ANNUAL REPORT 2016/17

Student Loan Scheme

INTEGRATING THE FINANCIAL SCHEDULES FOR THE YEAR ENDED 30 JUNE 2017
ANNUAL REPORT 2016/17

Student LOAN SCHEME

INCORPORATING THE FINANCIAL SCHEDULES FOR THE YEAR ENDED 30 JUNE 2017

New Zealand Government
Foreword

It has been 25 years since the Student Loan Scheme was introduced to assist New Zealanders to access tertiary education. Its main objective has not changed. Today the loan scheme continues to play an important role in delivering the equity and excellence we seek from education.

Tertiary qualifications provide New Zealanders with skills and knowledge, leading to better employment opportunities, higher earnings and enhanced wellbeing. This benefits families, communities, businesses and New Zealand as a whole.

Since 1992, the loan scheme has helped 1.27 million New Zealanders gain a tertiary education by spreading the cost over time, enabling them to make repayments as they realise the benefits of their tertiary education. In 2016, around 70 percent of the students who were eligible took out a student loan.

The Government has recently announced changes to improve the affordability of and access to tertiary education and training. For the loan scheme, this means an increase in the amount that can be borrowed for living costs and reduced borrowing for first-year fees from 2018.

The Ministry of Education, the Ministry of Social Development and Inland Revenue work together to ensure that the Student Loan Scheme operates effectively. These agencies are also responsible for collating the information in this annual report to provide a transparent and accurate picture of the Student Loan Scheme in 2016/17.

Iona Holsted

Secretary for Education
Contents

Foreword ............................................................................................................. 2
At a glance ........................................................................................................... 4
Introduction ......................................................................................................... 6

CHAPTER ONE: THE LOAN SCHEME IN THE TERTIARY EDUCATION SYSTEM 9
1.1 Government priorities in 2016/7 .................................................................. 10
1.2 Access and participation ............................................................................. 10
1.3 Student support issues .................................................................................. 13
1.4 Policy changes taking effect in 2017 and 2018 ............................................. 14

CHAPTER TWO: OUTCOMES 15
2.1 Outcomes framework .................................................................................. 16
2.2 Human capital and labour skills ................................................................... 17
2.3 Affordability for borrowers and taxpayers .................................................. 20
2.4 Unintended outcomes ................................................................................... 23

CHAPTER THREE: THE STATE OF PLAY—HOW THE SCHEME IS WORKING 25
3.1 Borrowing in 2016 ......................................................................................... 26
3.2 Repayment performance ............................................................................... 34
3.3 Loan balances and borrower segments ......................................................... 37
3.4 Repayment times ........................................................................................... 40

CHAPTER FOUR: COSTS OF THE SCHEME 43
4.1 Cost of lending .............................................................................................. 45
4.2 Impairment ..................................................................................................... 46
4.3 Cash cost ......................................................................................................... 47
4.4 Impact on the operating balance ................................................................... 48
4.5 Measures of value in the accounts ................................................................. 49
4.6 Historical and forecast costs ......................................................................... 51
4.7 Cost of Crown ownership ............................................................................. 53
4.8 Agency costs .................................................................................................. 54

CHAPTER FIVE: FINANCIAL SCHEDULES 55
5.1 Financial schedules for the year ended 30 June 2017 .................................. 56
5.2 Schedule of revenue and expenditure ............................................................ 57
5.3 Schedule of assets ........................................................................................ 58
5.4 Schedule of cash flows .................................................................................. 59
5.5 Statement of accounting policies ................................................................. 60
5.6 Notes to the financial schedules ................................................................... 62

AUDITOR’S REPORT 65

APPENDICES 67
Appendix 1: Management and design of the scheme in 2016/17 ......................... 68
Appendix 2: Student Loans Integrated Model (SLIM) ......................................... 72
Appendix 3: Glossary ............................................................................................ 74
At a glance

176,938 students took out a loan in 2016

The average student loan balance at 30 June 2017 was $21,467

70% of students who were eligible took out a student loan in 2016

732,973 people had a student loan as at 30 June 2017

The average amount borrowed in 2016 was $9,053

The forecast median repayment time for borrowers who left study in 2015 and stayed in New Zealand was 6.8 years

Borrowing in 2016

- The number of students using the Student Loan Scheme has been decreasing since 2010—this is consistent with a reduction in tertiary education enrolments due to the stronger labour market
- 44,566 new borrowers used the loan scheme, a decrease of almost 5 percent compared with 2015
- The total amount borrowed was $1.6 billion
- Students used 67 percent of the total they borrowed to pay for course fees

- Borrower uptake reflected the trend towards higher-level qualifications; the number of borrowers at masters and honours level increased while the number of borrowers at all other levels of study decreased
- Of the 176,938 active students who took out a loan:
  - 60 percent were female, and 40 percent were male
  - 63 percent were European, 19 percent were Māori, 14 percent were Asian and 10 percent were Pasifika

PAGE 26
Since 1992, about 1.27m people have taken out a student loan.

$1.27b was collected in loan repayments in 2016/17.

Of the borrowers with overdue payments in 2016/17, 76% were overseas-based.

In 2016/17, the number of borrowers with overdue payments decreased by 1.6%.

Students have borrowed a total of $24.7b since 1992.

Since 1992, about 1.27m people have taken out a student loan.

538,000 people have fully repaid their student loan since the scheme began.

Repayments in 2016/17
- 42,870 borrowers repaid their loans in full in the year to 30 June 2016.
- Overdue student loan debt was $1.2 billion; overseas-based borrowers owed 92 percent of the amount overdue.
- More overseas-based borrowers made repayments; 46 percent made repayments compared with 38 percent in 2015/16.
- The forecast median repayment time for all borrowers who left study in 2015 was 8.3 years. It was significantly less for borrowers who stayed in New Zealand (6.8 years) compared to those who spent some time overseas (14.4 years).

Value of the Student Loan Scheme in 2016/17
- The nominal value of all loans was $15.7 billion.
- The carrying value of the loan scheme (or the value of the loan asset) was $9.2 billion.
- The cost of lending was 44.56 cents in every dollar lent (a total of $662 million) over the year ended 30 June 2017.
Introduction

The purpose of this annual report is to inform Parliament and the New Zealand public about the performance of the Student Loan Scheme in 2016/17. It includes the audited financial schedules of the scheme for the year ending 30 June 2017.

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 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 2016.

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, www.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 2016 calendar year (January to December) in keeping with the academic year
- financial data, including repayment data, is based on the government’s 2016/17 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 3.
Chapter 1

THE LOAN SCHEME IN THE TERTIARY EDUCATION SYSTEM

1.1 Government priorities in 2016/17 .................................................. 10
1.2 Access and participation .............................................................. 10
1.3 Student support issues ............................................................... 13
1.4 Policy changes taking effect in 2017 and 2018 ......................... 14
1.1 Government priorities in 2016/17

The Tertiary Education Strategy\(^1\) described the Government’s long-term strategic direction and current and medium-term priorities for tertiary education in 2016/17.

The strategy was published in 2014 setting out six strategic priorities for tertiary education:

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

In 2012, the Government set Better Public Services targets to ensure the public sector responds more effectively to the needs and expectations of New Zealanders. The targets were refreshed in May 2017.\(^2\)

Two of the 10 initial targets related to tertiary education:

*Increase the proportion of 25-34 year olds with advanced trade qualifications, diplomas and degrees*

The target is that, by 2018, 60 percent of 25 to 34 year olds will have a qualification at Level 4 or above. This target was set in 2014 and remains unchanged by the 2017 refresh.

*Increase the proportion of 18-year-olds with NCEA Level 2 or equivalent qualification*

The target that 85 percent of young people will have achieved NCEA Level 2 was met in 2017. This target was removed in the 2017 refresh.

Information in this chapter sets out how the tertiary funding and student support systems contributed to the Tertiary Education Strategy and Better Public Services goals in 2016/17 by:

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

1.2 Access and participation

The number of funded places in tertiary education has increased by close to 80 percent since the Student Loan Scheme was introduced in 1992. 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 Participation by domestic students in tertiary education](chart-url)

**Source:** Ministry of Education.

**Notes:**
2. Data before 1999 excludes private training establishments and ‘other tertiary education provider’ students.
3. Data relates to domestic students enrolled at any time during the year.
4. Participation rates have been age standardised to enable comparisons to be made over time. These rates have been standardised based on the structure of the New Zealand population in 2016.
5. The participation rate is the number of enrolments, in a calendar year, as a percentage of Statistics New Zealand’s estimate of the population aged 15 and over at 31 December each year.
6. Participation excludes industry training, non-government-funded private training establishments, formal courses of a week or less, and all non-formal learning.

Figure 1 shows student numbers, equivalent full-time student (EFTS) numbers\(^3\) and the rate of participation in tertiary education from 1994 to 2016.

The number of students enrolled in tertiary education increased by 44 percent: from 246,000 students in 1994 to 353,000 students in 2016, with a peak of over 452,000 students in 2005. The number of 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.

---


\(^{2}\) See the State Services Commission website for information on the Better Public Services targets and the 2017 refresh (ssc.govt.nz/better-public-services).

\(^{3}\) 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

Source: Ministry of Education.

Notes:
1. The participation rates have been age standardised, based on the structure of the New Zealand population in 2016, 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 remained relatively stable.

Table 1 Participation by domestic students in tertiary education

<table>
<thead>
<tr>
<th>Participation and completion</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Participation of domestic students in tertiary education</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number (000)</td>
<td>363</td>
<td>358</td>
<td>353</td>
</tr>
<tr>
<td>Overall rate</td>
<td>10.2%</td>
<td>9.8%</td>
<td>9.4%</td>
</tr>
<tr>
<td>18-19 years old</td>
<td>41.0%</td>
<td>39.2%</td>
<td>38.1%</td>
</tr>
<tr>
<td>20-24 years old</td>
<td>35.0%</td>
<td>33.5%</td>
<td>31.8%</td>
</tr>
<tr>
<td>Female</td>
<td>11.6%</td>
<td>11.3%</td>
<td>11.0%</td>
</tr>
<tr>
<td>Male</td>
<td>8.7%</td>
<td>8.3%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Māori</td>
<td>14.9%</td>
<td>14.5%</td>
<td>14.5%</td>
</tr>
<tr>
<td>Pasifika</td>
<td>11.6%</td>
<td>11.4%</td>
<td>10.9%</td>
</tr>
<tr>
<td>European</td>
<td>10.0%</td>
<td>9.7%</td>
<td>9.5%</td>
</tr>
<tr>
<td>Asian</td>
<td>8.1%</td>
<td>7.6%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Domestic students completing qualifications</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-degree (000)</td>
<td>86</td>
<td>81</td>
<td>78</td>
</tr>
<tr>
<td>Bachelors (000)</td>
<td>30</td>
<td>29</td>
<td>28</td>
</tr>
<tr>
<td>Postgraduate (000)</td>
<td>13</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>Total (000)</td>
<td>127</td>
<td>122</td>
<td>119</td>
</tr>
</tbody>
</table>

Source: Ministry of Education.

Notes:
1. The rates have been age standardised, based on the structure of the New Zealand population in 2016, to enable comparisons to be made between qualification levels over time.
2. A small number of students complete qualifications at different levels in the same year, hence the sum of the three levels does not always add up to the total sum of students completing their qualifications in a given year.
3. Bachelors level includes graduate certificates and diplomas.

Table 2 Funding of tertiary education

<table>
<thead>
<tr>
<th>Government-funded places</th>
<th>2014 funded (000)</th>
<th>2015 funded (000)</th>
<th>2016 funded (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student Achievement Component EFTS</td>
<td>230</td>
<td>223</td>
<td>222</td>
</tr>
<tr>
<td>Actual (000)</td>
<td>228</td>
<td>222</td>
<td>221</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Government expenditure 2014/15</th>
<th>2015/16</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure ($ million)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student loans—fair value write-down on new borrowings</td>
<td>$602</td>
<td>$659</td>
</tr>
<tr>
<td>Student allowances</td>
<td>$511</td>
<td>$486</td>
</tr>
<tr>
<td>Tuition subsidies and PBRF</td>
<td>$2,307</td>
<td>$2,326</td>
</tr>
<tr>
<td>Total</td>
<td>$3,420</td>
<td>$3,471</td>
</tr>
</tbody>
</table>


Notes:
1. Tuition subsidies are represented by the Student Achievement Component.
2. Government expenditure is exclusive of GST.
3. 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.
4. PBRF is the Performance-Based Research Fund.

Table 1 has additional information on participation in tertiary education. The table shows that, in 2016:
- female participation rates were higher than male participation rates
- the participation rate for Māori stayed the same but decreased for all other demographic groups
- Māori had the highest participation rate of all ethnicities.

Table 2 shows the number of government-funded (Student Achievement Component) EFTS places was 222,000 in 2016. 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 2016/17 was $662 million, an increase of $3 million compared with the previous financial year. This compares with expenditure of $465 million on student allowances and $2,385 million on tuition subsidies (Student Achievement Component funding and the Performance-Based Research Fund).
Some major trends in tertiary education

Shift to higher-level qualifications

In 2016, there were over 230,000 domestic EFTS enrolled in tertiary study (9 percent below the peak in 2010). There was a decline of 18 percent in the number of domestic EFTS at the certificate 1-4 Level between 2007 and 2016, while the numbers enrolled at degree level and above rose by 14 percent. These changes reflect a deliberate shift in the Government’s priorities for the tertiary education system—towards a higher proportion of enrolments in higher-level qualifications.

Data from Statistics New Zealand’s Household Labour Force Survey shows a steady rise in the number of people in New Zealand holding tertiary qualifications, especially at degree level. In 2016, 50 percent of New Zealanders aged 15 years or older held a tertiary qualification, up from 44 percent in 1999, while the proportion with a bachelor’s degree or higher qualification rose from 10 percent to 24 percent.

The shift to enrolments in higher-level qualifications is also reflected in the data on student loan uptake. Figure 3 shows that, in 2007, 57 percent of borrowers were enrolled in qualifications at bachelor’s level or higher. By 2016, the proportion had risen to 71 percent. Over the same period, the proportion of borrowers enrolled in Level 1-4 certificates decreased from 27 percent to 18 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 2007 and 2016 the percentage of borrowers aged 26 or under rose from 67 percent to 74 percent.

Figure 3

Trends in 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 and Ministry of Education.
1.3 Student support issues

The student support system enables all New Zealanders to participate in tertiary education and training.

A key challenge for the government is to manage the cost to taxpayers of high participation rates, 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 focussing 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 will further increase its contribution to tertiary education costs to improve accessibility and affordability, by increasing the amount of living cost support and introducing a first year of fees-free education and training.

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/Student_loan_scheme_annual_reports/student-loan-scheme-annual-report-2017).

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).

Student loans

The interest-free student loan policy introduced in 2006 is one of the main ways the Government subsidises the costs of tertiary education for students.

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. Through an information-sharing arrangement with the Australian Taxation Office, as at May 2017 Inland Revenue had obtained the contact details for almost 57,000 borrowers living in Australia.

