also included. The significant assumptions behind the carrying value are summarised in Table 32.

In 2018, there was an increase in the impaired value of student loans of $106 million (2017: impaired valued increased by $62 million).

Factors that contributed to this reversal of impairment of the student loan portfolio include:

- updated modelling assumptions: this increased the value overall by $97 million (2016/17: $103 million). This was made up of three significant movements and a number of small changes:
  - changes to reflect continued improvement in overseas-based borrowers’ repayment behaviour increased the impaired value by $47 million (2016/17: $102 million)
  - an assumed increase in the number of borrowers in New Zealand rather than overseas, partially offset by a projected increase in the proportion of borrowers who are low earners, increased the impaired value by $33 million (2016/17: decreased by $159 million)
  - domestic income and repayment assumptions have been updated to reflect projected income and repayment levels. This has decreased the impaired value by $48 million (2016/17: increased by $91 million)
  - other modelling changes, including the roll forward of data, increased the impaired value by $65 million (2016/17: $69 million)
- macroeconomic effects: wage inflation assumptions and repayment threshold inflation assumptions increased the impaired value, while the decrease in the loan interest rate reduced the impaired value, resulting in an overall increase of the impaired value by $77 million (2016/17: $43 million)
- experience variance: the difference between the higher than expected actual repayments and abnormally high write-offs increased the impaired value by $16 million (2016/17: $27 million)
- provision for write-offs: we have provided for a level of write-offs. This has decreased the impaired value by $50 million
- policy change: the recent first-year fees-free policy change affects new lending from 1 January 2018 and onwards and its impacts have been captured by the roll forward of data
- removing adjustments for improvements in lower earners’ employment rates: this decreased the impaired value by $34 million (2016/17: $125 million).

Table 32 Significant assumptions: carrying value

<table>
<thead>
<tr>
<th>Source: Inland Revenue.</th>
<th>* The effective interest rate is a weighted average rate across all tranches of borrowers.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Carrying value</strong></td>
<td><strong>30 June 2017</strong></td>
</tr>
<tr>
<td><strong>6.8%</strong></td>
<td>Effective interest rate*</td>
</tr>
<tr>
<td><strong>3.9%-5.5%</strong></td>
<td>Interest rate applied to loans for overseas borrowers</td>
</tr>
<tr>
<td><strong>0.2%-2.0%</strong></td>
<td>Consumer Price Index</td>
</tr>
<tr>
<td><strong>1.5%-3.0%</strong></td>
<td>Future salary inflation</td>
</tr>
</tbody>
</table>
The sources of impairment are summarised in the table below:

<table>
<thead>
<tr>
<th>Sources of impairment</th>
<th>2016/17 $ million</th>
<th>2017/18 $ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data and modelling changes</td>
<td>102</td>
<td>47</td>
</tr>
<tr>
<td>Updated overseas repayment assumptions</td>
<td>-159</td>
<td>33</td>
</tr>
<tr>
<td>Updated transition assumptions</td>
<td>91</td>
<td>-48</td>
</tr>
<tr>
<td>Other changes and roll forward of data</td>
<td>69</td>
<td>65</td>
</tr>
<tr>
<td><strong>Total data and modelling changes</strong></td>
<td><strong>103</strong></td>
<td><strong>97</strong></td>
</tr>
<tr>
<td>Macroeconomic effects</td>
<td>43</td>
<td>77</td>
</tr>
<tr>
<td>Experience variance</td>
<td>27</td>
<td>16</td>
</tr>
<tr>
<td>Provision for high write-offs</td>
<td>-2</td>
<td>-50</td>
</tr>
<tr>
<td>Policy changes</td>
<td>14</td>
<td>0</td>
</tr>
<tr>
<td>Other adjustments</td>
<td>-125</td>
<td>-34</td>
</tr>
<tr>
<td><strong>Total (impairment)/impairment reversal</strong></td>
<td><strong>62</strong></td>
<td><strong>106</strong></td>
</tr>
</tbody>
</table>

Source: Inland Revenue.

