STUDENT LOAN SCHEME

ANNUAL REPORT 2015/16

INCORPORATING THE FINANCIAL SCHEDULES FOR THE YEAR ENDED 30 JUNE 2016
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Foreword

A tertiary qualification is one of the most valuable assets we can get, with benefits both for us individually and for the country as a whole. Recent research shows that New Zealanders with a tertiary qualification have higher earnings and are more likely to be employed than those with no qualifications. Tertiary study is a proven path towards being personally better off and helps us make significant contributions to the New Zealand economy.

In order to assist as many New Zealanders as possible to realise the benefits of a tertiary qualification, government makes a significant contribution towards the cost of tertiary education. The Student Loan Scheme is part of this contribution, providing the financial means to allow people the opportunity to improve their skills and learning.

This report shows how the scheme is performing against a range of measures and reveals trends in borrowing and repayments. One area of interest is the continuing work being undertaken to improve repayments, particularly from those overseas. Direct repayments from overseas-based borrowers increased by 17 percent in the last financial year, while the growth in the overdue amount owed by this group dropped by six percent over the year.

Three government departments work together to administer the Student Loan Scheme. The Ministry of Education, the Ministry of Social Development and Inland Revenue have prepared this report and it reflects a collaborative approach to this critical area of work.

I trust you find this report informative.

Katrina Casey
Acting Secretary for Education
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At a glance

Student Loan Scheme portfolio
As at 30 June 2016:
• 731,754 people had a student loan. (Page 32)
• The nominal value of loan balances was $15.3 billion. (Page 32)
• The carrying value of the loan scheme—calculated using Public Sector Accounting Standards (PBE IPSAS)—was $8,982 million. (Page 40)
• The carrying value was 59.7 percent of the nominal value. (Page 45)
• The fair value of the loan scheme was $9,794 million. (Page 40)
• The cost of lending increased from 43.29 cents in the dollar lent in July to December 2015, to 43.30 cents in the dollar lent in January to June 2016, then to 46.90 cents in the dollar lent in July to December 2016. (Page 46)
• The annual net cash cost (the excess of lending in the year over the repayment receipts) was $303 million in 2015/16—the lowest total in eleven years. (Page 43)

Since the loan scheme began in 1992:
• Students have borrowed $23,146 million. (Page 23)
• $11,480 million has been collected in loan repayments. (Page 29)
• More than 490,000 loans have been fully repaid. (Page 29)

During 2015/16:
• $1,208.8 million in loan repayments was received, $95.1 million more than last year. (Page 29)

Outcomes of the Student Loan Scheme
• Recent young graduates have a clear earnings advantage, which emerges soon after graduation and grows over time. (Page 15)
• The number of domestic students enrolled in tertiary education in 2015 was 358,000, compared with 246,000 enrolled in 1994. (Page 8)
• The participation in tertiary education rate for Māori of all ages was 14.5 percent in 2015, down slightly from 14.9 percent in 2014. (Page 9)
• The participation rate of all Pasifika students in 2015 was 11.4 percent, down slightly from 11.6 percent in 2014. (Page 9)
• The total number of students completing formal qualifications reached 122,000 in 2015, a decrease of around 4 percent from 2014. (Page 9)

About students borrowing from the Student Loan Scheme in 2015
• 182,537 students (71 percent of eligible students) borrowed from the loan scheme. (Page 22)
• Of these, there were 46,721 new borrowers, representing around 26 percent of all borrowers. (Page 28)
• The average amount borrowed was $8,888. (Page 24)
• The total amount borrowed was $1,522 million (including establishment fee). (Page 41)

Of those who had a loan balance in 2015:
• About 57 percent were female. (Page 28)
• 64 percent were European, 20 percent were Māori, 14 percent were Asian and 11 percent were Pasifika. (Page 28)

As at 30 June 2016:
• The average loan held by Inland Revenue was $20,983 and the median loan balance was $14,904. (Page 34)
• 70 percent of repayments were collected through the PAYE tax system in the 2015/16 year. (Page 29)

Repayment times for borrowers
• The median repayment time for all borrowers who finished study in 2014 is expected to be 8.4 years. (Page 36)
• The median repayment time for those who left study in 2014 and remained in New Zealand is expected to be 6.5 years. (Page 36)
• The median repayment time for those who left study in 2014 and are not always based in New Zealand is expected to be 17 years. (Page 36)
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 2015/16. It also includes the audited financial schedules of the scheme for the year ending 30 June 2016.