To ensure that the Student Loan Scheme continues to support broad participation in tertiary education and assist students meet the rising costs of living, the maximum amount that can be borrowed for living costs will increase by $50 from 1 January 2018.
1.4 Policy changes taking effect in 2017 and 2018

**Student loan interest exemption for government-funded scholarship recipients**

In Budget 2016, the Government extended eligibility for interest-free student loans to the recipients of government-funded scholarships (and eligible partners) going overseas. This took effect from 21 February 2017, when the Taxation (Business Tax, Exchange of Information, and Remedial Matters) Act 2017 came into force.

**Expiration of the freeze on the student loan repayment threshold**

Annual inflation adjustments to the student loan repayment threshold were frozen at $19,084 from the 2010/11 tax year to 1 April 2017. The freeze was not extended and the threshold for repayments increased to $19,136 ($368 per week) for the 2017/18 tax year.

The basis for calculating the repayment threshold changed in November 2016 from using the Consumer Price Index to using the Consumer Price Index excluding tobacco products. This change applies from the 2017/18 tax year.

**Changes to the Accommodation Benefit and the Accommodation Supplement**

As a result of the Budget 2017 Family Incomes Package, in 2018:

- the Accommodation Benefit maximum rate will increase from $40 to $60. This additional support will go to students who have high accommodation costs. The Accommodation Benefit is paid to eligible student allowance recipients who live away from home
- maximum Accommodation Supplement payments will increase and some Accommodation Supplement areas will be redesignated to reflect local housing costs. Some students will benefit from these changes, including sole parents who are paid the Accommodation Benefit at the Accommodation Supplement rate.

Further information on these changes can be found on the StudyLink website (studylink.govt.nz/about-studylink/news/2017/budget-changes.html).

**Annual maximum fee movement in 2017**

The annual maximum fee movement is 2 percent in 2017 and 2018. It was 3 percent in 2016 and 4 percent in previous years. The annual maximum fee movement policy regulates the level to which tertiary education providers can increase their course fees. It has the effect of regulating the amount of money students need to borrow for fees through the Student Loan Scheme.

**Increases to student support and fees-free education and training**

From 1 January 2018:

- student allowance rates will increase by $50 a week (where the rate reflects the living costs of two adults, the increase will be $100 a week)
- the maximum amount students can borrow through a student loan to help pay for living costs will increase by $50 a week—from $178.81 to $228.81 a week.
- a first year of fees-free education and training will take effect for new learners. Further information about student and study eligibility criteria is available on Government websites, including www.education.govt.nz/ministry-of-education/specific-initiatives/changes-in-education/.
Chapter 2

OUTCOMES

2.1 Outcomes framework .................................................. 16
2.2 Human capital and labour skills .................................. 17
2.3 Affordability for borrowers and taxpayers .................. 20
2.4 Unintended outcomes ................................................ 23
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 has succeeded in achieving the primary 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.

Figure 5 Outcomes of the Student Loan Scheme

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

<table>
<thead>
<tr>
<th>Qualification level</th>
<th>One</th>
<th>Two</th>
<th>Five</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctorate</td>
<td>164</td>
<td>175</td>
<td>198</td>
</tr>
<tr>
<td>Masters degree</td>
<td>117</td>
<td>135</td>
<td>160</td>
</tr>
<tr>
<td>Honours, postgraduate certificate and diploma</td>
<td>119</td>
<td>133</td>
<td>159</td>
</tr>
<tr>
<td>Graduate certificate and diploma</td>
<td>123</td>
<td>130</td>
<td>156</td>
</tr>
<tr>
<td>Bachelors degree</td>
<td>102</td>
<td>117</td>
<td>139</td>
</tr>
<tr>
<td>Level 5-7 certificates/ diplomas</td>
<td>78</td>
<td>89</td>
<td>106</td>
</tr>
<tr>
<td>Level 4 certificates</td>
<td>72</td>
<td>81</td>
<td>99</td>
</tr>
<tr>
<td>Level 1-3 certificates</td>
<td>72</td>
<td>80</td>
<td>98</td>
</tr>
</tbody>
</table>

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

Notes:
1. These numbers are based on earnings for young, domestic graduates in the 2013/14 and 2014/15 tax years relative to national median earnings for those aged between 15 and 64 years in the 2014/15 tax year. Earnings in the 2013/14 tax year are converted to 2015 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 the differing required lengths of study and mean that the labour market experience of all graduates is similar. However, differences in age may also be a partial contributor to differences in 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 that the higher the qualification, the higher the expected earnings. Five years after graduation:

- the median earnings of young bachelors degree graduates were 32 percent above those with a Level 5-7 certificate/diploma and 43 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 bachelors degree, and 64 percent higher than those with a Level 1-3 certificate.


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.

Table 4 summarises the information that is available from the Tertiary Education Commission, Ministry of Education, Ministry of Social Development (through its StudyLink service), Ministry of Business, Innovation and Employment and other government agencies.

This information is available to potential students to help them to consider their study options and make informed decisions. It includes information on the outcomes of tertiary education so potential students can assess the likely value of the different options available.
### Table 4 Information resources supporting study choices

<table>
<thead>
<tr>
<th>Information/service</th>
<th>Provided by</th>
<th>Overview</th>
</tr>
</thead>
</table>
| Careers information and tools [careers.govt.nz](http://www.careers.govt.nz) | Tertiary Education Commission | 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:  
- Jobs Database, with profiles on 400+ occupations covering skills and qualifications required, prospects of employment and likely income range  
- Skills Matcher and Subject Matcher, which help people identify which skills and subjects best match with which occupations  
- Compare Study Options, which enables people to compare earning and employment information across different study areas  
- Informative and inspirational videos on study and employment options like, the Maia and Gompher series. |
| Key Information for Students [careers.govt.nz](http://www.careers.govt.nz) | Tertiary Education Commission | 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. |
| Occupation Outlook (website and mobile app) [occupationoutlook.mbie.govt.nz](http://www.occupationoutlook.mbie.govt.nz) | Ministry of Business, Innovation and Employment | 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. |
| Vocational Pathways [youthguarantee.net.nz](http://www.youthguarantee.net.nz) | Ministry of Education | 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. |
| FindMyPath [vp.org.nz](http://www.vp.org.nz) | Ministry of Education | 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. |
| StudyLink [studylink.govt.nz](http://www.studylink.govt.nz) | Ministry of Social Development | 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. |
| Sorted [sorted.org.nz](http://www.sorted.org.nz) | Commission for Financial Capability | 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 has 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. |
| Student loan repayment calculator [ird.govt.nz](http://www.ird.govt.nz) | Inland Revenue | 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. |
| External evaluation and review reports [nzqa.govt.nz](http://www.nzqa.govt.nz) | New Zealand Qualifications Authority | 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. |
| Educational Performance Indicators [tec.govt.nz](http://www.tec.govt.nz) | Tertiary Education Commission | The Tertiary Education Commission publishes information on the educational performance of individual tertiary education organisations that covers:  
- first year retention rates (the number of learners retained in study after their first year)  
- qualification completion rates (the number of learners that successfully complete a qualification at the level they started)  
- course completion rates (the proportion of courses that are successfully completed)  
- progression rates (the proportion of students in a given year who progress to study at a higher level after completing a Level 1 to 4 qualification). |
| The post-study earnings and destinations of young, domestic graduates [educationcounts.govt.nz](http://www.educationcounts.govt.nz) | Ministry of Education | Factsheets and associated data tables updated annually from 2016 provide information on the outcomes for young people who complete a tertiary qualification in New Zealand. They look at differences in earnings and earnings premiums for graduates who complete qualifications at different levels and in different fields of study. They also look at the proportion of graduates who are employed, in further study, overseas, or on a benefit. |
| Employment outcomes for tertiary education graduates for different tertiary providers [education.govt.nz](http://www.education.govt.nz) | Ministry of Education/ Tertiary Education Commission | 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. |
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 gain 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

Since the benefits of tertiary education are shared by students, society and the economy, it is appropriate that costs are also shared. The Student Loan Scheme has helped students meet their share of the costs and enabled the government to fund more places in tertiary education organisations.

In 2000, students paid 33 percent of the full cost through their tuition fees. However, as a result of policies restricting fee increases, this figure was 29 percent in 2016.

While the government’s share was nominally 71 percent in 2016, 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 82 percent after taking the implicit subsidy into account.

The costs of the loan scheme to students

One way to assess the cost of tertiary education to students is to compare the level of tertiary education fees with the level of earnings in the labour market.

This is done by means of a proxy for the level of tuition fees over the life of the Student Loan Scheme, using the average fee for a Bachelor of Arts degree at a New Zealand university. This qualification has been chosen for comparison as it has consistently received high enrolment numbers across the period considered.

Figure 7 traces the trend in the affordability of tertiary education. It shows the number of weeks it takes for a person with average (gross) earnings to earn the equivalent of the average per annum full-time university Bachelor of Arts fee.

![Figure 7](image)

**Source:** Universities New Zealand and Statistics New Zealand (Quarterly Employment Survey), Ministry of Education interpretation.

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

Figure 7 shows that fees rose sharply during the 1990s as the loan scheme was phased in and as the government transferred a greater share of the cost of tertiary education to students and their families.
By 2000, it took 5 weeks for the average earner to earn a full-time, full-year Bachelor of Arts fee. Between 2001 and 2003, fees were frozen while earnings rose, so the time needed to earn the Bachelor of Arts fee fell to 4.5 weeks.

Under the fee and course costs maxima policy between 2004 and 2009, the real cost of study was stable. Since 2010, fee stabilisation has operated under the annual maximum fee movement policy, while earnings growth has been constrained in response to the tight fiscal environment. These two factors have seen a small, gradual increase in the number of weeks of earnings required to meet the full-time Bachelor of Arts fee cost—from 4.5 weeks in 2009 to around 5 weeks in 2017.

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

Figure 8 shows the median loan balance of students at the time they left study between 2000 and 2015. Over this period the median loan balance on leaving study increased by 113 percent from $8,360 to $17,780. After adjusting for inflation, the increase in the median loan balance was 54 percent ($12,869). This increase 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 costs of the loan scheme to students. Information on actual and forecast repayment times is in Section 3.4.

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 all constrain the volume of lending.

The government also sets policies around access to the loan scheme. Policies that limit access, such as academic performance requirements and the ‘stand-down’ period for new permanent residents, place a volume constraint on the amount of money lent. See Appendix 1 for more information on eligibility requirements.

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.

**Figure 8** Median loan balance on leaving study

![Median loan balance chart]

Source: Statistics New Zealand IDI.
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.

The cost per dollar lent is the key measure of the cost of new loans. Figure 9 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.

Since 2010, the Government has given a high priority to policy changes that improve the value of the student loan asset. These changes have focused on the rate of repayment and on the compliance of overseas-based borrowers in meeting their obligations. The slower the repayment rate, the greater the loss in value and hence the higher the cost to the government.

If a lot of borrowers choose to go overseas once they finish their studies, this reduces the value of the loan scheme because it is more difficult to collect repayments. To address this, Inland Revenue has focussed on improving repayments from overseas-based borrowers (see Section 3.2).


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 2017 was 58 percent of the total amount of money on loan or nominal value. Figure 10 shows the ratio has been decreasing since 2012. 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 affordable 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 tertiary provision 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?

The introduction of the interest-free student loans policy in 2006 has made it less likely that borrowers get into ‘negative repayment’—a situation where the loan balance increases once borrowing has finished. In the past, those who took time out from the workforce 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 shorter repayment times than is often thought. Half of those who left study in 2015 and remain in New Zealand are forecast to repay their loan in 6.8 years, while three-quarters will have repaid in just over 12 years. Borrowers who spend time outside New Zealand have longer forecast repayment times. Half of those who left study in 2015 and are not always New Zealand-based are forecast to repay their loan in 14.4 years. See Section 3.4 for more information on repayment times.

Other unintended outcomes

Some 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 that student loans may discourage home ownership or cause borrowers 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. 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

As surveys on the social impacts of student loans are few in number, particularly in the New Zealand context, it is not easy to draw any conclusions from them. There has been very little statistical empirical research of income-contingent loan schemes such as we have in New Zealand. The available research 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 the 2012 Student Loan Scheme Annual Report (educationcounts.govt.nz/publications/series/student_loan_scheme_annual_reports/114630).

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 2016 .......................................................... 26
3.2 Repayment performance ............................................. 34
3.3 Loan balances and borrower segments ...................... 37
3.4 Repayment times .......................................................... 40
3.1 Borrowing in 2016

Borrower uptake

This section shows that in the 2016 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 full-time students, while the uptake by part-time students remained stable
- the number of active borrowers at all levels of study has decreased over the past five years, with the exception of students enrolled at masters, honours, postgraduate certificate and postgraduate diploma level.

Number of borrowers

Since the Student Loan Scheme was introduced in 1992, about 1.27 million people have taken out a student loan. This represents around one-third of the New Zealand population aged 15 years and over.\(^6\)

Figure 11 shows that the number of students using the loan scheme has been decreasing since 2010. In 2016:

- a total of 176,938 students borrowed under the loan scheme—a decrease of 3.1 percent (5,599 fewer borrowers) from 2015
- there were 44,566 new borrowers in 2016—a decrease of 4.6 percent (2,155 fewer new borrowers) from 2015
- the number of total active borrowers represented around 5 percent of the estimated population living in New Zealand aged 15 years and over.

![Figure 11 Number of total active borrowers and new active borrowers in each academic year](image)

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

The decrease in the number of active borrowers in 2016 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-2017](http://educationcounts.govt.nz/publications/tertiary_education/annual/student_loan_scheme_annual_reports/student-loan-scheme-annual-report-2017)).

Loan uptake

Figure 12 shows the number of students eligible to borrow who used the loan scheme (see Appendix 1 for information on eligibility criteria.) In 2016, the overall uptake rate was 69.7 percent of eligible students. This was a decrease on the 71.4 percent uptake rate in 2015.

![Figure 12 Overall loan uptake](image)

Source: Ministry of Social Development and Ministry of Education.

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

In 2006, the overall uptake rate was 64.8 percent. The increase in the uptake of student loans since then is partly a consequence of changes to loan policy, but also reflects economic conditions. The uptake rate increased when the interest-free loan policy was introduced in 2006. The rise in tertiary enrolments as the economy went into recession in 2008 also contributed to an increase in the number of active borrowers. 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 a result of the strengthening labour market.

Figures 13 and 14 show the number of active borrowers by full-time and part-time status from 2007 to 2016. The rate of eligible full-time students accessing the loan scheme fell from 82.9 percent (158,417 students) in 2015 to 80.9 percent (152,561 students) in 2016. Uptake rates remain higher than they were before 2006, when the interest-free student loan policy was introduced.

---

\(^6\) The New Zealand estimated resident population aged 15 years and over in 2016 was 3,774,600.
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. 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. The part-time student uptake rate has been relatively stable since 2014.

### Amounts borrowed

#### Historical trends in borrowing

Since 1992, students have borrowed a total of $24.7 billion through the Student Loan Scheme. The total amount borrowed and the number of borrowers each year is shown in Figure 15.

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.

---

7 Net of refunds to StudyLink to 30 June 2017 (including administration charges).
Since 2010, the trend of decreasing numbers of active borrowers has continued. However, the total amount borrowed each year has been relatively stable (generally due to fee increases causing the average amount borrowed each year to increase).