The student loan valuation model reflects current student loan policy and macroeconomic assumptions. The carrying value is sensitive to changes in a number of underlying assumptions, including future income levels, repayment behaviour and macroeconomic factors, such as inflation and the discount rates used to determine the effective interest rate applied to new lending. For these reasons, the valuation has a high degree of inherent uncertainty and there is a significant risk of material adjustment to the carrying value in future accounting periods. The key risks are as follows:

- If the recent improvements in overseas compliance are short-lived and repayment behaviour returns to the lower levels experienced in the past, then impairment may result.
- Since 2005, the proportion of borrowers becoming low earners (that is, earning below $25,000 per annum) has been steadily increasing for those studying lower-level certificates. If the proportion of borrowers becoming low earners continues to increase, then impairment may result.
- The model assumes that low earner borrowers will remain low earners for the same duration in the future as they do currently. If the length of time borrowers remain low earners increases, then impairment may result.

### Student loan fair value

Fair value is the amount for which the student loan debt could be exchanged between knowledgeable, willing parties in an arm’s length transaction as at 30 June 2018. It is determined by discounting the future cash flows at an appropriate discount rate. The estimated fair value of the student loan debt at 30 June 2018 has been determined to be $9,929 million ($9,812 million at 30 June 2017).

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 2018.

As previously mentioned, the Crown will adopt PBE IFRS 9 in 2018/19. This will result in student loans being reported at fair value. This valuation change will result in a one-off increase to the value of the student loan asset of $628 million.

The significant assumptions behind the fair value are shown below.

### Table 34 Significant assumptions: fair value

<table>
<thead>
<tr>
<th>30 June 2017</th>
<th>30 June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fair value</strong></td>
<td><strong>Fair value ($m)</strong></td>
</tr>
<tr>
<td>9,812.0</td>
<td>9,929.0</td>
</tr>
<tr>
<td>5.74%</td>
<td>Discount rate* 5.56%</td>
</tr>
<tr>
<td>-535.0</td>
<td>Impact on fair value of a 1% increase in discount rate ($m)</td>
</tr>
<tr>
<td>601.0</td>
<td>Impact on fair value of a 1% decrease in discount rate ($m)</td>
</tr>
</tbody>
</table>

Source: Inland Revenue.

* The discount rate is the market discount rate at the valuation date.

### Note 3: Reconciliation of impairment allowance account

### Table 35 Reconciliation of impairment allowance account

<table>
<thead>
<tr>
<th>30 June 2017 $ million</th>
<th>Impairment allowance account</th>
<th>30 June 2018 $ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,857</td>
<td>Balance at beginning of year</td>
<td>1,795</td>
</tr>
<tr>
<td>-62</td>
<td>Impairment expense recognised on receivables</td>
<td>-106</td>
</tr>
<tr>
<td>1,795</td>
<td>Balance at end of year</td>
<td>1,689</td>
</tr>
</tbody>
</table>

Source: Inland Revenue.
Independent Auditor’s Report

To the readers of Student Loan Scheme’s annual report for the year ended 30 June 2018

We have audited the financial schedules of the Student Loan Scheme (the Scheme) on pages 53 to 62 that comprise the schedule of assets as at 30 June 2018, the schedule of revenue and expenditure, and schedule of cash flows for the year ended on that date and the statement of accounting policies and the notes to the financial schedules that include other explanatory information.

Opinion

In our opinion the financial schedules of the Scheme:

- present fairly, in all material respects, the Scheme’s financial position as at 30 June 2018 and its financial performance and cash flows for the year ended on that date; and
- are consistent with the audited schedules of non-departmental activities from which they have been extracted.

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) and in particular with the International Standard on Auditing (New Zealand) 805: Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.