The report describes how the loan scheme operates in the context of the New Zealand tertiary education system and the goals of the Tertiary Education Strategy. It explains the contribution made by the scheme in enabling greater access to and participation in tertiary education as well as developments to the loan scheme and student support policy over time.

It also looks at the outcomes of the scheme and provides detailed information about borrowers and their lending and repayment patterns. Finally, the report gives a detailed financial analysis of costs and the valuation of the loan scheme.

Sources

Data from agencies

This report uses data from four principal sources. The information on active borrowers and borrowers in study is largely drawn from the Ministry of Social Development (MSD). Inland Revenue has supplied data on the repayments, loan balances and borrower segments. Tertiary education data and information on borrowing in the years before 2000 were supplied by the Ministry of Education.

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

Other data has come from Statistics New Zealand’s Integrated Data Infrastructure (see below). Data from these sources is complemented by information drawn from the Census, the Household Labour Force Survey and other published data sources. Each table and graph states the source of its data.

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

Different timeframes apply to the data series depending on the nature of the activity. Application and borrowing data is for the calendar year (January to December) in keeping with the academic year. Financial data is based on the government’s financial year (July to June).

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 not only provides information for the most recent year, but is also linked back across historical figures to take advantage of improvements in data quality. Revised data is used in this report, so readers might notice small changes in historical data reported in the current year compared with previous reports.

The Integrated Data Infrastructure (IDI)

The IDI is managed by Statistics New Zealand according to the requirements of the Statistics Act 1975. It includes data on student loans and allowances, along with a range of other information. This material has been made available according to strict privacy and confidentiality protocols developed with guidance from the Privacy Commissioner.

The IDI includes the following data on student loans and allowances:

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

The dataset has been updated with records to 31 March 2015.

Terms used in this report

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. It should be borne in mind when using these statistics that declaration of ethnicity is not mandatory and, where information is provided, students may choose to select more than one ethnicity.
Student support

This refers to the Student Loan Scheme and the Student Allowances Scheme, which act together to provide financial assistance directly to students while studying. The two schemes are closely linked:

• The Student Allowances Scheme provides 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. The assistance helps people in the initial years of their study and does not have to be repaid.

• The Student Loan Scheme provides funding for tuition fees as well as a contribution towards course-related costs and living costs for full-time students. The amount for living costs is calculated less any amount paid as an allowance. All amounts borrowed under the loan scheme have to be repaid. Section 3.1 gives details of the amounts paid as allowances and the living costs borrowed.

The Student Loan Scheme is currently available to New Zealanders who are enrolled in approved courses of study provided they meet eligibility criteria and performance conditions. For the eligibility criteria see Appendix 1.

Definitions

Many of the terms used within the Student Loan Scheme and in this report are specific to the scheme. Refer to the Glossary (Appendix 3) for specialised terms and their definitions to help with the accurate interpretation of this report.
CHAPTER 1

The loan scheme in the tertiary education system
1.1 Government priorities

The Tertiary Education Strategy (TES) describes the long-term strategic direction for tertiary education and the Government’s more immediate priorities for the next three to five years.

The most recent TES was published in March 2014 and sets out the Government’s six strategic priorities for tertiary education from 2014 to 2019. The strategy was developed to build on the positive achievements of the tertiary system, and to contribute to the Government’s focus on improving New Zealand’s economic outcomes, particularly in a period of increasing global competitiveness and technological innovation. The six strategic priorities are:

- 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 targets—the Better Public Services (BPS) targets—intended to ensure that the public sector can respond more effectively to the needs and expectations of New Zealanders. Two of the 10 targets relate to tertiary education:

Increase the proportion of 25-34 year olds with advanced trade qualifications, diplomas and degrees (in 2018, 60 percent of 25-34 year olds will have a qualification at level 4 or above).