The number of active borrowers fell by 3.1 percent from 182,537 students in 2015 to 176,938 students in 2016. The total amount borrowed fell by 1.3 percent from $1,622 million in 2015 to $1,602 million in 2016.

**Average and median borrowing**

Figure 16 shows the average and median amounts borrowed from 2007 to 2016. From 2004, fees were regulated by the fee and course costs maxima policy and from 2010 by the annual maximum fee movement policy. Under these policies, providers are permitted to increase fees, but only within limits. The introduction of interest-free student loans in 2006 and growth in fees have contributed to a gradual increase in both the average and median amounts borrowed.

**Figure 16 Average and median amounts borrowed**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>8,500</td>
<td>8,600</td>
<td>8,700</td>
<td>8,800</td>
<td>8,900</td>
<td>9,000</td>
<td>9,100</td>
<td>9,200</td>
<td>9,300</td>
<td>9,400</td>
</tr>
<tr>
<td>Median</td>
<td>8,000</td>
<td>8,100</td>
<td>8,200</td>
<td>8,300</td>
<td>8,400</td>
<td>8,500</td>
<td>8,600</td>
<td>8,700</td>
<td>8,800</td>
<td>8,900</td>
</tr>
</tbody>
</table>

**Source:** Ministry of Social Development and Ministry of Education.

In 2016, the average amount borrowed was $9,053, an increase of 1.8 percent ($165) on the previous year. This compares with an increase of 3.5 percent ($301) between 2014 and 2015.

The median amount borrowed in 2016 was $8,086, an increase of 1.4 percent ($115) on 2015. The increase between 2014 and 2015 was 3.4 percent ($263).

The smaller increase in the average and median amount borrowed in 2016 compared with the increase in 2015 was partly due to a smaller increase in fees. The annual maximum fee movement was 3 percent in 2016, compared with 4 percent in previous years.

**Loans by component**

Most borrowers use the loan scheme to pay for course fees charged by tertiary education providers. Since 2007, fees can only be borrowed to pay for government-funded courses. Full-time students can also borrow for living costs and up to $1,000 for course-related costs.

In 2016:

- 93 percent of borrowers (164,282 students) used a student loan to pay for course fees
- 23 percent (40,556 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 (115,693 students) used a student loan to help meet course-related costs
- 55 percent of borrowers (97,995 students) used a student loan to help meet their living costs.

**Figure 17 Total amounts drawn by loan component**

*Source:* Ministry of Social Development.

Figure 17 shows the amount borrowed by loan component. Of the total amount borrowed in 2016 (excluding establishment and administration fees):

- 66.6 percent ($1,060 million) was used to pay for course fees
- 26.2 percent ($417 million) was used to pay for living costs
- 7.2 percent ($114 million) was used to pay for course-related costs.

These percentages were the same in 2015.

There has been an increase in the percentage of the total amount borrowed to pay for course fees since 2000, when this accounted for 60.4 percent of the total amount borrowed. The percentage has been relatively stable at around 67 percent since 2011.

Entitlements for course fees have never been frozen. This is in contrast with entitlements for course-related costs, which have been frozen at $1,000 per year, and entitlements for living costs, which were frozen until 2008, with increases at the rate of inflation since 2009.
Table 5 shows the average and median amounts borrowed by loan component for the period 2007 to 2016. Over this period, the average amount borrowed to pay for fees increased by 41.0 percent. In 2016, compared to the previous year, the average amount borrowed to pay for:

- course fees increased by 2.1 percent ($130) to $6,453
- living costs increased by 1.9 percent ($80) to $4,259
- course-related costs decreased by 0.3 percent ($3) to $985.

### 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 2016/17 tax year, full-time students could borrow up to $178.81 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 2016:

- 41.0 percent of students receiving student allowances also used the loan scheme for living costs (a decrease of 1.0 percent from 2015)
- 16.5 percent of students who used the loan scheme for living costs also received a student allowance (a decrease of 0.8 percent from 2015).
In 2016:

- 139,873 students used the loan scheme to pay for living costs and/or received a student allowance, a 3.0 percent decrease (4,300 fewer students) from 2015.
- 41,878 students received a student allowance only, a 3.8 percent decrease (1,643 fewer students) from 2015.
- 29,150 students received a student allowance and also used the loan scheme to pay for living costs, a decrease of 7.5 percent (2,380 fewer students) from 2015.
- 68,845 students used the loan scheme to pay for living costs, a decrease of 0.4 percent (277 fewer students) from 2015.

**Sub-sector**

The average course fees borrowed by sub-sector are shown in Figure 19. Students at universities, polytechnics and private training establishments had a year-on-year increase in the average course fees borrowed.

The average course fees borrowed by university students increased by 3.5 percent ($241), as the balance of enrolments shifted to qualifications with higher fees and as fees increased. The average course fees borrowed by students at polytechnics increased by 1.9 percent ($90), and by less than 1 percent ($45) for students at private training establishments. The average amount borrowed by wānanga students to pay for fees was stable between 2015 and 2016.

**Table 7 Components of lending by sub-sector**

<table>
<thead>
<tr>
<th>2016</th>
<th>Sub-sector</th>
<th>Number of borrowers</th>
<th>Lending million ($)</th>
<th>Average borrowing ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Course fees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>University</td>
<td>97,604</td>
<td>692</td>
<td>7,088</td>
</tr>
<tr>
<td></td>
<td>Polytechnic</td>
<td>44,928</td>
<td>221</td>
<td>4,915</td>
</tr>
<tr>
<td></td>
<td>Wānanga</td>
<td>2,467</td>
<td>9</td>
<td>3,476</td>
</tr>
<tr>
<td></td>
<td>PTE</td>
<td>19,283</td>
<td>146</td>
<td>7,557</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>164,282</td>
<td>1,067</td>
<td>6,494</td>
</tr>
<tr>
<td></td>
<td>Course-related</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>University</td>
<td>63,683</td>
<td>62</td>
<td>968</td>
</tr>
<tr>
<td></td>
<td>Polytechnic</td>
<td>33,080</td>
<td>33</td>
<td>992</td>
</tr>
<tr>
<td></td>
<td>Wānanga</td>
<td>3,132</td>
<td>3</td>
<td>970</td>
</tr>
<tr>
<td></td>
<td>PTE</td>
<td>15,798</td>
<td>16</td>
<td>1,007</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>115,693</td>
<td>113</td>
<td>980</td>
</tr>
<tr>
<td></td>
<td>Living costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>University</td>
<td>61,728</td>
<td>288</td>
<td>4,671</td>
</tr>
<tr>
<td></td>
<td>Polytechnic</td>
<td>23,099</td>
<td>81</td>
<td>3,485</td>
</tr>
<tr>
<td></td>
<td>Wānanga</td>
<td>1,515</td>
<td>6</td>
<td>3,666</td>
</tr>
<tr>
<td></td>
<td>PTE</td>
<td>12,158</td>
<td>39</td>
<td>3,210</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>98,500</td>
<td>413</td>
<td>4,197</td>
</tr>
<tr>
<td></td>
<td>Totals</td>
<td>University</td>
<td>102,118</td>
<td>1,042</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Polytechnic</td>
<td>48,751</td>
<td>334</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Wānanga</td>
<td>3,754</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td></td>
<td>PTE</td>
<td>22,328</td>
<td>201</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total</td>
<td>176,958</td>
<td>1,594</td>
</tr>
</tbody>
</table>

Source: Ministry of Social Development.

Notes:

1. Borrowers who were enrolled in more than one sub-sector in the year have been counted in each sub-sector.
2. PTE is private training establishment.

**Source:** Ministry of Social Development.
Qualification level

Table 8 gives a breakdown of active borrower numbers and the amount borrowed by level of qualification. Overall, the number of active borrowers decreased by 3.1 percent (5,599 fewer borrowers) in 2016. The largest decrease was in borrowers studying for diplomas and certificates. 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 the bachelors and doctorate levels has also fallen since 2012. The only level of study to see an increase in the number of borrowers is at the masters, honours and postgraduate level, where borrowers increased by 3.8 percent (798 borrowers) in 2016.

Table 9 shows the median leaving balance by qualification for students who gained a qualification in 2015 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. Although students who left study with a postgraduate qualification in 2015 had the highest median debt, they are forecast to take less time to pay off these debts than students with a Level 5-7 certificate/diploma or a bachelors degree.

Table 8 Student loan borrowers by level of qualification and average amount borrowed

<table>
<thead>
<tr>
<th>Qualification level</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>n = numbers of borrowers $ avg = average amount borrowed</td>
<td>n</td>
<td>$ avg</td>
<td>n</td>
<td>$ avg</td>
<td>n</td>
</tr>
<tr>
<td>Doctorates</td>
<td>1,573</td>
<td>7,239</td>
<td>1,541</td>
<td>8,542</td>
<td>1,517</td>
</tr>
<tr>
<td>Masters, honours, postgraduate certificates and postgraduate diplomas</td>
<td>19,465</td>
<td>8,751</td>
<td>19,295</td>
<td>9,576</td>
<td>19,876</td>
</tr>
<tr>
<td>Bachelors degrees, graduate certificates and graduate diplomas</td>
<td>108,497</td>
<td>8,507</td>
<td>106,349</td>
<td>9,025</td>
<td>105,330</td>
</tr>
<tr>
<td>Level 5-7 certificates/diplomas</td>
<td>24,936</td>
<td>7,761</td>
<td>22,100</td>
<td>7,898</td>
<td>20,675</td>
</tr>
<tr>
<td>Level 1-4 certificates</td>
<td>46,440</td>
<td>5,897</td>
<td>42,807</td>
<td>6,202</td>
<td>39,052</td>
</tr>
<tr>
<td>Other</td>
<td>276</td>
<td>5,774</td>
<td>165</td>
<td>5,793</td>
<td>27</td>
</tr>
<tr>
<td>Total borrower numbers</td>
<td>201,187</td>
<td></td>
<td>192,257</td>
<td></td>
<td>186,477</td>
</tr>
<tr>
<td>Average borrowed for all qualifications</td>
<td>7,822</td>
<td></td>
<td>8,315</td>
<td></td>
<td>8,587</td>
</tr>
</tbody>
</table>

Source: Ministry of Social Development.
Notes:
1. Some borrowers were enrolled in qualifications at more than one level.
2. Data in this table has been revised, and may differ from previously published figures.

Qualification level

Table 9 Median debt and repayment time for leavers

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>Median leaving balance ($)</th>
<th>Median post-study repayment time (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level 1-4 certificates</td>
<td>9,310</td>
<td>7.3</td>
<td></td>
</tr>
<tr>
<td>Level 5-7 certificates/diplomas</td>
<td>16,620</td>
<td>8.7</td>
<td></td>
</tr>
<tr>
<td>Bachelors, graduate certificates/diplomas</td>
<td>51,310</td>
<td>9.4</td>
<td></td>
</tr>
<tr>
<td>Postgraduate</td>
<td>35,310</td>
<td>7.9</td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level 1-4 certificates</td>
<td>8,920</td>
<td>6.5</td>
<td></td>
</tr>
<tr>
<td>Level 5-7 certificates/diplomas</td>
<td>17,150</td>
<td>8.5</td>
<td></td>
</tr>
<tr>
<td>Bachelors, graduate certificates/diplomas</td>
<td>33,010</td>
<td>9.4</td>
<td></td>
</tr>
<tr>
<td>Postgraduate</td>
<td>39,650</td>
<td>8.4</td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level 1-4 certificates</td>
<td>9,580</td>
<td>7.9</td>
<td></td>
</tr>
<tr>
<td>Level 5-7 certificates/diplomas</td>
<td>16,160</td>
<td>8.8</td>
<td></td>
</tr>
<tr>
<td>Bachelors, graduate certificates/diplomas</td>
<td>30,290</td>
<td>9.5</td>
<td></td>
</tr>
<tr>
<td>Postgraduate</td>
<td>32,580</td>
<td>7.6</td>
<td></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 2015, completed a qualification at the level shown in 2015 and did not study in 2016.
### Table 10 Demographic characteristics of new active student loan borrowers

<table>
<thead>
<tr>
<th>New active borrowers</th>
<th>2015</th>
<th>2016</th>
<th>2015—2016 change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number</td>
<td>46,721</td>
<td>44,566</td>
<td>-2,155 -4.6</td>
</tr>
<tr>
<td>Gender</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>26,520</td>
<td>25,420</td>
<td>-1,100 -4.1</td>
</tr>
<tr>
<td>Male</td>
<td>20,201</td>
<td>19,146</td>
<td>-1,055 -5.2</td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average age</td>
<td>23</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Median age</td>
<td>19</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>20 years and under</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21-26 years (%)</td>
<td>6,700</td>
<td>6,116</td>
<td>-584 -8.7</td>
</tr>
<tr>
<td>27-50 years (%)</td>
<td>6,954</td>
<td>6,010</td>
<td>-944 -13.6</td>
</tr>
<tr>
<td>Over 50 years (%)</td>
<td>973</td>
<td>813</td>
<td>-160 -16.4</td>
</tr>
<tr>
<td>20 years and under (%)</td>
<td>68.7</td>
<td>71.0</td>
<td></td>
</tr>
<tr>
<td>21-26 years (%)</td>
<td>14.3</td>
<td>13.7</td>
<td></td>
</tr>
<tr>
<td>27-50 years (%)</td>
<td>14.9</td>
<td>13.5</td>
<td></td>
</tr>
<tr>
<td>Over 50 years (%)</td>
<td>2.1</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>Ethnicity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>European (%)</td>
<td>60.1</td>
<td>60.5</td>
<td></td>
</tr>
<tr>
<td>Māori (%)</td>
<td>18.9</td>
<td>17.7</td>
<td></td>
</tr>
<tr>
<td>Pasifika (%)</td>
<td>10.9</td>
<td>10.2</td>
<td></td>
</tr>
<tr>
<td>Asian (%)</td>
<td>13.5</td>
<td>13.9</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Ministry of Education.

**Notes:**
1. New active borrowers are those entering the loan scheme for the first time in a given year.
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.
4. Data has been revised and might differ from that previously published.

### Table 11 Demographic characteristics of all active student loan borrowers

<table>
<thead>
<tr>
<th>All active borrowers</th>
<th>2015</th>
<th>2016</th>
<th>2015—2016 change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number</td>
<td>182,537</td>
<td>176,938</td>
<td>-5,599 -3.1</td>
</tr>
<tr>
<td>Gender</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>108,710</td>
<td>105,778</td>
<td>-2,932 -2.7</td>
</tr>
<tr>
<td>Male</td>
<td>73,827</td>
<td>71,160</td>
<td>-2,667 -3.6</td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average age</td>
<td>25</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Median age</td>
<td>22</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>20 years and under</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21-26 years (%)</td>
<td>72,722</td>
<td>70,862</td>
<td>-1,860 -2.5</td>
</tr>
<tr>
<td>27-50 years (%)</td>
<td>45,077</td>
<td>42,711</td>
<td>-2,366 -5.2</td>
</tr>
<tr>
<td>Over 50 years (%)</td>
<td>4,177</td>
<td>3,801</td>
<td>-376 -9.0</td>
</tr>
<tr>
<td>20 years and under (%)</td>
<td>33.2</td>
<td>33.7</td>
<td></td>
</tr>
<tr>
<td>21-26 years (%)</td>
<td>39.8</td>
<td>40.0</td>
<td></td>
</tr>
<tr>
<td>27-50 years (%)</td>
<td>24.7</td>
<td>24.1</td>
<td></td>
</tr>
<tr>
<td>Over 50 years (%)</td>
<td>2.3</td>
<td>2.1</td>
<td></td>
</tr>
<tr>
<td>Ethnicity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>European (%)</td>
<td>62.5</td>
<td>62.9</td>
<td></td>
</tr>
<tr>
<td>Māori (%)</td>
<td>19.3</td>
<td>18.6</td>
<td></td>
</tr>
<tr>
<td>Pasifika (%)</td>
<td>10.0</td>
<td>9.9</td>
<td></td>
</tr>
<tr>
<td>Asian (%)</td>
<td>14.3</td>
<td>14.4</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Ministry of Education.