The financial schedules of the Scheme represent extracts from the audited schedules of non-departmental activities that are managed on behalf of the Crown by the Inland Revenue Department and the Ministry for Social Development. The financial schedules of the Scheme and the schedules of non-departmental activities from which they are derived do not reflect the effects of events that occurred subsequent to the date of our reports on the audited schedules of non-departmental activities of the Inland Revenue Department and the Ministry for Social Development. We expressed unmodified audit opinions on the non-departmental schedules of both the Inland Revenue Department and the Ministry for Social Development in our reports dated 28 September 2018.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor’s judgement, including the assessment of risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial schedules 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 Student Loan Scheme’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, as well as evaluating the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Secretary for Education

The Secretary for Education is responsible for preparing the financial schedules so that they present fairly, in all material respects, the activities of the Student Loan Scheme.

The Secretary for Education is also responsible for the publication of the Student Loan Scheme annual report, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the information we are required to audit, and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Other information in the document containing the audited information

The other information comprises the information included on pages 2 to 52 and 67 to 80, but does not include the information we audited and our auditor’s report thereon.

The Secretary for Education is responsible for the other information.

Our opinion on the information we audited does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

Our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the information we audited or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Student Loan Scheme.

Chrisie Murray
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand
5 November 2018
Appendices

Appendix 1: Management and design of the scheme in 2017/18 .................. 68
Appendix 2: Student Loans Integrated Model (SLIM) .................................. 72
Appendix 3: Information resources supporting study choices ...................... 74
Appendix 4: Glossary .............................................................................. 75
Appendix 1: Management and design of the scheme in 2017/18

Roles and responsibilities

Ministers and officials

The Minister of 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 the Lead Official for the Student Loan Scheme. This role has been 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 the scheme work programme, working with the Ministry of Social Development (MSD) and Inland Revenue on processes to improve operation of the Student Loan Scheme, scheme performance management, and scheme communications, and supporting Ministers in 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.

The Ministry of Social Development, through its StudyLink service, is responsible for the administration and payment of loans, processing more than 200,000 applications per year and making loan payments to students and tertiary education organisations. The Ministry of Social Development 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, in consultation with other agencies, and is responsible for the Student Loan Scheme Act 2011.

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.

The Tertiary Education Commission is the government agency responsible for administering funding to tertiary education organisations and monitoring the performance of these organisations. It also approves both qualifications and education providers for access to student loans and allowances for qualifications they deliver. The Tertiary Education Commission leads the implementation of the Fees-Free Tertiary Education and Training policy.

Statistics New Zealand collects and makes available official data and other information and manages the Integrated Data Infrastructure (IDI).

Statistics New Zealand disclaimer

This report uses data from the IDI. Statistics New Zealand makes the following disclaimer about use of the data.

The results in this report protect individual persons, households, businesses and organisations from identification. The results presented in this report are the work of the author, not Statistics New Zealand.

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
• 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 generally 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). 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)
  - complete a long undergraduate qualification in medicine, dentistry, veterinary science or optometry which they commenced as a graduate entry student (up to an additional 1 EFTS)18
- once they have completed 1.6 EFTS or more, students need to pass at least half of their course load (EFTS) over a five-year 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 aviation is capped at $35,000 per EFTS
- students aged 55 years and over are restricted to the compulsory fees component 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 an alternative contact person before they receive a loan
- students under 18 and enrolled in a fees-free Youth Guarantee and Student Achievement Component (SAC) Levels 1 or 2 qualification are ineligible for student loans.

For study at an overseas campus or delivery site of a New Zealand tertiary education organisation, New Zealand citizens and permanent residents (who meet the above criteria) must:

- be studying in a specified country in Asia, Latin America or the Middle East (as listed on the Education New Zealand website)
- be studying a qualification listed at Level 7 or above on the New Zealand Qualifications Framework
- be undertaking full-time and face-to-face (i.e. not extramural) study and part of their qualification must be completed in New Zealand.

Further details can be found at: studylink.govt.nz/starting-study/whats-available/studying-overseas.html

Loan components

Loans have four components:

Compulsory fees

Students can borrow the full amount of their compulsory fees. These are paid 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.