Increase the proportion of 18-year-olds with NCEA Level 2 or equivalent qualification (in 2017, 85 percent of young people will have achieved NCEA Level 2 or an equivalent qualification).

A third target is central to the way the government agencies manage the loan scheme and their interactions with borrowers:

New Zealanders can complete their transactions with the Government easily in a digital environment.

Information in this chapter sets out how the tertiary funding and student support systems contribute to the TES and BPS goals through:

- 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 are affordable, predictable and fair.

1.2 Access and participation

The number of funded student places in tertiary education has more than doubled since the Student Loan Scheme was established in 1992. Student support has helped maintain the affordability of tertiary education for students, and helped our tertiary education system to become more diverse, inclusive and accessible.

Figure 1.1 Participation by domestic students in tertiary education

Source: Ministry of Education.

Notes:
1. Comprehensive data is not available for the period before 1994.
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. 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.
5. Participation excludes industry training, non-government-funded private training establishments, formal courses of a week or less, and all non-formal learning.
6. Tertiary data was revised this year, which has meant changes to who was regarded as a domestic student. This is why numbers reported differ slightly from previous reports.

Figure 1.1 shows student numbers, equivalent full-time student (EFTS)1 numbers and the rate of participation in tertiary education from 1994 to 2015. Over the period:

- the number of domestic students enrolled in tertiary education increased by 45.5 percent between 1994 and 2015—from 246,000 to 358,000, with a peak of 453,000 in 2005. Since 2005 the number of people participating in tertiary education has gone down, mainly due to a decline in enrolments in certificate-level qualifications between 2005 and 2011. This was largely in response to moves to strengthen the quality and relevance of these qualifications, leading to a reduction in the number of qualifications being offered by providers
- the number of equivalent full-time student places grew steadily until it reached a peak in 2010 and then began to decline. This was mainly the result of the reduction in part-time student numbers from 2005 onwards. These changes have taken place against a background of a stronger labour market since 2010, which has influenced students’ decisions on whether to study or not and contributed to the lower rates of participation in tertiary education.
2. The participation rate by qualification level is the percentage of the population in 2015.

3. Bachelors level includes graduate certificates and diplomas.

Figure 1.2 shows that since 2005, the participation rate of domestic students has decreased at the foundation level and in Level 3-7 certificates/diplomas. The participation rate in higher levels of tertiary education has remained relatively stable.

Table 1 shows details of participation of domestic students in tertiary education. The table shows that:
- the participation rate continued to fall for all demographic groups
- more women than men participated
- Māori had the highest participation rate of all ethnicities.

Table 2 gives a summary of government funding for the tertiary sector. The figures in the table are on a cash expenditure basis. In 2015:
- the number of government-funded (Student Achievement Component) equivalent full-time student (EFTS) places dropped to 223,000, around three percent lower than in 2014. The drop in funded places reflects the overall drop in participation in the tertiary education system.
- after repayments are taken into account, the amount provided by the government through student loans was $303 million (in the 2015/16 financial year). This compares with expenditure of $486 million on student allowances and $2,326 million on tuition subsidies ($2,032 million for Student Achievement Component funding and $294 million for the Performance-Based Research Fund).
Some major trends in tertiary education

Shift to higher-level qualifications

In 2015, there were over 233,000 domestic equivalent full-time student (EFTS) units enrolled in tertiary study, about 29 percent more than in 1999, but 8.2 percent below the peak in 2010. There was a decline of 17 percent in the number of New Zealanders enrolling in tertiary education at the certificate 1-3 level between 2007 and 2015, while the numbers enrolled at degree level and above rose by 15 percent, in EFTS terms. This change reflects a deliberate shift in the Government’s priorities for the system—towards a higher proportion of enrolments by younger people 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 2015, 52 percent of New Zealanders aged 15 years or older held a tertiary qualification, up from 44 percent in 1999, while the proportion with a bachelors degree or higher qualification rose from 10 percent to 21 percent.