**Notes:**
1. Borrowers can select more than one ethnicity so the sum may not add to 100 percent.
2. All percentages are of all active borrowers.
3. Data have been revised and might differ from that previously published.

### Table 12 Average amount borrowed by active student loan borrowers

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2015—2016 change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>%</td>
</tr>
<tr>
<td>Female</td>
<td>8,666</td>
<td>8,818</td>
<td>152 1.8</td>
</tr>
<tr>
<td>Male</td>
<td>9,215</td>
<td>9,402</td>
<td>187 2.0</td>
</tr>
<tr>
<td>Total</td>
<td>8,888</td>
<td>9,053</td>
<td>165 1.9</td>
</tr>
</tbody>
</table>

**Source:** Ministry of Education.

**Note:** Data has been revised and might differ from that previously published.
Leaving balances

Figure 20 shows the median leaving balances of male and female borrowers in the leaving cohorts from 1997 to 2015. 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 $17,870 and those of males at $17,670 in 2015.

Between 1997 and 2015, the female median loan balance increased by 126 percent. When adjusted for inflation, the increase was 57 percent.

Over the same period, the male median leaving balance increased by 125 percent, or 56 percent when adjusted for inflation.

The largest volume of borrowing has tended to be by students at bachelors level. Figure 20 also tracks the leaving balances of students at this level who left between 1997 and 2015. Throughout this period, male borrowers who studied bachelors-level qualifications have 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.

Figure 20 Median loan balance for leavers by gender—all borrowers and those who studied at bachelors level

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.
3.2 Repayment performance

Analysis of repayments

The factors that affect the amount of loan repayments are:

- the number of borrowers making repayments
- economic conditions that influence employment and incomes
- legislative changes to repayment obligations
- the proportion of borrowers in New Zealand and overseas
- circumstances or events anticipated in legislation, such as having a low income, death or bankruptcy
- non-compliant behaviour by borrowers and the effectiveness of measures to improve compliance.

Trends

Table 13 shows that in the year to 30 June 2017 total repayments were around $1.27 billion, an increase of 5.3 percent from the previous year.

Table 14 has more information on repayments received directly from borrowers.

### Table 13 Loan repayments

<table>
<thead>
<tr>
<th>Repayments</th>
<th>2014/15</th>
<th>2015/16</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAYE</td>
<td>$794.8</td>
<td>$843.4</td>
<td>$895.5</td>
</tr>
<tr>
<td>From borrower</td>
<td>$318.9</td>
<td>$365.4</td>
<td>$377.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,113.7</strong></td>
<td><strong>1,208.8</strong></td>
<td><strong>1,272.9</strong></td>
</tr>
<tr>
<td><strong>Annual % change</strong></td>
<td>6.1</td>
<td>6.1</td>
<td>6.2</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

The annual repayment threshold for New Zealand-based borrowers increased to $19,136 on 1 April 2017. Repayment deductions through PAYE were 6.2 percent higher than in 2015/16 (a similar rate of increase to the previous two years). 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.

### Table 14 Loan repayments directly from borrowers

<table>
<thead>
<tr>
<th>Repayments</th>
<th>2014/15</th>
<th>2015/16</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand-based</td>
<td>$134.2</td>
<td>$149.4</td>
<td>$162.5</td>
</tr>
<tr>
<td>Annual % change</td>
<td>7.7</td>
<td>11.3</td>
<td>8.8</td>
</tr>
<tr>
<td>Overseas-based</td>
<td>$184.7</td>
<td>$216.1</td>
<td>$214.8</td>
</tr>
<tr>
<td>Annual % change</td>
<td>16.9</td>
<td>17.0</td>
<td>-0.6</td>
</tr>
<tr>
<td><strong>Total/overall</strong></td>
<td><strong>318.9</strong></td>
<td><strong>365.4</strong></td>
<td><strong>377.4</strong></td>
</tr>
<tr>
<td><strong>Annual % change</strong></td>
<td>12.8</td>
<td>14.6</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

The amount repaid directly by borrowers increased by 3.3 percent on the previous year. This increase is smaller than in previous years, impacted by the amount repaid by overseas-based borrowers. While the number of overseas-based borrowers making repayments increased (see Figure 27), they repaid smaller amounts. The total amount repaid by overseas-based borrowers decreased by 0.6 percent on the previous year.

### Loans fully repaid

In the year to 30 June 2016, 42,870 borrowers repaid their loans in full. Since the scheme began, the total number of borrowers who have repaid their loans in full is now over 538,000 and Inland Revenue has collected a total of $12.7 billion in repayments.

Figure 21 shows the number of loans fully repaid over the last 10 years. The increase reflects changes both in the management of repayments by Inland Revenue and in policy, such as the increase in the repayment rate from 10 cents to 12 cents in the dollar. The spike in the number of loans fully repaid in 2013 was likely caused by borrowers taking advantage of the voluntary repayment bonus before it was cancelled on 1 April 2013.

8 At 30 June 2017, around 85 percent of borrowers were New Zealand-based.

9 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.
Write-off due to death or bankruptcy

The loan balances of borrowers who die or who are declared bankrupt are written off. Table 15 shows that, in the year to 30 June 2017, $19.9 million was written off due to bankruptcy and $12.6 million due to the death of the borrower. 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.

Table 15 Write-offs due to bankruptcy or death

<table>
<thead>
<tr>
<th>Write-offs</th>
<th>2014/15</th>
<th>2015/16</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bankrupt ($m)</td>
<td>16.0</td>
<td>17.6</td>
<td>19.9</td>
</tr>
<tr>
<td>Deceased ($m)</td>
<td>18.8</td>
<td>14.7</td>
<td>12.6</td>
</tr>
</tbody>
</table>

Number of cases

<table>
<thead>
<tr>
<th></th>
<th>2014/15</th>
<th>2015/16</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bankrupt</td>
<td>544</td>
<td>483</td>
<td>514</td>
</tr>
<tr>
<td>Deceased</td>
<td>1,255</td>
<td>973</td>
<td>817</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

Overdue repayments

Trends

Table 16 gives a summary of overdue repayments by New Zealand-based and overseas-based borrowers. In 2017, the total overdue amount was $1.2 billion, an increase of 12.4 percent from 2016. The total amount overdue increased at a slower rate than the previous two years, when it increased by 15.3 percent (2016) and 21.3 percent (2015).

Table 16 Overdue student loan repayments at 30 June

<table>
<thead>
<tr>
<th>Overdue repayments</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>% Change 2016-17</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>$88.3</td>
<td>$91.2</td>
<td>$99.3</td>
<td>8.9%</td>
</tr>
<tr>
<td>No. of borrowers</td>
<td>26,991</td>
<td>24,108</td>
<td>24,707</td>
<td>2.5%</td>
</tr>
<tr>
<td>Average amount outstanding ($)</td>
<td>$3,270</td>
<td>$3,782</td>
<td>$4,019</td>
<td>6.3%</td>
</tr>
<tr>
<td>Overseas-based</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overdue amount ($m)</td>
<td>$843.2</td>
<td>$982.6</td>
<td>$1,107.3</td>
<td>12.7%</td>
</tr>
<tr>
<td>No. of borrowers</td>
<td>81,305</td>
<td>80,622</td>
<td>78,308</td>
<td>-2.9%</td>
</tr>
<tr>
<td>Average amount outstanding ($)</td>
<td>$10,371</td>
<td>$12,188</td>
<td>$14,140</td>
<td>16.0%</td>
</tr>
<tr>
<td>Total/overall</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overdue amount ($m)</td>
<td>$931.5</td>
<td>$1,075.8</td>
<td>$1,206.6</td>
<td>12.4%</td>
</tr>
<tr>
<td>No. of borrowers</td>
<td>108,296</td>
<td>104,730</td>
<td>103,015</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Average amount outstanding ($)</td>
<td>$8,601</td>
<td>$10,253</td>
<td>$11,713</td>
<td>14.2%</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

As in previous years, the increase in both the overdue amount and the average amount outstanding was mainly driven by defaulting overseas-based borrowers. The overdue amount owed by this group rose by 12.7 percent ($124.7 million), in the previous year the increase was 16.5 percent (139.4 million).

Slower growth in the overdue amount can be attributed to increased awareness of repayment obligations through media attention, advertising, direct marketing and targeted collection activities. Improvements to the contact information held for overseas-based borrowers has led to an increase in the number of borrowers making repayments. There was a 2.9 percent reduction in the number of overseas-based borrowers in default in 2017 compared with 2016.

The overdue amount owed by New Zealand-based borrowers increased by 8.9 percent ($8.1 million) between 2016 and 2017. This can be attributed to a significant increase in the number of overseas-based borrowers returning to New Zealand compared with 2016. The overdue amounts owed by overseas-based borrowers become New Zealand-based borrower debt when these borrowers return to New Zealand for 183 days.
Table 17 shows the age of overdue repayments for the last three years. The proportion of overdue repayments between two and five years overdue, and over five years overdue, has increased since last year largely because of the continuing non-compliance of many overseas-based borrowers. This would suggest that, for many borrowers, the longer they are out of New Zealand, the less engaged they are with their student loans.

Table 18 shows that more than 70 percent of overseas-based borrower debt is over two years old (compared with 64 percent in 2015 and 67 percent in 2016).

### Table 17: Age of overdue repayments at 30 June

<table>
<thead>
<tr>
<th>Age of overdue repayments</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ million</td>
<td>%</td>
<td>$ million</td>
<td>%</td>
</tr>
<tr>
<td>0-1 month</td>
<td>8.2</td>
<td>0.9</td>
<td>9.2</td>
</tr>
<tr>
<td>2-3 months</td>
<td>168.3</td>
<td>18.1</td>
<td>168.8</td>
</tr>
<tr>
<td>4-6 months</td>
<td>6.8</td>
<td>0.7</td>
<td>9.2</td>
</tr>
<tr>
<td>7-12 months</td>
<td>13.0</td>
<td>1.4</td>
<td>12.0</td>
</tr>
<tr>
<td>1-2 years</td>
<td>144.1</td>
<td>15.5</td>
<td>166.8</td>
</tr>
<tr>
<td>2-5 years</td>
<td>299.1</td>
<td>32.1</td>
<td>330.7</td>
</tr>
<tr>
<td>&gt;5 years</td>
<td>292.0</td>
<td>31.3</td>
<td>377.1</td>
</tr>
<tr>
<td>Total</td>
<td>931.5</td>
<td>100.0</td>
<td>1,073.8</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

Table 17 shows the age of overdue repayments for the last three years. The proportion of overdue repayments between two and five years overdue, and over five years overdue, has increased since last year largely because of the continuing non-compliance of many overseas-based borrowers. This would suggest that, for many borrowers, the longer they are out of New Zealand, the less engaged they are with their student loans.

### Table 18: Age of overdue repayments by location at 30 June 2017

<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>3.6</td>
<td>3.6</td>
</tr>
<tr>
<td>2-3 months</td>
<td>12.4</td>
<td>12.4</td>
</tr>
<tr>
<td>4-6 months</td>
<td>3.9</td>
<td>3.9</td>
</tr>
<tr>
<td>7-12 months</td>
<td>4.4</td>
<td>4.4</td>
</tr>
<tr>
<td>1-2 years</td>
<td>14.6</td>
<td>14.7</td>
</tr>
<tr>
<td>2-5 years</td>
<td>26.5</td>
<td>26.6</td>
</tr>
<tr>
<td>&gt;5 years</td>
<td>34.0</td>
<td>34.2</td>
</tr>
<tr>
<td>Total</td>
<td>99.3</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

Table 18 shows that more than 70 percent of overseas-based borrower debt is over two years old (compared with 64 percent in 2015 and 67 percent in 2016).

### Improving repayment compliance

New Zealand-based borrower default in 2017 was $99.3 million; 8.2 percent of the overall student loan default. While it has been relatively static since the introduction of pay period repayments and real-time collection activities (student loan extra deductions for salary/wage earners), New Zealand-based borrower default is increasing slowly over time. This is due to self-employed borrower default and overseas-based borrowers returning to New Zealand with default. Inland Revenue is working to improve compliance by focusing on short-term default to mitigate the longer-term impact.

Overseas-based borrowers continue to owe a disproportionate share of the total amount overdue. In 2017, overseas-based borrowers:

- made up 15.1 percent of all borrowers (unchanged from 2016)
- made up 76.0 percent of all borrowers with overdue repayments (77 percent in 2016)
- owed 91.8 percent of the amount overdue (unchanged from 2016).

Measures introduced since 2010 to improve overseas-based borrower repayment compliance include initiatives to track and contact borrowers and follow up on their arrears, making it easier for borrowers to make repayments, and strengthened enforcement measures. Inland Revenue has collected an additional $419 million in repayments since 2010 as a result of these measures.

One of the challenges of getting repayments from overseas-based borrowers is having accurate and up-to-date contact information. Inland Revenue and the Australian Taxation Office introduced an information-sharing arrangement in 2016. As at May 2017, Inland Revenue had received contact information for almost 57,000 borrowers living in Australia.

Inland Revenue also has information-sharing agreements with New Zealand Customs and the Department of Internal Affairs. In the coming year, Inland Revenue will use information from these agencies to engage with a larger number of borrowers before or just after they go overseas, to highlight their repayment obligations. This pre-emptive work looks to reduce the number of borrowers who get into debt after they leave New Zealand.

As at 30 June 2017, Inland Revenue had obtained eight warrants for arrest and four had been executed for overseas-based borrowers in default. All of these borrowers reached a repayment arrangement with Inland Revenue. They were first contacted to discuss their arrears and make repayment arrangements before the arrest sanction was imposed. While all defaulting overseas-based borrowers may be candidates for arrest, this is used only for the most serious defaulters and they are dealt with on a case-by-case basis as they enter New Zealand.
3.3 Loan balances and borrower segments

Number of borrowers

There were 732,973 people with student loans as at 30 June 2017, compared with 731,754 a year earlier. The increase shown in figure 22 between 2011 and 2012 was due to administrative changes when the Student Loan Scheme Act 2011 took effect. Since 2012, the number of new borrowers 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.