Aviation students can only borrow up to $35,000 per EFTS. Students who are eligible for fees-free are able to borrow $35,000 per EFTS minus their fees-free entitlement.19

Further information can be found at: tec.govt.nz/assets/Forms-templates-and-guides/dd93678788/Fees-free-info-sheet-Aviation-provision-July-2018.pdf

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.

---

18 This provision will be replaced by a policy change that will take effect from 1 January 2019 whereby students undertaking these long undergraduate qualifications will be able to borrow up to 10 EFTS of study to complete them (see Section 1.4).

19 From 1 January 2018, first-time eligible students in provider-based study can receive the equivalent of one year of fees-free tertiary education, while apprentices and trainees in eligible programmes of at least 120 credits can receive two years of fees-free training.
Living costs

Only full-time students are eligible for the living costs component for each week of their course, less the net amount of any student allowance paid. The living costs component is paid in weekly instalments in arrears. From 1 April 2017, students can borrow up to $231.92 per week.

Students nominate the amount they wish to draw each week up to the maximum entitlement. If they nominate less than their full entitlement, the remainder cannot be claimed at a later date.

Establishment and administration fees

When a new loan account is set up, the Ministry of Social Development charges an establishment fee of $60. This is added to the student’s loan balance at the first draw-down. The establishment fee is charged for each loan account 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 by Inland Revenue if the loan balance is $20 or more at 31 March each year. This fee is not payable if an establishment fee has been charged in the same tax year.

Loan repayments

Inland Revenue administers 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 based on income earned over a government set threshold.

The student loan repayment rate for New Zealand-based borrowers is 12 cents per dollar in excess of the threshold.

Repayments from overseas-based borrowers are based on the borrowers loan balance at the time they became overseas-based.

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

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) deduction system. 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 of $1,500 or more and whose total income is $20,584 or more (annual repayment threshold + $1,500) have the following obligations:

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

Overseas

Overseas-based borrowers are those defined as being overseas for 183 days or more. Interest applies to loans from the day after the borrower leaves New Zealand. The interest rate applying from April 2017 to March 2018 was 4.4 percent.
The repayment obligation for overseas-based borrowers is set as a minimum amount payable based on the balance of the loan at 31 March, plus the annual administration fee.

### 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 interest will be added to the unpaid amount from the day after the due date, and then monthly until the overdue amount is paid in full. From 1 April 2017, it has been 0.674 percent monthly, 8.4 percent annually. This is the loan interest rate plus 4 percent, calculated as a monthly rate.

Borrowers having difficulty paying overdue repayment obligations can make repayment arrangements. If they meet the terms of the arrangement, their late payment interest will be reduced. 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 to be paid at a later date.

Inland Revenue may 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

Student 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.

### 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 borrowers based overseas may be treated as New Zealand-based in limited circumstances. 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 2017 to March 2018 was 4.4 percent.

---

20 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 at: ird.govt.nz/studentloans/overseas/interest-free/student-loan-interest-free-overseas.html
Appendix 2: 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.

This year’s model was built on administrative data to the end of March 2017 supplemented with transactional data to March 2018.

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 four years’ worth of data has been used to produce the predictive models.

SLIM is based on a large number of generalised linear models developed from the integrated dataset. The 2018 version of SLiM has 28 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, and amounts borrowed and repaid, are modelled and projected into the future.