The shift to enrolments in higher-level qualifications is also reflected in the data on student loan uptake. In 2006, 56 percent of borrowers were enrolled in qualifications at bachelors level or higher. By 2015, the proportion had risen to 69 percent. Over the same period, the proportion of borrowers enrolled in certificates declined from 30 percent to 20 percent. The trends are shown in Figure 2.

Figure 2 Trends in the level of study among borrowers

Source: Ministry of Education.

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 is reflected in data on student loans. Between 2006 and 2015, the percentage of borrowers 26 or under rose from 65 percent to 73 percent (see Figure 3).

Figure 3 Trends in the age profile of borrowers

Source: Ministry of Education and Ministry of Social Development.
1.3 Current issues

A key challenge for the Government is to manage tertiary education expenditure prudently for taxpayers, while at the same time ensuring that tertiary education remains affordable to students.

The interest-free student loan policy, which was introduced in 2006, is one of the main ways that government subsidises the costs of tertiary education for students. For those from low-income backgrounds student allowances also offset living costs while studying.

Over time, the Government has worked to improve the way the student support system targets need. The savings that have been made have been reinvested in higher-value tertiary expenditure and in policies that improve the performance of the system. These policies include funding that has been targeted to encourage training in disciplines such as science, engineering and agriculture. Having highly skilled people supports the Government’s aim for a successful and innovative New Zealand economy.

Student allowances

Student allowances have been refocused to target those in their initial years of study and continue to support those from low socioeconomic backgrounds. The Government has also looked at inconsistencies between the wider social assistance and tax systems and where opportunities may exist to improve the incentives to enter study. For example, a student allowance change implemented in 2015 aligns the student support system for sole parents more closely with the benefit system. This ensures that sole parents will receive the same amount of support in the student allowance system as they would if they were on benefit.

Student loans

The Government has made a number of policy changes to help reduce the cost of lending by restricting eligibility of borrowers who are less likely to repay their student loans, or where the economic returns are likely to be low for the borrower and the government. Changes have also been made to increase student loan repayments from both New Zealand-based and overseas-based borrowers.

A list of the student support policy changes that have been made over recent years can be found on the Education Counts website educationcounts.govt.nz

An ongoing priority is to improve the collection of student loan repayments from overseas-based borrowers. These borrowers have much lower repayment compliance and slower repayment times than New Zealand-based borrowers (see Section 3.2).
1.4 Changes in 2016

The student loan interest exemption for full-time study overseas

Student loans are interest-free for borrowers who go overseas for 183 days or less and have been living in New Zealand for at least 183 days immediately prior. The Government is extending the student loan interest exemption to recipients (and eligible partners) of government-funded scholarships who are studying full-time overseas or on an internship. This will be irrespective of the level of study for which the scholarship is provided. This change will be implemented from the date legislation is enacted.

Changes to funding for study at an overseas campus or delivery site of a New Zealand Tertiary Education Organisation (NZTEO)

For study starting on or after 1 January 2017, tuition subsidy funding and student support will be available to New Zealanders who study at an overseas campus or delivery site of a NZTEO, in the following circumstances:

1. 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
2. the study is at level 7 and above on the qualifications framework, and
3. the study is undertaken full-time and face-to-face (ie not extramurally) as part of a New Zealand qualification (ie students still need to complete part of their qualification in New Zealand).

Changes for New Zealand permanent residents

From 1 January 2016, following a change to Tertiary Education Commission funding conditions, tuition subsidy funding is now available to New Zealand permanent residents studying outside New Zealand as part of their New Zealand qualification.

From 1 January 2017, the Government will be targeting tuition subsidy funding and student support to New Zealand permanent residents undertaking part of their New Zealand qualification overseas (including at an overseas campus or delivery site). These students will be eligible if they:

- are studying in an unfamiliar country, and
- are not enrolled in extramural study, and
- are ordinarily resident in New Zealand.