Nominal value of loan balances

The nominal value of all loans was $15.7 billion at 30 June 2017. This was an increase of $395 million, or 2.6 percent, over the year (compared with an increase of 3.4 percent the previous year). The nominal value is the total amount owed by borrowers including the loan principal, interest, fees and penalties.

Over the year, the nominal value 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
- administration fees

and was reduced by:

- payments received from borrowers (see Section 3.2)
- loans written off due to death or bankruptcy
- small balance write-offs.

The nominal value is the basis for other calculations such as average and median loan balances, and the carrying value of the Student Loan Scheme (see Chapter 4).

Figures 22 and 23 show slowing growth in the number of borrowers in the scheme along with increases in the nominal balance of student loans. This means that each borrower, on average, now owes more.
### Table 19 Range of loan balances at 30 June 2017

<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>50,585</td>
<td>6.9</td>
<td>6.90</td>
</tr>
<tr>
<td>$2,000 – 3,999</td>
<td>50,903</td>
<td>6.9</td>
<td>13.85</td>
</tr>
<tr>
<td>$4,000 – 5,999</td>
<td>50,681</td>
<td>6.9</td>
<td>20.76</td>
</tr>
<tr>
<td>$6,000 – 7,999</td>
<td>57,189</td>
<td>7.8</td>
<td>28.56</td>
</tr>
<tr>
<td>$8,000 – 9,999</td>
<td>50,023</td>
<td>6.8</td>
<td>35.39</td>
</tr>
<tr>
<td>$10,000 – 14,999</td>
<td>102,346</td>
<td>14.0</td>
<td>49.35</td>
</tr>
<tr>
<td>$15,000 – 19,999</td>
<td>76,523</td>
<td>10.4</td>
<td>59.79</td>
</tr>
<tr>
<td>$20,000 – 24,999</td>
<td>64,931</td>
<td>8.9</td>
<td>68.65</td>
</tr>
<tr>
<td>$25,000 – 29,999</td>
<td>51,656</td>
<td>7.0</td>
<td>75.70</td>
</tr>
<tr>
<td>$30,000 – 34,999</td>
<td>38,912</td>
<td>5.3</td>
<td>81.01</td>
</tr>
<tr>
<td>$35,000 – 39,999</td>
<td>32,039</td>
<td>4.4</td>
<td>85.38</td>
</tr>
<tr>
<td>$40,000 – 44,999</td>
<td>25,124</td>
<td>3.4</td>
<td>88.80</td>
</tr>
<tr>
<td>$45,000 – 49,999</td>
<td>18,370</td>
<td>2.5</td>
<td>91.31</td>
</tr>
<tr>
<td>$50,000 – 54,999</td>
<td>14,606</td>
<td>2.0</td>
<td>93.30</td>
</tr>
<tr>
<td>$55,000 – 59,999</td>
<td>11,265</td>
<td>1.5</td>
<td>94.84</td>
</tr>
<tr>
<td>$60,000 – 79,999</td>
<td>22,511</td>
<td>3.1</td>
<td>97.91</td>
</tr>
<tr>
<td>$80,000 – 99,999</td>
<td>8,219</td>
<td>1.1</td>
<td>99.03</td>
</tr>
<tr>
<td>$100,000 – 119,999</td>
<td>3,566</td>
<td>0.5</td>
<td>99.52</td>
</tr>
<tr>
<td>$120,000 – 139,999</td>
<td>1,826</td>
<td>0.2</td>
<td>99.77</td>
</tr>
<tr>
<td>&gt; $139,999</td>
<td>1,698</td>
<td>0.2</td>
<td>100.00</td>
</tr>
</tbody>
</table>

**Total** | 732,973 |

**Source:** Inland Revenue administration data.


### Figure 25 Distribution of loan balances at 30 June 2017

**Source:** Inland Revenue administration data.

Figure 25 shows that overseas-based borrowers are likely to have higher balances than New Zealand-based borrowers:

- 52.7 percent of overseas-based borrowers have loan balances over $20,000 compared with 38.0 percent of New Zealand-based borrowers.
- 17.1 percent of overseas-based borrowers have loan balances over $50,000, compared with 7.2 percent of New Zealand-based borrowers.
- 3.3 percent of overseas-based borrowers have balances above $100,000, compared with 0.6 percent of New Zealand-based borrowers.

Interest charges, higher levels of non-compliance and subsequent late payment interest contribute to the balances of overseas-based borrowers.

### Figure 26 Borrowers at 30 June 2017 by age group

**Source:** Inland Revenue administration data.

**Note:** Borrowers aged over 65 are grouped together, which accounts for the apparent ‘spike’ in the graph.

Figure 26 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 largely in their late twenties and thirties.

### Borrower segments

Figure 27 compares New Zealand-based borrowers and overseas-based borrowers by their borrowing and repayment activity over the last four financial years.

New Zealand-based borrowers fall into one of four borrower segments:

1. **borrowing**—students who are currently borrowing from the scheme
2. **borrowing and repaying**—students who are both borrowing and repaying in a given year
3. **repaying**—borrowers who have completed their study and are repaying their loans
4. **inactive**—borrowers with a positive outstanding loan balance who have not had any interaction with the scheme in a given year.

There are two borrower segments for overseas-based borrowers — repaying and inactive.
The borrowing segment decreased again in 2016/17, which is consistent with the overall decrease in enrolments and loan uptake since 2010 (see Sections 1.2 and 3.1). This segment made up 12.3 percent of the total borrowers in 2016/17.

The borrowing and repayment segment made up 11.6 percent of total borrowers in 2016/17. This segment includes students who finish studying and enter employment in the same financial year. Borrowers in this segment repaid $1,475 each on average over the year and 1,480 of them fully repaid their loan.

The largest borrower segment is New Zealand-based borrowers who are repaying their loan (39.7 percent of total borrowers). This segment has increased in size over four years to to approximately 309,600 people in 2016/17. Borrowers in this segment repaid $3,085 each on average over the year and around 40,000 of them fully repaid their loan.

Inactive New Zealand-based borrowers made up 22 percent of total borrowers in 2016/17. This segment has borrowers with an income below the repayment threshold and therefore no repayment obligations. The number of inactive New Zealand-based borrowers has been stable over the last three financial years at just under 172,000 people.

Around 50,600 overseas-based borrowers made a repayment against their loan in 2016/17 (6.5 percent of total borrowers). Approximately 3,000 more overseas-based borrowers made repayments compared to the previous year. Borrowers in this segment repaid $3,883 each on average over the year and 2,600 of them fully repaid their loan.

While a small number of inactive overseas-based borrowers are on a repayment holiday or do not have a repayment due, the majority are not meeting their repayment obligations. Figure 27 shows that the number of inactive borrowers has been decreasing over the last four years. This is largely a result of increased compliance activity by Inland Revenue, including making contact with more overseas-based borrowers to remind them of their repayment obligations.

Figure 27 Borrower numbers by activity

Source: Inland Revenue administration data.

Notes:
1. The graph shows the number of people who had a loan at some time in each June year, by repaying and borrowing activity.
2. Because the scheme has people entering and exiting the scheme over the year, this count is larger than the number with a loan at either year end.
3. Totals are as at 31 December, in the middle of each year.
4. A small number of people classified as borrowing while overseas have been assigned to the OBB Repaying or Inactive groups as appropriate.

Summary of student loans at 30 June

<table>
<thead>
<tr>
<th>Table 20 New Zealand-based borrowers summary</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of borrowers</td>
<td>617,754</td>
<td>621,015</td>
<td>622,479</td>
</tr>
<tr>
<td>Nominal balance ($m)</td>
<td>11,680</td>
<td>12,094</td>
<td>12,431</td>
</tr>
<tr>
<td>Median loan ($)</td>
<td>13,538</td>
<td>13,996</td>
<td>14,369</td>
</tr>
<tr>
<td>Average loan ($)</td>
<td>18,907</td>
<td>19,474</td>
<td>19,969</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

<table>
<thead>
<tr>
<th>Table 21 Overseas-based borrowers summary</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of borrowers</td>
<td>110,594</td>
<td>110,739</td>
<td>110,494</td>
</tr>
<tr>
<td>Nominal balance ($m)</td>
<td>3,157</td>
<td>3,246</td>
<td>3,304</td>
</tr>
<tr>
<td>Median loan ($)</td>
<td>20,454</td>
<td>21,021</td>
<td>21,472</td>
</tr>
<tr>
<td>Average loan ($)</td>
<td>28,545</td>
<td>29,315</td>
<td>29,905</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

<table>
<thead>
<tr>
<th>Table 22 All borrowers summary</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of borrowers</td>
<td>728,348</td>
<td>731,754</td>
<td>732,973</td>
</tr>
<tr>
<td>Nominal balance ($m)</td>
<td>14,837</td>
<td>15,340</td>
<td>15,735</td>
</tr>
<tr>
<td>Median loan ($)</td>
<td>14,421</td>
<td>14,904</td>
<td>15,271</td>
</tr>
<tr>
<td>Average loan ($)</td>
<td>20,371</td>
<td>20,963</td>
<td>21,467</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.
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 23 looks at the expected repayment times of recent tertiary leavers—those who left study in 2015. Forecast repayment times are calculated using actual repayment data to the end of March 2017 and projections from the Student Loans Integrated Model.

The forecast median repayment time for all borrowers is 8.3 years. This is the time it will take for half of the borrowers who left study in 2015 to have fully repaid their loans. This is very similar to the forecast median repayment time for borrowers who left study in 2014 (8.4 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 2015 leavers who remain in New Zealand is significantly less (6.8 years) than for those who spend some time overseas (14.4 years).

The 25th percentile column shows the forecast time it will take for one-quarter of borrowers to have fully repaid their loans (4.2 years for all 2015 leavers). The 75th percentile is the forecast time it will take for three-quarters of borrowers to have fully repaid their loans (15.2 years for all 2015 leavers).

| Table 23 Forecast repayment times for borrowers who left study in 2015 | Repayment times (years) |
|---|---|---|---|
| % of leavers | 25th percentile | Median | 75th percentile |
| All | 100% | 4.2 | 8.3 | 15.2 |
| By gender | | | | |
| Male | 40.2% | 4.0 | 7.9 | 14.5 |
| Female | 59.8% | 4.4 | 8.5 | 15.7 |
| By level of study | | | | |
| Level 1-4 certificates | 3.5 | 7.7 | 16.4 |
| Level 5-7 certificates/diplomas | 4.2 | 8.5 | 16.3 |
| Bachelors and graduate certificates/diplomas | 5.1 | 8.7 | 14.6 |
| Postgraduate | 4.0 | 8.0 | 13.7 |
| By ethnicity | | | | |
| European | 4.1 | 7.9 | 14.0 |
| Māori | 4.3 | 9.0 | 17.9 |
| Pasifika | 4.6 | 9.0 | 17.9 |
| Asian | 4.4 | 8.5 | 15.6 |
| By leaving debt band ($000) | | | | |
| <5 | 14.4% | 0.9 | 2.1 | 4.6 |
| 5-10 | 16.6% | 2.7 | 4.8 | 9.1 |
| 10-15 | 13.0% | 4.1 | 6.9 | 12.3 |
| 15-20 | 10.6% | 4.9 | 7.9 | 13.8 |
| 20-25 | 9.2% | 6.0 | 9.2 | 15.4 |
| 25-30 | 7.8% | 6.8 | 10.4 | 17.4 |
| 30-35 | 6.1% | 7.4 | 11.2 | 18.4 |
| 35-40 | 5.1% | 8.0 | 11.9 | 18.9 |
| 40-45 | 4.2% | 9.0 | 12.9 | 19.6 |
| 45-50 | 2.9% | 9.7 | 14.1 | 22.2 |
| 50-55 | 2.6% | 10.2 | 14.2 | 22.8 |
| 55-60 | 2.1% | 10.7 | 15.0 | 22.9 |
| 60-65 | 1.4% | 12.1 | 16.8 | 26.7 |
| 65-70 | 1.0% | 12.2 | 16.9 | 26.8 |
| >70 | 3.1% | 14.3 | 20.6 | n |
| By location | | | | |
| Always NZ-based | 74.3% | 3.4 | 6.8 | 12.1 |
| Not always NZ-based | 25.7% | 8.5 | 14.4 | 30.1 |

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

Notes:
1. Counts have been randomly rounded and may not appear to add.
2. The ethnicity is reported using ‘multiple response’, meaning that people are counted in each broad ethnic group they identify with.
3. Shown are quartiles of post-study repayment time. This is a mixture of real experience and modelling.
4. ‘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 2015 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 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 not large, except at the 75th percentile
- one of the best indicators of the time taken to fully repay is, unsurprisingly, the size of the debt. Table 23 shows that some 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 20 years
- overseas-based borrowers have forecast repayment times more than twice as long as New Zealand-based borrowers.

Figure 28 gives more information about repayment times by qualification level, showing repayment times for leavers in each year between 1997 and 2015. It shows that 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 28 Quartiles of actual and forecast repayment times by level of study

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.
3. The middle line shows median repayment time following study.
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, interest and late payment interest. The change in the value from year to year reflects changes in the amount owed by borrowers.

The nominal value as at 30 June 2017 was $15,735 million (2016: $15,340 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. This differs from the carrying value calculation, which uses discount rates at the time of borrowing.\(^1\) The fair value has been reported in the accounts since 2003.

The fair value as at 30 June 2017 was $9,812 million (2016: $9,794 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 2014/15 year was the first year that the valuation has been made in accordance with the Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS). Since 1 July 2005, valuations had been made in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). Under PBE IPSAS, the cost to the government of new lending is recognised at the time it is lent, so that, all things being equal, there is no further cost associated with that lending. An annual PBE IPSAS-compliant valuation is undertaken and any adverse difference between the carrying value and the result of this valuation is recorded as an expense.\(^1\)

The carrying value as at 30 June 2017 was $9,197 million (2016: $8,982 million).

Definition: initial write-down on new borrowing\(^1\)
When a student draws money from the Student Loan Scheme, part of the money is treated as an operating expense and part as capital. The capital part is the value of repayments that are expected from this lending. The operating expense is the balance of the lending and is known as the ‘initial fair value write-down’. The initial fair value write-down is normally treated as the cost of lending.

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 discounting process.

Change in accounting standard from July 2018
Changes have been made to the accounting standard that applies to the Student Loan Scheme. 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 under which the Student Loan Scheme is reported.

\(^1\) For lending to December 2012, the discount rates for the carrying value were fixed based on the time of a borrower’s first borrowing from the scheme.

\(^1\) For a detailed description see Statement of accounting policies in Chapter 5

\(^1\) The initial write-down is called ‘fair value write-down on new borrowings’ in the financial schedules (Chapter 5).

In this chapter we use the term ‘initial write-down’ to avoid confusion with ‘fair value’, defined earlier.
4.1 Cost of lending

The key measure of the loan scheme’s cost is the initial 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 original value of 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 schedules in Chapter 5 show that in 2016/17 lending was $1,485 million\(^{14}\) and an initial write-down on new borrowing expense of $662 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 $662 million—or on average, 44.56 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 their income exceeds the threshold level ($368 per week until April 2018), so time spent out of the workforce (e.g. while undertaking full-time study) 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 obligations (see Sections 3.2 and 3.3). While overseas-based borrowers are charged interest and most are expected to commence repaying again, some are expected not to fully repay their loan.