Each sub-model uses several predictive variables (for example, study-related fields such as highest secondary school qualification, the level of tertiary study undertaken, the field of study and the completion status, or demographic fields such as age, ethnicity and gender, or loan-related data such as the loan balance, repayment status 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 37 Student Loans Integrated Model assumptions

<table>
<thead>
<tr>
<th>Area</th>
<th>Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic assumptions</td>
<td>The Treasury publishes a central table of Consumer Price Index 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 Average Weekly Earnings growth is expected to range between 2.9 percent and 3.3 percent over the next four years and from 2022 onwards to be fractionally under 3.0 percent.</td>
</tr>
<tr>
<td>Discount rates</td>
<td>The discount rates used in the valuation incorporate a risk-free component and a risk premium. As with the Consumer Price Index the risk-free rates are as prescribed by the Treasury. The risk margin was determined by the consulting actuaries as 2.34 percent. The valuation on 30 June 2018, will be the last of its series. Under this methodology the carrying value of student loans is based on discount rates set at the time of lending. From 1 July 2018 the value in the scheme's accounts will be the fair value using current risk-free rates and margin.</td>
</tr>
<tr>
<td>Repayment threshold</td>
<td>$19,448 until 31 March 2019 and increasing by annual CPI excluding cigarettes and tobacco products thereafter. From April 2012, repayment obligations are based on pay periods rather than total annual earnings (see Pay period repayment threshold in the glossary). This means that some borrowers earning below the annual threshold of $19,448 may still end up having repayment obligations.</td>
</tr>
<tr>
<td>Transitions between being a student, employment and overseas</td>
<td>Modelled from the recent experience of the loan scheme’s participants.</td>
</tr>
<tr>
<td>Income of borrowers</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>In study repayments</td>
<td>For current students there is a model of the probability of a repayment occurring, and, should there be a repayment, a model of the repayment amount.</td>
</tr>
<tr>
<td>Repayments from former students in New Zealand</td>
<td>A similar approach is taken for New Zealand-based former students, but with separate pairs of models for those with incomes under $25,000 and for those with higher incomes.</td>
</tr>
<tr>
<td>Repayments from those overseas</td>
<td>Overseas-based borrowers have a repayment obligation based on the size of their loan when they left New Zealand. The modelling approach starts with the probability of a repayment being made and after this there are models based on underpaying, meeting or exceeding the repayment obligation.</td>
</tr>
<tr>
<td>Bankruptcy</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 1.8 per 1000 borrowers each year. At the time of the valuation there was an indication that the incidence of bankruptcy has recently increased. As a result a provision of $25 million was made against the valuation.</td>
</tr>
<tr>
<td>Mortality</td>
<td>Mortality rates are based on the experience of the scheme and have not been updated this year. For both genders mortality is assumed to be 100 percent of the New Zealand Life Tables 2012-14 up to age 34, 80 percent for ages 35-39, 120 percent for ages 40-44, 125 percent for ages 45-49 and 140 percent from age 50 onwards.</td>
</tr>
</tbody>
</table>

Source: Ministry of Education.

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.
## Appendix 3: Information resources supporting study choices