Setting the annual maximum fee movement (AMFM) at 2 percent for 2017

The AMFM will be 2 percent in 2017, lower than the 3 percent maximum in 2016 and 4 percent in previous years. The AMFM sets the maximum percentage by which tertiary providers can increase tuition fees. These reductions in the maximum are a response to historically low inflation and ensure affordability for students in a low-inflation environment. While the AMFM is not a student support policy, it has the effect of reducing the amount of money students need to borrow for fees through the Student Loan Scheme.

Increases to student allowance rates for families with children

Student allowance rates for families with dependent children increased by $25 a week from 1 April 2016. This policy was part of the Government’s wider Budget 2015 package to increase support for low income families with dependent children.

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3 An overseas campus is where a NZTEO delivers qualifications (whole or in part) at its own offshore campus using its own staff. An overseas delivery site is where a NZTEO delivers qualifications (whole or in part) at other institutions using its own staff (or those commissioned by the NZTEO).

4 Student allowances rules regarding ineligibility for postgraduate study (other than bachelors degrees with honours) continue to apply.

5 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.
## 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 Zealanders. 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.

Figure 4 shows the outcomes of the scheme and identifies the indicators we monitor to assess whether it is achieving the desired outcomes.

### Figure 4 Outcomes of the Student Loan Scheme

<table>
<thead>
<tr>
<th>Vision Statement</th>
<th>Primary Outcomes</th>
<th>Immediate Outcomes</th>
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<tbody>
<tr>
<td>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</td>
<td>Enhanced human capital and labour skills</td>
<td>More borrowers gain relevant qualifications that assist employment</td>
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<tr>
<td></td>
<td>A long-term affordable loan scheme for borrowers and taxpayers</td>
<td>More people have the opportunity to access tertiary education</td>
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<td></td>
<td>Borrowers meet their repayment obligations of their own accord</td>
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<td></td>
<td></td>
<td>Increased value and performance of the student loan asset</td>
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<tr>
<td></td>
<td></td>
<td>This will mean that...</td>
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<tr>
<td></td>
<td></td>
<td>– students make better-informed study choices</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– more borrowing is focused towards quality, high-level courses</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– more graduates find relevant employment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– good information about career pathways, study options, and available support is more accessible</td>
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<tr>
<td></td>
<td></td>
<td>– more young people are engaged in education, training or employment</td>
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<tr>
<td></td>
<td></td>
<td>– borrowers know and understand their repayment obligations</td>
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<tr>
<td></td>
<td></td>
<td>– borrowers maintain contact with Inland Revenue</td>
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<tr>
<td></td>
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<td>– overall compliance increases</td>
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<tr>
<td></td>
<td></td>
<td>– future lending has better returns</td>
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<td></td>
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<td>– the return on the student loan asset improves</td>
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</table>

This chapter looks at the extent to which the loan scheme has succeeded in achieving these outcomes. It also explores evidence of any unintended outcomes. In doing so, we summarise the evidence for the longer-term effects of the scheme and we look at the trends that are set out in more detail in Chapter 3 of the report (which looks at borrowing and repayment trends) and Chapter 4 (which analyses the costs of the scheme).
2.2 Human capital and labour skills

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

In this section, we look at research that establishes how employers in New Zealand value people’s qualifications. Statistics New Zealand’s Integrated Data Infrastructure shows that employers pay a premium to those who have completed qualifications (see Table 3). For instance, on average young people who complete a bachelors degree and go into the workforce, earn more than 40 percent above the national median earnings five years after graduation.6

Table 3 Median annual earnings of young domestic graduates

<table>
<thead>
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<th>Qualification level</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 5</th>
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<td>Doctorates</td>
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<td>Masters</td>
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<td>Honours and postgrad cts and diplomas</td>
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<td>Graduate certificates and diplomas</td>
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<td>Bachelors</td>
<td>104</td>
<td>119</td>
<td>140</td>
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<tr>
<td>Level 5-7 diplomas</td>
<td>79</td>
<td>89</td>
<td>108</td>
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<td>Level 4 certificates</td>
<td>72</td>
<td>81</td>
<td>99</td>
</tr>
<tr>
<td>Level 1-3 certificates</td>
<td>71</td>
<td>80</td>
<td>98</td>
</tr>
</tbody>
</table>