**Figure 29** Lending and initial write-down on this lending, actual and forecast

<table>
<thead>
<tr>
<th>Year</th>
<th>New Lending (incl. establishment fee)</th>
<th>Initial Write-down</th>
<th>Average Cost of Lending</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016/17</td>
<td></td>
<td>$662 million</td>
<td>44.56 cents per dollar</td>
</tr>
</tbody>
</table>

Source: Ministry of Education.

\(^{14}\) $1,475 million of cash lending plus $10 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 2017, before the valuation, the carrying value of the loan scheme was $9,135 million. The valuation this year assessed the value of all loans at this date to be $62 million higher, at $9,197 million. Factors that contributed to the negative impairment of the student loan portfolio during the 2016/17 financial year are discussed in Section 5.6.

Figure 30 shows how the impairment has moved over time. It also shows the ratio of the carrying value to the nominal value—a key measure of the financial health of the loan scheme asset. The movements over time reflect changes in loan policy as well as the macroeconomic factors (such as interest rate changes) that affect the value of the scheme. 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. This year there has been a slight net increase in the value of the scheme.

15 The 2014/15 year was the first time the student loan asset was valued in accordance with the Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS), instead of the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).
4.3 Cash cost

An alternative measure of the cost of the scheme is the annual net cash cost—the excess of lending in the year over the repayment receipts. Figure 31 shows lending and repayments in fiscal years from 2005/06 to 2016/17 together with four years of forecast.16

We see that in 2005/06, for every dollar the government received in repayments, it lent $2.02 to 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. As discussed in Chapter 3.2, the sharp rise in repayments was caused by the increase in the repayment rate from 10 cents in the dollar to 12 cents in the dollar earned, 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. In 2016/17, the government lent $1.16 for every dollar received in repayments.

Over the last 12 years, annual repayments have increased from $486 million per year to $1,273 million this year. Over the same period, lending has increased too. It rose from under $1 billion in 2005/06 to about $1.5 billion in 2010/11 and remained close to that level for the following six years.

The excess of lending over repayments (the dotted line in Figure 31) reached a maximum of $771 million in 2009/10 and has fallen since then. Last year it was $303 million and this year (2016/17) was the lowest over the last 11 years at $202 million.

The forecasts suggest that the net cash out next year (2017/18) will also be around $200 million, but after that is predicted to gradually fall and reach breakeven in 2020/21.

This is partly due to the increase in the repayment rate together with the fall in the number of borrowers taking out a loan each year. The number has fallen by 17 percent from a peak of approximately 212,500 borrowers in 2010 to 176,900 in 2016. Had this not happened, the net cash out in 2016/17 would have been around $500 million.

---

16 Budget Economic and Fiscal Update 2017.
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 Section 4.2) also changes the operating balance. The establishment fees charged to students every year they borrow also add to the operating balance. Over the 2016/17 year, the negative impairment of $62 million served to more than offset the other net costs, meaning that overall, the scheme made a small gain by this measure.

Table 24 Movement in the operating balance 2016/17

<table>
<thead>
<tr>
<th></th>
<th>$ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial write-down on new lending</td>
<td>662</td>
</tr>
<tr>
<td>Interest unwind</td>
<td>-602</td>
</tr>
<tr>
<td>Establishment fee</td>
<td>-10</td>
</tr>
<tr>
<td>Impairment</td>
<td>-62</td>
</tr>
<tr>
<td>Net expense</td>
<td>-12</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 32 shows the operating balance movement since 2005/06 plus four years of forecasts. The net expense for the Crown over the last 11 years (from 2006/07) has been $2,253 million, of which $900 million came from the last five years. The overall loan portfolio is growing, so we would expect this cost to decrease in future—as the interest unwind increases and the level of new lending remains relatively flat.
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 are due sooner
- increased or decreased for any impairment resulting from a revaluation.

New lending over the 2016/17 financial year was $1,475 million and repayments were $1,273 million so the net cash paid out was $202 million. Over the year, nominal loan balances increased by $395 million to $15,735 million, and the carrying value increased by $215 million to $9,197 million.

The ratio of carrying value to nominal value was 58.6 percent in 2016 and decreased to 58.4 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 decreased from 63.8 to 62.4 percent of the nominal value (refer to figure 34).

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 5.44 percent and this year it was 5.74 percent. This change has decreased the fair value by $140 million. In addition, a change in the expense assumptions has decreased the value by $12 million. Offsetting these are the same factors which led to this year’s negative impairment—in fair value terms this is $57 million.

Figure 33 Comparison of projected repayments

Annual repayment in cents per opening nominal dollar

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>30</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>2</td>
<td>29</td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td>3</td>
<td>28</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>4</td>
<td>27</td>
<td>27</td>
<td>27</td>
</tr>
<tr>
<td>5</td>
<td>26</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>6</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>7</td>
<td>24</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>8</td>
<td>23</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>9</td>
<td>22</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>10</td>
<td>21</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>11</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>12</td>
<td>19</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>13</td>
<td>18</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>14</td>
<td>17</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>15</td>
<td>16</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>16</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>17</td>
<td>14</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>18</td>
<td>13</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>19</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>20</td>
<td>11</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>21</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>22</td>
<td>9</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>23</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>24</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>25</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Student Loan Scheme Financial Statements.

Notes:
1. 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.

Over the 25-year horizon, repayments occurred on average after 7 years and 11 months in the 2015 valuation, 8 years and 3 months in the 2016 valuation and 8 years and 0 months in the 2017 valuation. In cash terms, in all three valuations we see repayments over 25 years amounting to around 88.5 percent of the nominal balance.
Comparison of measures of value

Figure 34 shows the trends in the nominal value of the scheme, the carrying value and the fair value over the last 12 years and four years of forecasts.

Figure 34 Nominal value, carrying value and fair value, actual and forecast

Source: Ministry of Education.
4.6 Historical and forecast costs

From 1 January 2013, discount rates have been set according to the year of lending, so that a student who borrowed over several years would have a different discount rate for each year’s borrowings. This change, from the ‘borrower approach’ to the ‘year of lending approach’, was made to increase the accuracy of the cost of lending and was agreed to by the Government and the loan scheme auditors.

Previously, the discount rate used in the valuation of each borrower’s loan was set according to the prevailing interest rate in the year they first borrowed. The rate was fixed until the loan was repaid, even if the person borrowed in subsequent years when interest rates had changed.

One consequence of the change is that the effective interest rate—one of the factors that contribute to the cost of lending—changes on 1 January each year. But all the other factors that contribute to the ‘initial fair value write-down’ change at balance date (30 June) when the valuation takes place.

This means that we now have two rates for the cost of lending each year. One, covering July to December, uses the effective interest rate set on 1 January, plus the results of the valuation. The other, covering January to June, uses the valuation information from the previous year and the current effective interest rate.

Table 25 shows that the cost of lending between January and June 2017 was 43.76 cents for each dollar lent, up from 43.30 cents per dollar between January and June 2016.

The average cost of lending across the fiscal year was 44.56 cents for each dollar lent in 2016/17, up from 43.31 cents per dollar in 2015/16.

| Table 25 Average cost of lending a dollar, actual and forecast |
|---------------------------------|------------------|
| Actual | Forecast |
| 2007/08 | 2018 | 2019 |
| Jul-Jun | Jul-Dec | Jul-Dec |
| 2008/09 | 39.15 | 40.02 |
| 2009/10 | 45.25 | 41.83 |
| 2010/11 | 44.62 | 44.99 |
| 2011/12 | 39.09 | 37.43 |
| 2012 | 35.19 | 43.29 |
| 2013 | 40.02 | 43.30 |
| 2014 | 41.83 | 46.90 |
| 2015 | 44.99 | 43.76 |
| 2016 | 37.43 | 44.53 |
| 2017 | 43.29 | 45.0 |

Average cost of lending in cents per dollar—as applied

| 2018 | 45.0 |
| 2019 | 43.0 |

Average cost of lending in cents per dollar—fiscal years

| 2018 | 45.0 |
| 2019 | 43.0 |

Average cost of lending in cents per dollar—calendar years

| 2018 | 43.4 |
| 2019 | 43.0 |

Source: Ministry of Education.
Note: Forecasts are in italics.

Table 26 shows the main financial parameters of the scheme over the last 12 years and forecasts for a further four years. Adding up figures in this table shows that over the last 12 years the scheme has:

- lent out $16,308 million to students
- received $9,933 million in repayments
- written down new lending over the period by $7,066 million (and also incurred an initial write-down of $1,415 million in 2006)
- experienced an aggregate impairment of $1,425 million
- booked $6,139 million in interest unwind income.

The net result of the movements over the period show that the asset was worth $6,465 million in 2005 and is now worth $9,197 million. This is referred to as the scheme’s carrying value.
### Table 26 Nominal and carrying value movements

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening balance</td>
<td>7,499</td>
<td>8,370</td>
<td>8,920</td>
<td>9,573</td>
<td>10,259</td>
<td>11,145</td>
<td>12,070</td>
<td>12,969</td>
<td>13,562</td>
<td>14,235</td>
<td>14,837</td>
<td>15,340</td>
<td>15,735</td>
<td>16,116</td>
<td>16,415</td>
<td>16,644</td>
</tr>
<tr>
<td>New lending</td>
<td>8</td>
<td>1,107</td>
<td>1,222</td>
<td>1,259</td>
<td>1,423</td>
<td>1,453</td>
<td>1,477</td>
<td>1,470</td>
<td>1,511</td>
<td>1,518</td>
<td>1,512</td>
<td>1,475</td>
<td>1,534</td>
<td>1,544</td>
<td>1,557</td>
<td>1,579</td>
</tr>
<tr>
<td>Establishment fee</td>
<td>4</td>
<td>8</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>12</td>
<td>12</td>
<td>11</td>
<td>11</td>
<td>11</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Administration fee</td>
<td>5</td>
<td>20</td>
<td>21</td>
<td>22</td>
<td>22</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>23</td>
<td>24</td>
<td>24</td>
<td>24</td>
<td>24</td>
<td>25</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>2,7,10</td>
<td>14</td>
<td>119</td>
<td>142</td>
<td>133</td>
<td>156</td>
<td>151</td>
<td>141</td>
<td>135</td>
<td>120</td>
<td>184</td>
<td>182</td>
<td>177</td>
<td>172</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Penalties</td>
<td>2,10</td>
<td>42</td>
<td>16</td>
<td>45</td>
<td>50</td>
<td>43</td>
<td>49</td>
<td>58</td>
<td>64</td>
<td>72</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Voluntary repayment bonus</td>
<td>0</td>
<td>-5</td>
<td>-17</td>
<td>-16</td>
<td>-32</td>
<td>-14</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balancing item</td>
<td>6</td>
<td>384</td>
<td>-68</td>
<td>98</td>
<td>12</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing balance</td>
<td>8,370</td>
<td>8,920</td>
<td>9,573</td>
<td>10,259</td>
<td>11,145</td>
<td>12,070</td>
<td>12,969</td>
<td>13,562</td>
<td>14,235</td>
<td>14,837</td>
<td>15,340</td>
<td>15,735</td>
<td>16,116</td>
<td>16,415</td>
<td>16,644</td>
<td>16,811</td>
</tr>
<tr>
<td>Carrying value</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Open balance</td>
<td>6,465</td>
<td>5,569</td>
<td>6,011</td>
<td>6,741</td>
<td>6,553</td>
<td>6,790</td>
<td>7,459</td>
<td>8,291</td>
<td>8,288</td>
<td>8,716</td>
<td>8,864</td>
<td>8,982</td>
<td>9,197</td>
<td>9,350</td>
<td>9,423</td>
<td>9,423</td>
</tr>
<tr>
<td>New lending</td>
<td>8</td>
<td>1,107</td>
<td>1,222</td>
<td>1,259</td>
<td>1,423</td>
<td>1,453</td>
<td>1,477</td>
<td>1,470</td>
<td>1,511</td>
<td>1,518</td>
<td>1,512</td>
<td>1,475</td>
<td>1,534</td>
<td>1,544</td>
<td>1,557</td>
<td>1,579</td>
</tr>
<tr>
<td>Initial write-down</td>
<td></td>
<td>-1,415</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Establishment fee</td>
<td></td>
<td>8</td>
<td>9</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>12</td>
<td>12</td>
<td>11</td>
<td>11</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Interest unwind</td>
<td>358</td>
<td>451</td>
<td>406</td>
<td>473</td>
<td>463</td>
<td>484</td>
<td>526</td>
<td>590</td>
<td>604</td>
<td>603</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impairment</td>
<td>-13</td>
<td>-151</td>
<td>231</td>
<td>-779</td>
<td>-280</td>
<td>124</td>
<td>286</td>
<td>-848</td>
<td>-12</td>
<td>-269</td>
<td>-140</td>
<td>62</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Closing carrying value</td>
<td>5,569</td>
<td>6,011</td>
<td>6,741</td>
<td>6,553</td>
<td>6,790</td>
<td>7,459</td>
<td>8,291</td>
<td>8,288</td>
<td>8,716</td>
<td>8,864</td>
<td>8,982</td>
<td>9,197</td>
<td>9,350</td>
<td>9,423</td>
<td>9,423</td>
<td>9,346</td>
</tr>
<tr>
<td>Average cost of lending in cents per dollar (headline)</td>
<td>31.17</td>
<td>41.15</td>
<td>40.25</td>
<td>39.15</td>
<td>47.39</td>
<td>45.25</td>
<td>44.62</td>
<td>36.19</td>
<td>41.35</td>
<td>39.35</td>
<td>45.31</td>
<td>44.56</td>
<td>43.4</td>
<td>43.0</td>
<td>43.0</td>
<td></td>
</tr>
</tbody>
</table>

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

**Notes:**
1. Forecasts are in italics.
2. 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.
3. 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.
4. The no interest for New Zealand-based borrowers policy came into effect on 1 April 2006.
5. 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.
6. The administration fee is an annual fee added to loans on 31 March. This fee is only charged if the establishment fee has not been charged in the same tax year. This was first charged in 2011/12.
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. In all years, new lending is net of repayments made to the Ministry of Social Development (which were mostly refunded course fees) and the repayments are those made to Inland Revenue only. In the 2011 and earlier annual reports, refunded course fees were counted in both the lending and the repayment lines.
10. 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.
11. In the forecast period interest and penalties are considered together.
12. In the forecast period, death write-offs and bankruptcy write-offs are considered together.
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, Crown 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 5.74 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 (3.07 percent), the Risk Premium (2.17 percent), and the costs of collection and administration of the scheme (0.50 percent).

The proxy of the Crown’s cost of holding the student loan asset on 30 June 2017 is set out in Table 27.