<table>
<thead>
<tr>
<th>Information/service</th>
<th>Provided by</th>
<th>Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sorted</td>
<td>Commission for Financial Capability</td>
<td>The Sorted website has guides on key money matters. The Studying guide has information on choosing a qualification, student costs and income while studying. The Student Loans guide provides information on repayments, including what happens if a borrower goes overseas. A Money Week 2017 video has interviews with former students on student loan lessons learned.</td>
</tr>
<tr>
<td>Choose your studies and plan your future</td>
<td>Education New Zealand</td>
<td>Education New Zealand has information on study options available throughout New Zealand for students abroad considering study in New Zealand. Prospective students can find information on accommodation, costs of living, working and studying, scholarships, enrolments, and visas.</td>
</tr>
<tr>
<td>Student loan repayment calculator</td>
<td>Inland Revenue</td>
<td>The student loan repayment calculator works out repayment obligations, how long it will take to pay off a student loan if borrowers stay in New Zealand or go overseas, and how much of a difference extra payments can make.</td>
</tr>
<tr>
<td>Occupation Outlook (website and mobile app)</td>
<td>Ministry of Business, Innovation and Employment</td>
<td>Occupation Outlook is a tool for exploring study and career options, with extensive information on labour supply and demand in over 100 occupations in New Zealand. The app outlines how to enter each role, how many are studying in related fields, how many are employed, and what the average incomes are. It also outlines the prospects of getting a job in that occupation after completing the qualifications required.</td>
</tr>
<tr>
<td>FindMyPath</td>
<td>Ministry of Education</td>
<td>FindMyPath is an online tool that can be used to help plan employment and qualification pathways from Level 3 qualifications onwards. FindMyPath matches information about qualifications pathways leading to specific jobs aligned with the Vocational Pathways.</td>
</tr>
<tr>
<td>Vocational Pathways</td>
<td>Ministry of Education</td>
<td>Initiated by industry and developed between government and industry. Vocational Pathways connect educational requirements to employment needs across six sectors of the economy: Primary Industries, Construction and Infrastructure, Manufacturing and Technology, Social and Community Services, Service Industries, and Creative Industries.</td>
</tr>
<tr>
<td>Employment outcomes for tertiary education graduates for different tertiary providers</td>
<td>Ministry of Education/ Tertiary Education Commission</td>
<td>Users can find out what proportion of graduates are in employment, overseas, receiving benefits or in further study and what they earn by qualification level, field of study and tertiary education provider.</td>
</tr>
<tr>
<td>StudyLink</td>
<td>Ministry of Social Development</td>
<td>The StudyLink website provides information and tools to help school leavers and prospective tertiary students to make informed decisions about their study choices, and the range of finance options that may be available to them to pay for study. Information includes how to work out living costs, with examples of what it could cost to live in various areas in New Zealand, and a link to the Sorted budgeting tool.</td>
</tr>
<tr>
<td>External evaluation and review reports</td>
<td>New Zealand Qualifications Authority</td>
<td>The New Zealand Qualifications Authority uses external evaluation and review (EER) to review the quality of performance within all non-university tertiary education organisations and makes EER reports publicly available. Prospective students can get information on the strengths and weaknesses of tertiary education organisations and evidence-based conclusions about their quality and performance.</td>
</tr>
<tr>
<td>Careers information and tools</td>
<td>Tertiary Education Commission</td>
<td>Users of careers.govt.nz and the Careers Facebook page can access a wide range of information and tools about learning and work options, and how these connect and apply to different skills and interests. Information and tools include the:</td>
</tr>
<tr>
<td>Educational Performance indicators</td>
<td>Tertiary Education Commission</td>
<td>The Tertiary Education Commission publishes information on the educational performance of individual tertiary education organisations that covers:</td>
</tr>
<tr>
<td>Fees-Free Eligibility</td>
<td>Tertiary Education Commission</td>
<td>Find out whether you are eligible for fees-free study and training in 2018.</td>
</tr>
<tr>
<td>Key Information for Students</td>
<td>Tertiary Education Commission</td>
<td>Key Information for Students is a new service with information about government-funded, Level 5 and above qualifications to help learners find information and make study decisions that support their career aspirations. Tertiary education organisations are in the process of publishing Key Information for Students on their websites.</td>
</tr>
</tbody>
</table>
Appendix 4: 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 be either 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 repayments.

**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 the Ministry of Social Development). The fee is charged for student loan balances over $20 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 (AMFM)**
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 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 and not yet repaid in full.

**Borrower overseas**
A borrower living overseas for more than 183 days is referred to as ‘an overseas-based borrower’. An overseas-based borrower 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). From 1 July 2014, financial schedules, including the comparatives, have been prepared in accordance with Tier 1 PBE IPSAS.

**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 towards their loan. For New Zealand-based borrowers, compulsory repayments generally 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, unless they have an approved exemption.

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.
Debt
The total amount borrowed by an individual under the Student Loan Scheme, including any fees or interest, less any repayments they have made.

Default
A borrower is in default if they fail to meet their loan repayment obligations. The default amount is the portion of the loan that is overdue.

Equivalent full-time student (EFTS)
A measure of the amount of study or the workload involved in undertaking a course. 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 the Ministry of Social Development every time a borrower establishes a new loan account.