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

A study of the premium paid by employers to recent young graduates shows a clear earnings advantage to those with qualifications, that this advantage emerges soon after graduation, and that it grows over time. Figure 5 shows the median and lower and upper quartile earnings for young New Zealand graduates in the first nine years after completing their qualification. The analysis focused on a subgroup of these graduates—referred to as ‘young graduates’.7 They represent the students who moved to tertiary education more or less directly from school and who were more likely to be completing their first period of tertiary education and entering the labour market for the first time. Education is likely to have more of a direct influence on earnings for young people than for older students, who perhaps already hold qualifications or have a number of years of work experience.

Figure 5 Young graduate earnings range

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

Note: Earnings are annual, gross and in 2014 dollars. Only young domestic graduates classified in the employment destination are included in these results.

6 The numbers in Table 3 are based on earnings for young domestic graduates in the 2013 and 2014 tax years relative to national median earnings for those aged between 15 and 64 years in the 2014 tax year. Earnings in the 2013 tax year are converted to 2014 dollars using the wages and salary component of the Labour Cost Index.

7 For the purposes of this study a ‘young graduate’ was defined as anyone aged 21 years or under who was studying at certificate level, 23 years or under at diploma level, 24 years or under for those who complete a three-year bachelors degree, with each year of additional study requirement adding a year to the age cut-off (eg 26 years or under for medical degrees which are six years long), 26 years or under for anyone who was enrolled in a one-year post-bachelors qualification or graduate certificate or diploma, 27 years or under for masters, and 29 years or under for doctorate students.
Figure 5 shows that the higher the qualification, the higher the expected earnings. It shows that five years after graduation:

- the median earnings of young bachelors degree graduates were 31 percent above those with a diploma and 43 percent above those with a level 1-3 certificate
- the median earnings of young masters degree graduates were 19 percent higher than those who completed a bachelors degree, and 71 percent higher than a young level 1-3 certificate completer.

The Government has given greater priority to enrolments by younger people in higher-level qualifications because that is more effective in raising human capital.

### Information to help study and career decisions

A wide range of information or guidance services is available for potential students to access to help them determine the benefits and nature of tertiary study that suits them. In addition to career information and advisory services provided by schools and tertiary organisations, information is available from StudyLink, the Ministry of Education, the Ministry of Business, Innovation and Employment, and other agencies.

Reliable information on the outcomes of tertiary education is important for learners to make informed tertiary education decisions. This information enables them to assess the likely value of available tertiary education options. There are a number of projects underway across agencies focused on improving the quality and availability of information to support informed decisions (see Table 4).