<table>
<thead>
<tr>
<th>Table 27</th>
<th>Government’s cost of ownership of the Student Loan Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of the asset</td>
<td>$9,812 million</td>
</tr>
<tr>
<td>Discount rate for the asset</td>
<td>5.74%</td>
</tr>
<tr>
<td>Cost of capital associated with the Student Loan Scheme</td>
<td>$563 million for the financial year 2017/18</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 28 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>
<thead>
<tr>
<th>Table 28</th>
<th>Student Loan Scheme administration costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Social Development</td>
<td>15.8</td>
</tr>
<tr>
<td>Inland Revenue</td>
<td>30.2</td>
</tr>
<tr>
<td>Ministry of Education</td>
<td>0.9</td>
</tr>
<tr>
<td>Statistics New Zealand</td>
<td>0.7</td>
</tr>
<tr>
<td>Total</td>
<td>47.6</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—their costs associated with the scheme cover the collation and management of data. The costs above include those that can be directly attributed to these activities plus overhead costs where appropriate.

Borrowers contribute to the cost of administering the loan scheme through a $60 establishment fee that is charged to the borrower’s account by 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.

Table 29 shows the cost ratios for the scheme have remained relatively stable over the last five years.

<table>
<thead>
<tr>
<th>Table 29</th>
<th>Estimated cost ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cents per dollar</td>
<td></td>
</tr>
<tr>
<td>Ministry of Social Development cost for each dollar advanced</td>
<td>1.07</td>
</tr>
<tr>
<td>Inland Revenue cost for each dollar collected</td>
<td>2.87</td>
</tr>
<tr>
<td>Percentage</td>
<td></td>
</tr>
<tr>
<td>Total cost as a percentage of turnover (%)</td>
<td>1.89</td>
</tr>
</tbody>
</table>


Note: All amounts exclude GST.
Chapter 5

FINANCIAL SCHEDULES

5.1 Financial schedules for the year ended 30 June 2017 ........................................... 56
5.2 Schedule of revenue and expenditure ................................................................. 57
5.3 Schedule of assets ............................................................................................ 58
5.4 Schedule of cash flows ...................................................................................... 59
5.5 Statement of accounting policies ..................................................................... 60
5.6 Notes to the financial schedules ....................................................................... 62
5.1 Financial schedules for the year ended 30 June 2017

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 2017 of $9,197 million ($8,982 million at 30 June 2016).
### 5.2 Schedule of revenue and expenditure

Table 30 Schedule of revenue and expenditure for the year ended 30 June 2017

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2016/17</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Budget*</td>
<td>Actual</td>
<td>Forecast*</td>
</tr>
<tr>
<td></td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest unwind</td>
<td>603.3</td>
<td>608.0</td>
<td>602.5</td>
<td>601.0</td>
</tr>
<tr>
<td>Establishment fees</td>
<td>10.4</td>
<td>10.5</td>
<td>10.0</td>
<td>10.3</td>
</tr>
<tr>
<td>Total revenue</td>
<td>613.7</td>
<td>618.5</td>
<td>612.5</td>
<td>611.3</td>
</tr>
<tr>
<td>Expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impairment</td>
<td>140.0</td>
<td>100.0</td>
<td>(62.0)</td>
<td>100.0</td>
</tr>
<tr>
<td>Fair value write-down on new borrowings</td>
<td>659.4</td>
<td>689.0</td>
<td>661.7</td>
<td>676.0</td>
</tr>
<tr>
<td>Total expenditure</td>
<td>799.4</td>
<td>789.0</td>
<td>599.7</td>
<td>776.0</td>
</tr>
<tr>
<td>(185.7)</td>
<td>Net surplus (deficit)</td>
<td>(170.5)</td>
<td>12.8</td>
<td>(164.7)</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 2017.
- Details of the consolidated movements are shown in Note 1.
## 5.3 Schedule of assets

### Table 31 Schedule of assets as at 30 June 2017

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2016/17 Budget*</th>
<th>2016/17 Actual</th>
<th>2017/18 Forecast*</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>1,209.0</td>
<td>1,303.0</td>
<td>1,269.0</td>
<td>1,427.0</td>
</tr>
<tr>
<td>Total current assets</td>
<td>1,209.0</td>
<td>1,303.0</td>
<td>1,269.0</td>
<td>1,427.0</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>7,772.9</td>
<td>7,957.0</td>
<td>7,927.8</td>
<td>7,783.2</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>7,772.9</td>
<td>7,957.0</td>
<td>7,927.8</td>
<td>7,783.2</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>8,981.9</td>
<td>9,260.0</td>
<td>9,196.8</td>
<td>9,210.2</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 2017.
  - Details of the consolidated movements are shown in Note 1.
### 5.4 Schedule of cash flows

**Table 32** Schedule of cash flows for the year ended 30 June 2017

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2016/17</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Budget* **</td>
<td>Actual</td>
<td>Forecast**</td>
</tr>
<tr>
<td></td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td><strong>Cash flows from—investing activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash was provided from:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayments received</td>
<td>1,208.9</td>
<td>1,247.0</td>
<td>1,272.8</td>
<td>1,336.0</td>
</tr>
<tr>
<td>Refunded course fees</td>
<td>98.3</td>
<td>102.4</td>
<td>97.6</td>
<td>99.0</td>
</tr>
<tr>
<td><strong>Cash disbursed for:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New borrowings</td>
<td>(1,610.3)</td>
<td>(1,682.4)</td>
<td>(1,572.6)</td>
<td>(1,631.7)</td>
</tr>
<tr>
<td><strong>Net cash outflow from investing activities</strong></td>
<td>(333.0)</td>
<td>(202.2)</td>
<td>(196.7)</td>
<td></td>
</tr>
<tr>
<td><strong>Net student loan cash outflow</strong></td>
<td>(333.0)</td>
<td>(202.2)</td>
<td>(196.7)</td>
<td></td>
</tr>
</tbody>
</table>

* The 2016/17 Budget figures are from the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2017. These differ from figures provided in the 2016/17 Forecast figures in Table 29 Schedule of cash flows for the year ended 30 June 2016 in the Student Loan Scheme Annual Report 2015/16.

** 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 2017.
- 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 2017 and include forecast financial schedules for the year ended 30 June 2018. 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 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 million.

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 2016/17 are those included in the Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2017.

The forecast 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 NZ GAAP, using accounting policies that are consistent with those adopted in preparing these financial schedules.

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

Forecasts

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

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

The forecast financial schedules comply with New Zealand GAAP and have been prepared in accordance with PBE Financial Reporting Standard 42: Prospective Financial Statements.

Forecast policies

The forecasts have been compiled on the basis of existing government policies and Ministerial expectations at the time the schedules were finalised, and reflect all government decisions at the date the information was prepared.

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

For other key fiscal forecasts assumptions, refer to the Budget Economic and Fiscal Update 2017 (treasury.govt.nz/budget/forecasts/befu2017).

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 2017/18 will be incorporated into the Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2018.
Financial instruments

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

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

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

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

The measurement of impaired value can result in an increase or decrease to the carrying value of the student loan debt.

Interest

Interest is calculated on the nominal student loan account balances on a daily basis at a rate determined by the Government and was 4.8 percent per annum in the period 1 April 2016 to 31 March 2017. 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 will die before their loan is repaid, causing the scheme to incur a loss.

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 adopted early

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
- revised hedge accounting requirements to better reflect the management of risks.

The Crown will adopt the amended accounting standard in the 2018/19 financial year. The scheme has not yet assessed the effects of the new standard, but under the new standard it is likely that student loans will be reported at fair value, rather than at their current measurement basis of amortised cost. This valuation change will likely result in a one-off increase in the value of the student loan asset. The amount of this increase is still to be finalised.

This one-off increase would be reflected in the 2017/18 comparative numbers when the 2018/19 financial year’s result is published.

There have been no other new relevant standards and interpretations issued this year and there has not been any other early adoption of any new standards and interpretations.

Comparatives

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

### Note 1: Consolidated movements schedule

| Table 33 Consolidated movements schedule for the year ended 30 June 2017 |
|---|---|---|---|
| Consolidated Actual $ million | Consolidated Actual $ million | Inland Revenue $ million | Ministry of Social Development $ million |
| 14,837.0 | Opening nominal balance | 15,339.9 | 15,339.9 | 0.0 |
| 1,610.3 | New borrowings | 1,572.6 | 0.0 | 1,572.6 |
| 0.0 | Borrowings transferred | 0.0 | 1,485.0 | (1,485.0) |
| (1,208.9) | Repayments | (1,272.8) | (1,272.8) | 0.0 |
| (98.3) | Refunded course fees | (97.6) | 0.0 | (97.6) |
| 135.5 | Interest | 119.8 | 119.8 | 0.0 |
| 33.1 | Administration and establishment fees | 33.2 | 23.2 | 10.0 |
| 63.8 | Penalties | 72.4 | 72.4 | 0.0 |
| (32.4) | Deaths and bankruptcies | (32.5) | (32.5) | 0.0 |
| (2) | Voluntary repayment bonus | (1) | (1) | 0.0 |
| 15,339.9 | Closing nominal balance | 15,734.9 | 15,734.9 | 0.0 |
| (6,358.0) | Adjustment due to initial fair value recognition and impairment | (6,538.1) | (6,538.1) | 0.0 |
| 8,981.9 | Total carrying value | 9,196.8 | 9,196.8 | 0.0 |
| 8,864.4 | Opening carrying value | 8,981.9 | 8,981.9 | 0.0 |
| (1,208.9) | Repayments | (1,272.8) | (1,272.8) | 0.0 |
| (98.3) | Refunded course fees | (97.6) | 0.0 | (97.6) |
| 10.4 | Establishment fees | 10.0 | 0.0 | 10.0 |
| 1,610.3 | New borrowings | 1,572.6 | 0.0 | 1,572.6 |
| (659.4) | Fair value write-down on new borrowings | (661.7) | (661.7) | 0.0 |
| 0.0 | Borrowings transferred | 0.0 | 1,485.0 | (1,485.0) |
| (140.0) | Impairment | 62.0 | 62.0 | 0.0 |
| 603.3 | Interest unwind | 602.5 | 602.5 | 0.0 |
| 117.5 | | 214.9 | 214.9 | 0.0 |
| 8,981.9 | Student loans carrying value | 9,196.8 | 9,196.8 | 0.0 |
Note 2: Recognition

Student loan nominal value

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

Student loan carrying value

Student loans are initially recognised at fair value plus transaction costs and subsequently measured 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 expected repayments required under the scheme and discounting them back at an appropriate discount rate. The subsequent measurement at amortised cost is determined using the effective interest rate calculated at initial recognition. This rate is used to spread the interest income across the life of the loan and determines the loan’s carrying value at each reporting date.

The student loan valuation model reflects current student loan policy and macroeconomic assumptions. As such, 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 rate 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.

Most of the data upon which the modelling depends is collated by Statistics New Zealand from Inland Revenue, the Ministry of Education and the Ministry of Social Development. That data covers borrowings, repayments, income, educational factors and socioeconomic factors. It is current up to 31 March 2016. Some supplementary data from Inland Revenue and Customs, about loan transactions and borrowers’ cross-border movements for the period up to 31 March 2017, is also factored into the modelling.

In 2016/17 there was an increase in the impaired value of student loans of $62 million (2015-16: impairment decreased the value by $140 million). Factors that contributed to this reversal of impairment of the student loan portfolio include:

- Updated modelling assumptions increased the value overall by $103 million (2015/16: decreased by $40 million). This was made up of three significant movements and a number of smaller changes:
  - Changes to reflect continued improvement in overseas-based borrowers’ repayment behaviour, which increased the impaired value by $102 million (2015/16: $388 million)
  - Changes to the rates of low earners transitioning to high earners based on downward trends in emigration and return to study rates. This makes it less likely that low earners will go overseas or return to study and therefore more likely they will remain low earners. This change reduced the impaired value by $159 million (2015/16: $15 million)
  - Domestic repayment assumptions have been updated to reflect improved repayment levels. This has increased the impaired value by $75 million (2015/16: $nil)
  - Other modelling changes, including the roll forward of data, increased the impaired value by $85 million (2015/16: decreased by $413 million).
- Macroeconomic effects: assumptions around higher inflation in salary levels and repayment thresholds, and higher loan and late payment interest rates have increased the impaired value by $43 million (2015/16: decreased by $176 million)
- Experience variance: the difference between what was predicted for the 2016/17 year at last year’s valuation and the actual results increased the impaired value by $27 million (2015/16: $40 million)

<table>
<thead>
<tr>
<th>Table 34 Significant assumptions: carrying value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Carrying value</strong></td>
</tr>
<tr>
<td>6.93%  Effective interest rate</td>
</tr>
<tr>
<td>3.6%-5.5% Interest rate applied to loans for</td>
</tr>
<tr>
<td>overseas borrowers</td>
</tr>
<tr>
<td>0.4%-2.0% Consumer Price Index</td>
</tr>
<tr>
<td>1.1%-3.0% Future salary inflation</td>
</tr>
</tbody>
</table>

Source: Inland Revenue.

Note: The effective interest rate is a weighted average rate across all cohorts.
• Policy changes: the basis for calculating the repayment threshold has changed from using the Consumer Price Index to the Consumer Price Index excluding tobacco products. This has increased the impaired value by $14 million (2015/16: $nil)
• Removing adjustments for improvements in study leavers’ incomes and lower earners’ employment rates decreased the impaired value by $125 million (2015/16: increase of $36 million). The adjustment for study leavers’ income has now been incorporated into the model and the adjustment for lower earners’ employment rates has been reduced based on experience.

The student loan valuation model reflects current student loan policy and macroeconomic assumptions. As such, 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 below:

• 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 (ie earning below $25,000 per annum) has been steadily increasing for those studying lower-level certificates. The income sub-models are based on recent experience so the current trends are being modelled. However, if the proportion of borrowers becoming low earners continues to increase, these income sub-models will need refining, which may result in impairment.
• Higher net migration has been observed, which could put pressure on employment rates in general. If employment outcomes for borrowers are negatively affected, the number of low earners may increase. Such a change in employment rates may result in impairment.

### 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 2017. 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 2017 has been determined to be $9,812 million ($9,794 million at 30 June 2016).

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 2017.

### Note 3: Reconciliation of impairment allowance account

| Table 37 Reconciliation of impairment allowance account |
|----------------|------------------------|------------------------|
| 30 June 2016 $ million | Impairment allowance account | 30 June 2017 $ million |
| 1,717 | Balance at beginning of year | 1,857 |
| 140 | Impairment expense recognised on receivables | (62) |
| 1,857 | Balance at end of year | 1,795 |

Source: Inland Revenue.
Independent Auditor’s Report

To the readers of Student Loan Scheme’s annual report for the year ended 30 June 2017

We have audited the of financial schedules of the Student Loan Scheme (the Scheme) on pages 55 to 64 that comprise the schedule of assets as at 30 June 2017, the schedule of revenue and expenditure, and schedule of cash flows for the year ended on that date and the notes to the financial schedules that include accounting policies and 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 2017 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 of 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 of Social Development. We expressed unmodified audit opinions on the non-departmental schedules of both the Inland Revenue Department and the Ministry of Social Development in our reports dated 28 September 2017 and 29 September 2017 respectively.

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 the 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 54 and 67 to 79, 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.

Chrissie Murray
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand
5 December 2017
Appendices

Appendix 1: Management and design of the scheme in 2016/17 .................. 68
Appendix 2: Student Loans Integrated Model (SLIM) ............................... 72
Appendix 3: Glossary ............................................................................. 74
Appendix 1: Management and design of the scheme in 2016/17

Roles and responsibilities

Ministers and officials

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

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

Agencies with an interest in the scheme

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

The Ministry of Social Development, through its StudyLink service, is responsible for the administration and payment of loans, processing applications and making loan payments to students and tertiary education organisations. The Ministry of Social Development provides operational policy advice on student loan eligibility and entitlement.