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
This policy replaced the fee stabilisation policy in 2004. The policy rationale was to provide certainty for students about future costs, while allowing providers some flexibility in setting their fees. There were three elements: an increase in subsidy rates, an annual fee movement limit, and a set of maximum fee levels.

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

Fees-Free Tertiary Education and Training policy
The policy introduced from 1 January 2018 made the first year of tertiary education or training fees-free for new students and trainees. It was the first step in the Government’s stated intent to provide a full programme of three years’ fees-free tertiary education and training for New Zealanders by 2024.

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 or 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 (e.g. 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 and course-related cost components of the student loan and for student allowances.

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 (also called tax year)
From 1 April to 31 March the following year.

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 the Ministry of Social Development 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
The interest charged on loans. Interest is adjusted annually from 1 April. The interest rate:
- was 4.8 percent for 2016/17
- was 4.4 percent for 2017/18
- is 4.3 percent for 2018/19.

Interest-free student loans
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
From 1 April 2007, interest write-offs ceased to exist due to the introduction of interest-free student loans.

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 the Student Loan Scheme.

Loan balance
In this report, the term ‘loan balance’ means the total amount borrowed by an individual under the Student Loan Scheme, including any fees or interest, less any repayments they have made. 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 borrower
A borrower who entered the loan scheme for the first time in a given year.

New Zealand-based borrower
A borrower who has lived in New Zealand for 183 days (six months) or more. New Zealand-based borrowers qualify for an interest-free student loan.

New Zealand permanent resident
A New Zealand permanent resident means the holder of a residence class visa granted under the Immigration Act 2009.

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

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 borrower
A borrower who has been overseas for 184 days (six months) or more, or for more than 31 days during the 183-day qualifying period for New Zealand-based borrowers. An overseas-based borrower is not eligible for an interest-free student loan unless they qualify for an exemption.

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

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

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

Pay period repayment threshold
The amount which can be earned in a pay period before student loan repayments need to be made from salary or wages. Borrowers who earn over the pay period repayment threshold must pay 12 cents towards their loan for every dollar above the threshold. The pay period repayment threshold is based on the annual repayment threshold (e.g. if a borrower is paid weekly, the annual repayment threshold is divided by 52). The pay period repayment threshold applies to New Zealand-based borrowers.

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 recognised programme of study. 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
Borrowers who go overseas for 184 days (six months) or more can apply to Inland Revenue for a one-year ‘holiday’ from their repayment obligations. Interest will accumulate on the loan during this period.

Repayment obligation
The amount a borrower must repay towards 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. The threshold:
• was $19,084 for 2016/17
• was $19,136 for 2017/18
• is $19,448 for 2018/19.

Student Achievement Component (SAC)
The Student Achievement Component is the government’s contribution to tertiary education organisations 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 tertiary education organisation’s investment plan.
Student allowances
Income-tested grants provided to help with living expenses 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 2 for more details.

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

StudyLink
The organisation responsible for the delivery and administration of student loan payments, student allowances and Jobseeker Support Student Hardship (a payment for eligible students who are unable to find full-time employment during a study break of more than three weeks). StudyLink is part of the Ministry of Social Development.

Tax year (also called income 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)
The 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.

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.