Inland Revenue is responsible for collecting student loan repayments and ensuring borrowers meet repayment obligations. Inland Revenue provides operational policy advice on matters concerning the collection of loans 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 qualifications for access to student loans and allowances.

Statistics New Zealand collects and makes available official data and other information and manages the IDI.

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

Legal structure and authority

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

The purpose of the Act is to:

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

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 and must be ordinarily resident
• 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 EFTS units or more.

In addition:

• students under 18 years need parental consent before they can borrow
• undischarged bankrupts are not eligible for a student loan
• students must not have exceeded the 7 EFTS limit (which includes all study for which a student has had a student loan, from 1 January...
Students may be eligible for additional entitlement beyond the 7 EFTS limits (to a maximum of 10 EFTS) 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). This extra 1 EFTS was previously only available to help graduate students complete postgraduate qualifications. These two 1 EFTS extensions cannot both be claimed by individual students

• they 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 pilot training is capped at $35,000 per EFTS
• students aged 55 years and over are restricted to the compulsory fees element of the scheme
• borrowers in default of their loans by $500 or more are ineligible for a further loan
• borrowers are required to provide details of a contact person before they receive a loan
• students under 18 and enrolled in a ‘fees-free’ Youth Guarantee and Student Achievement Component (SAC) Levels 1 and 2 qualification are ineligible for student loans
• 18 to 24 year olds enrolled in a Youth Guarantee or SAC Levels 1 and 2 qualification will not be able to access the course fees part of student loans, as all Level 1 and 2 qualifications will be fees-free.

New Zealand permanent residents (including Australians) must meet certain criteria to be eligible for government funding for study outside New Zealand. They must:

• be studying in an unfamiliar country,\(^{17}\) and
• not be enrolled in extramural study, and
• be ordinarily resident in New Zealand.

There are extra eligibility criteria for study overseas if that study is undertaken at an overseas campus or delivery site of an NZTEO.\(^{18}\) The extra criteria apply to New Zealand citizens and eligible New Zealand permanent residents. Government funding will be available in these circumstances if:

• the study is in Asia, Latin America or the Middle East (the eligible countries within these regions can be found on the Education New Zealand website), and
• the study is at Level 7 or above on the New Zealand qualifications framework,\(^{19}\) and
• the study is undertaken full-time and face-to-face (i.e. not extramurally) as part of a New Zealand qualification (i.e. students will need to complete part of their qualification in New Zealand).

Loan components

Course fees

Students can borrow the full amount of their compulsory course fees (except for pilot training—see above). These are paid to the borrower’s chosen tertiary education provider.

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

Course-related costs

Full-time students can borrow up to $1,000 each year to help cover expenses related to their studies, such as equipment, textbooks and field trips.

Students may have to provide justification of their expenses. Students studying part-time are not able to access this component of the loan scheme.

\(^{17}\) An unfamiliar country is a country a New Zealand permanent resident has never been to, or, if they have, they have not spent more than six months in total in that country over the previous five years.

\(^{18}\) An NZTEO overseas campus is where an NZTEO delivers qualifications (whole or in part) at its own offshore campus using its own staff. An NZTEO overseas delivery site is where an NZTEO delivers its qualifications (whole or in part) at other institutions using its own staff (or those commissioned by the NZTEO).

\(^{19}\) Student allowances rules on ineligibility for postgraduate study (other than bachelors degrees with honours) continue to apply.
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 $178.81 a week for living costs.

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 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 manages the collection of loan repayments. Borrowers have obligations depending on whether they are defined as being New Zealand-based or overseas-based. In general, New Zealand-based borrower repayments are made through employers at 12 cents in the dollar in excess of the pay period repayment threshold.

Overseas-based borrower repayments are made directly by the borrower.

Annual repayment threshold

Repayments for New Zealand-based borrowers are based on the annual repayment threshold, which is adjusted annually in line with changes in the Consumer Price Index excluding tobacco products.

In 2017/18 this threshold increased for the first time since 2010. The annual repayment threshold increased from $19,084 to $19,136.

The pay period repayment threshold is based on the annual repayment threshold. In 2017/18, the weekly pay period repayment threshold rose from $367 to $368.

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 deductions system. Deductions are made when a borrower earns over the pay period threshold (e.g. 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 $20,636 or more (annual repayment threshold plus $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 184 days or more. Interest applies to loans from the day after the borrower leaves New Zealand. The interest rate applying from April 2016 to March 2017 was 4.8 percent per annum, and is 4.4 percent for the tax year to March 2018.

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. From 1 April 2014, if the loan balance was:

• under $1,000—the whole loan balance is due
• $1,000 and up to $15,000—$1,000 is due
• over $15,000 and up to $30,000—$2,000 is due
• over $30,000 and up to $45,000—$3,000 is due
• over $45,000 and up to $60,000—$4,000 is due
• over $60,000—$5,000 is due.

Repayment obligations do not decrease if the loan balance decreases (though they do increase if the balance increases). The obligation set at the time a borrower moves overseas, or at 1 April 2014 for borrowers who were already overseas at that time, remains the minimum repayment until the borrower returns to New Zealand or repays the loan fully.

Payments are due in two instalments during the year.

Overdue repayments and late payment interest

Overdue loan repayments are collected in the same way as 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 2016 to March 2017, the late payment interest rate was 0.705 percent monthly. From 1 April 2017, it has been 0.674 percent. 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.

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 loans (i.e. their interest is written off every year).

Overseas-based borrowers are charged interest, although some might be eligible for an interest-free loan.

The interest rate for the tax year from April 2016 to March 2017 was 4.8 percent per annum. The interest rate is 4.4 percent per annum for the tax year from April 2017 to March 2018.

Voluntary repayments

By making voluntary repayments towards their student loan, borrowers can repay their loan faster. All borrowers are able to make voluntary repayments towards their student loan at any time. They can be made in a number of ways, including through additional deductions from salary or wages by using a special repayment code, or through automatic payment, online banking, or credit or debit cards.

Borrowers who are overseas can make an international money transfer, including fee-free repayments.
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.

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

This year’s model was built on administrative data to the end of March 2016 supplemented with transactional data to March 2017. Adjustments are made to allow for changes that are not captured or only partially captured in the data, such as the change to pay period assessments.

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

SLIM is based on a large number of categorical and regression tree models and generalised linear models developed from the integrated dataset. The 2017 version of SLIM has 20 such sub-models.

Together, these sub-models encapsulate former borrowers’ characteristics. These include borrowing and repayment behaviours, income growth, propensity to travel overseas, and other characteristics. A number of borrower features, including residency, income, study duration, amounts borrowed and voluntary repayments, are modelled and projected into the future.

Each sub-model uses several predictive variables (e.g. study-related fields such as the level of study undertaken and the completion status, or demographic fields such as age and gender, or loan-related data such as the loan balance, amount borrowed and so on). SLIM calculates the probabilities of an individual being enrolled or not enrolled, earning or not earning, or travelling overseas. It then proceeds to model the income of the individual and their repayment obligations. From there, the expected repayments in each year for each individual are calculated again using sub-models.
Table 38 Student Loans Integrated Model assumptions

<table>
<thead>
<tr>
<th>Area</th>
<th>Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic assumptions</strong></td>
<td>The Treasury publishes a central table of CPI inflation assumptions which are to be used in major accounting valuations for reporting to the Crown. These figures have been adopted for the valuation.</td>
</tr>
<tr>
<td></td>
<td>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 1.5 percent and 2.4 percent over the next four years and from 2021 increase to 2.9 percent. The long-term rate is 3.0 percent.</td>
</tr>
<tr>
<td><strong>Discount rates</strong></td>
<td>The carrying value of student loans is based on discount rates that are set at the time of lending. These incorporate a risk-free component and a risk premium. Prior to 1 January 2013, the discount rate was calculated each year for each new cohort of borrowers. After this date, the discount rate is calculated for each year of new lending as a more accurate reflection of the accounting standards.</td>
</tr>
<tr>
<td></td>
<td>As with the CPI, the risk-free rates are as prescribed by the Treasury. The risk margin was determined by the consulting actuaries as 2.17 percent.</td>
</tr>
<tr>
<td></td>
<td>The discounting used to compute the fair value, which is based on current risk-free rates and margins (risk margin and expenses), is equivalent to a single annual discount rate, which for this year’s valuation is estimated to be 5.74 percent.</td>
</tr>
<tr>
<td><strong>Income of borrowers</strong></td>
<td>Personal income growth from ‘career advancement’ is modelled from the experience of the loan scheme and from Census data for longer durations. Salary inflation is imposed on top of this ‘career advancement’ analysis as an economic assumption.</td>
</tr>
<tr>
<td><strong>Transitions between being a student, employment and overseas</strong></td>
<td>Modelled from the recent experience of the loan scheme’s participants.</td>
</tr>
<tr>
<td><strong>Repayment threshold</strong></td>
<td>$19,136 until 31 March 2018 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).</td>
</tr>
<tr>
<td></td>
<td>This means that some borrowers earning below the annual threshold of $19,136 may still end up having repayment obligations.</td>
</tr>
<tr>
<td><strong>Study repayments</strong></td>
<td>The probability and amount of repayment by New Zealand-based borrowers currently studying have been modelled separately from New Zealand-based former students, as part of a new approach introduced in 2016. The probability of repayment is modelled and then a direct amount, as opposed to the under- and over-payments method, is used for domestic non-studiers.</td>
</tr>
<tr>
<td><strong>Domestic repayments of former students</strong></td>
<td>The modelling approach taken to repayments from New Zealand-based former students has changed this year to align with the modelling of study repayments. The probability and amount of repayment for New Zealand-based borrowers have been modelled from recent data (all since the change to pay period assessment). Separate models are used for borrowers with an income under $25,000 and for those with a higher income.</td>
</tr>
<tr>
<td><strong>Bankruptcy</strong></td>
<td>Age-specific, graduated rates were constructed based on the experience of the loan scheme and have not been updated this year. For example, the rate of bankruptcy at age 40 is 1.8 per 1,000 borrowers each year.</td>
</tr>
<tr>
<td><strong>Mortality</strong></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, 110 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.
Appendix 3: 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 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 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 on 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 requested an 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.
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 MSD 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.

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

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

Full-time
Any programme of study undertaken by a student that is either:
- 32 weeks or more and at least 0.8 equivalent full-time student units (this is designated full-time, full-year), or
- 12 weeks or more and at least 0.3 equivalent full-time student units or the equivalent on a pro rata basis (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 MSD 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 5.3 percent for 2015/16
- was 4.8 percent for 2016/17
- is 4.4 percent for 2017/18.

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

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

Interest write-offs
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 a project.

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. Since 1 April 2006, New Zealand-based borrowers have qualified 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, interest, fees and penalties.

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

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

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

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

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

Pay period repayment threshold
The amount which can be earned in a pay period before student loan repayments need to be made from salary or wages. Since 1 April 2013, 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.

PAYE (Pay as You Earn)
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.

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
Since 1 April 2012, 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. Borrowers must provide contact details for an alternative New Zealand contact person when applying for the repayment holiday. While a repayment holiday means that borrowers don’t have to make any repayments on their loan, interest is still charged 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. On 1 April 2017, the threshold was increased to $19,136.

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
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
Figure 2 Participation by domestic students by qualification level
Figure 3 Trends in the level of study among borrowers
Figure 4 Trends in the age of borrowers
Figure 5 Outcomes of the Student Loan Scheme
Figure 6 Young graduate earnings range
Figure 7 Ratio of the average full-time university Bachelor of Arts fee to average weekly earnings
Figure 8 Median loan balance on leaving study
Figure 9 Cost of lending in cents per dollar lent
Figure 10 Ratio of carrying value of the Student Loan Scheme to nominal value at 30 June
Figure 11 Number of total active borrowers and new active borrowers in each academic year
Figure 12 Overall loan uptake
Figure 13 Full-time uptake
Figure 14 Part-time uptake
Figure 15 Borrowing trends since 1992
Figure 16 Average and median amounts borrowed
Figure 17 Total amounts drawn by loan component
Figure 18 Number of students borrowing for living costs and receiving student allowances
Figure 19 Average course fees borrowed by sub-sector
Figure 20 Median loan balance for leavers by gender-all borrowers
Figure 21 Number of loans fully repaid at 30 June
Figure 22 Number of borrowers at 30 June
Figure 23 Aggregate nominal balances of student loans at 30 June
Figure 24 Average and median loan balances at 30 June
Figure 25 Distribution of loan balances at 30 June 2017
Figure 26 Borrowers at 30 June 2017 by age group
Figure 27 Borrower numbers by activity
Figure 28 Quartiles of actual and forecast repayment times by level of study
Figure 29 Lending and initial write-down on this lending, actual and forecast
Figure 30 The loan scheme's impairment and the ratio of the carrying value to nominal value at 30 June 2017
Figure 31 Lending and repayments, actual and forecast
Figure 32 Operating balance
Figure 33 Comparison of projected repayments
Figure 34 Nominal value, carrying value and fair value, actual and forecast

List of tables

Table 1 Participation by domestic students in tertiary education
Table 2 Funding of tertiary education
Table 3 Median annual earnings of young domestic graduates
Table 4 Information resources supporting study choices
Table 5 Average and median amounts borrowed by component
Table 6 Student allowances compared with student loan living cost borrowing
Table 7 Components of lending by sub-sector
Table 8 Student loan borrowers by level of qualification and average amount borrowed
Table 9 Median debt and repayment time for leavers
Table 10 Demographic characteristics of new active student loan borrowers
Table 11 Demographic characteristics of all active student loan borrowers
Table 12 Average amount borrowed by active student loan borrowers
Table 13 Loan repayments
Table 14 Loan repayments directly from borrowers
Table 15 Write-offs due to bankruptcy or death
Table 16 Overdue student loan repayments at 30 June
Table 17 Age of overdue repayments at 30 June
Table 18 Age of overdue repayments by location at 30 June 2017
Table 19 Range of loan balances at 30 June 2017
Table 20 New Zealand-based borrowers summary
Table 21 Overseas-based borrowers summary
Table 22 All borrowers summary
Table 23 Forecast repayment times for borrowers who left study in 2015
Table 24 Movement in the operating balance 2016/17
Table 25 Average cost of lending a dollar, actual and forecast
Table 26 Nominal and carrying value movements
Table 27 Government’s cost of ownership of the Student Loan Scheme
Table 28 Student Loan Scheme administration costs
Table 29 Estimated cost ratios
Table 30 Schedule of revenue and expenditure for the year ended 30 June 2017
Table 31 Schedule of assets as at 30 June 2017
Table 32 Schedule of cash flows for the year ended 30 June 2017
Table 33 Consolidated movements schedule for the year ended 30 June 2017
Table 34 Significant assumptions: carrying value
Table 35 Sources of impairment
Table 36 Significant assumptions: fair value
Table 37 Reconciliation of impairment allowance account
Table 38 Student Loans Integrated Model assumptions