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

Figure 1  Participation by domestic students in tertiary education …… 10
Figure 2  Participation by domestic students by qualification level …… 11
Figure 3  Trends in the level of study among borrowers ………… 12
Figure 4  Trends in the age profile of borrowers ………… 12
Figure 5  Outcomes of the Student Loan Scheme ………… 16
Figure 6  Young domestic graduate earnings range ………… 18
Figure 7  Median loan balance on leaving study ………… 19
Figure 8  Cost of lending in cents per dollar lent ………… 20
Figure 9  Ratio of carrying value of the Student Loan Scheme to nominal value at 30 June ………… 20
Figure 10  Number of total active borrowers and new active borrowers in each academic year ………… 24
Figure 11  Overall loan uptake ………… 24
Figure 12  Full-time uptake ………… 25
Figure 13  Part-time uptake ………… 25
Figure 14  Borrowing trends since 1992 ………… 25
Figure 15  Average and median amounts borrowed ………… 26
Figure 16  Total amounts drawn by loan component ………… 26
Figure 17  Number of students borrowing for living costs and receiving student allowances ………… 27
Figure 18  Average course fees borrowed by sub-sector ………… 28
Figure 19  Median loan balance for leavers by gender—all borrowers and those who studied at bachelor’s level ………… 31
Figure 20  Number of loans fully repaid at 30 June ………… 32
Figure 21  Number of borrowers at 30 June ………… 35
Figure 22  Aggregate nominal balances of student loans at 30 June ………… 35
Figure 23  Average and median loan balances at 30 June ………… 35
Figure 24  Distribution of loan balances at 30 June 2018 ………… 36
Figure 25  Borrowers at 30 June 2018 by age group ………… 36
Figure 26  Borrower numbers by activity ………… 37
Figure 27  Quartiles of actual and forecast repayment times by level of study ………… 39
Figure 28  Lending and initial write-down on this lending ………… 43
Figure 29  The loan scheme’s impairment and the ratio of the carrying value to nominal value at 30 June ………… 44
Figure 30  Lending and repayments ………… 45
Figure 31  Operating balance ………… 46
Figure 32  Comparison of projected repayments ………… 47
Figure 33  Nominal value, carrying value and fair value ………… 48

List of tables

Table 1  Participation by domestic students in tertiary education …… 11
Table 2  Funding of tertiary education ………… 11
Table 3  Median annual earnings of young domestic graduates ………… 17
Table 4  Average and median amounts borrowed by component ………… 27
Table 5  Student allowances compared with student loan living cost borrowing ………… 27
Table 6  Components of lending by sub-sector ………… 28
Table 7  Student loan borrowers by level of qualification and average amount borrowed ………… 29
Table 8  Median debt and repayment time for leavers ………… 29
Table 9  Demographic characteristics of new active student loan borrowers ………… 30
Table 10  Demographic characteristics of all active student loan borrowers ………… 30
Table 11  Average amount borrowed by active student loan borrowers ………… 30
Table 12  Loan repayments ………… 31
Table 13  Loan repayments directly from borrowers ………… 32
Table 14  Write-offs due to bankruptcy or death ………… 32
Table 15  Overdue student loan repayments at 30 June ………… 33
Table 16  Age of overdue repayments at 30 June ………… 33
Table 17  Age of overdue repayments by location at 30 June 2018 ………… 33
Table 18  Range of loan balances at 30 June 2018 ………… 36
Table 19  New Zealand-based borrowers summary ………… 37
Table 20  Overseas-based borrowers summary ………… 37
Table 21  All borrowers summary ………… 37
Table 22  Forecast repayment times for borrowers who left study in 2016 ………… 38
Table 23  Movement in the operating balance 2017/18 ………… 46
Table 24  Nominal and carrying value movements ………… 48
Table 25  Government’s cost of ownership of the Student Loan Scheme ………… 50
Table 26  Student Loan Scheme administration costs ………… 51
Table 27  Estimated cost ratios ………… 51
Table 28  Schedule of revenue and expenditure for the year ended 30 June 2018 ………… 55
Table 29  Schedule of assets as at 30 June 2018 ………… 56
Table 30  Schedule of cash flows for the year ended 30 June 2018 ………… 57
Table 31  Consolidated movements schedule for the year ended 30 June 2018 ………… 60
Table 32  Significant assumptions: carrying value ………… 61
Table 33  Sources of impairment ………… 62
Table 34  Significant assumptions: fair value ………… 62
Table 35  Reconciliation of impairment allowance account ………… 62
Table 36  What overseas-based borrowers are required to pay ………… 71
Table 37  Student Loans Integrated Model assumptions ………… 73