<table>
<thead>
<tr>
<th>Information/service</th>
<th>Introduced in</th>
<th>By</th>
<th>Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sussed? Online Reality check</td>
<td>2011—Shifted to a solely online delivery model in 2014</td>
<td>StudyLink</td>
<td>Provides school leavers and prospective tertiary students with a high-level understanding of the costs and benefits of tertiary study, and the range of finance options that may be available to them. Available on the StudyLink website, the tool introduces the importance of budgeting and planning, puts borrowing into context and provides insight into how seemingly small choices will affect them in the long term.</td>
</tr>
<tr>
<td>The post-study earnings and destinations of young domestic graduates</td>
<td>2013—Changed to a factsheet format in 2016, these will be updated annually</td>
<td>Ministry of Education</td>
<td>This series of factsheets and associated data tables provide information on the outcomes for young people who complete a qualification at a tertiary education provider in the New Zealand tertiary education system. They look at differences in earnings for different types of qualifications and at the post-study destinations of young graduates, including what proportion are employed, in further study, overseas, or on a benefit. These factsheets standardise the information previously provided in a series of reports, for example, Moving on up: What young people earn after their tertiary education.</td>
</tr>
<tr>
<td>Vocational Pathways</td>
<td>2013</td>
<td>Ministry of Education</td>
<td>Initiated by industry and developed by a constructive partnership between government, education and industry, Vocational Pathways enable students and teachers to shape their learning programmes to align with the standards valued by industry sectors. There are six Vocational Pathways covering: Primary Industries, Construction and Infrastructure, Manufacturing and Technology, Social and Community Services, Service Industries, and Creative Industries.</td>
</tr>
<tr>
<td>FindMyPath Web and mobile enables</td>
<td>June 2016</td>
<td>Ministry of Education</td>
<td>FindMyPath is for anyone who wants to explore their qualification and employment pathways. It is suitable for all ages who are interested in exploring what to study and the jobs you can get as you progress from level 3 qualifications onwards.</td>
</tr>
<tr>
<td>Occupation Outlook—PDF report and phone app (Series)</td>
<td>2013</td>
<td>Ministry of Business, Innovation and Employment</td>
<td>Aimed at young people and their families, Occupation Outlook contains education, income and job prospects information on 60 key occupations across the six Vocational Pathways. The Ministry of Business, Innovation and Employment is working with Careers New Zealand to expand the number of occupations covered and to develop a simple tool that will match students’ subject interests with relevant occupation choices.</td>
</tr>
<tr>
<td>Compare study options—online tool</td>
<td>2013</td>
<td>Careers New Zealand</td>
<td>Aimed at young people choosing what to study, these databases are published with the support of the New Zealand Qualifications Authority and integrate Ministry of Education employment outcomes information along with other available learner information identified in the Tertiary Education Commission’s Information for Learners work.</td>
</tr>
</tbody>
</table>
### 2.3 Affordability for borrowers and taxpayers

#### Sharing the costs of tertiary education

**The shared benefits of education**

Tertiary education has many benefits for individuals, society and the economy. The discussion in the previous section shows that people who gain higher qualifications have higher earnings on average. That advantage in earnings benefits the individual, but also suggests that the individual is making a greater contribution to the economy because the more they are earning the more tax they pay.

In addition to the economic benefits of education, 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. The benefits of education are shared between the person who gains a qualification and society at large.

**Sharing the costs**

Since tertiary education benefits individuals, society and the economy in many ways, it is appropriate that costs are shared. The loan scheme has enabled the government to share costs with students and their families, helping to provide funding for more places in tertiary education organisations. Without shared funding, the government would have to reduce the number of places it funds and many providers would need to further limit entry to programmes.

Since 2000, the government has shifted the balance between the share of the full cost of tertiary education borne by students and their families and the share paid by government. 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 2015.

While the government’s share was nominally 71 percent in 2015, in practice it is 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.

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8 The government’s contribution includes tuition subsidies (such as the Student Achievement Component and Youth Guarantee) and the Performance-Based Research Fund.
stable. Since 2010, fee stabilisation has operated under the annual maximum fee movement (AMFM) 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 BA fee cost—from 4.5 weeks in 2009, to just over 5 weeks in 2016.

The median size of a loan across all borrowers on 30 June 2016 was $14,904. This is a 3.4 percent increase on the previous year. About 36 percent of borrowers had a loan balance under $10,000, compared with 37 percent the year before.

Figure 7 shows the median loan balance of those leaving study between 2000 and 2014. In this time the median increased by 103.3 percent. After accounting for inflation in this period, the change in the size of the leaving loan balance amounts to an increase of 45.9 percent. The main reason for this increase is the fact that many students are studying for longer to achieve higher-level qualifications.

Cost of the loan scheme to the government
The Student Loan Scheme is a significant financial asset.\(^9\) The cost of the scheme depends on the amount of money lent and on the cost of lending each dollar. These in turn depend on a range of factors which are discussed below.

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 AMFM policy and new policies on fees for foundation-level qualifications, all constrain the volume of lending.

The government also sets policies that limit access requirements that must be met if a student is to retain the right to borrow and the ‘stand-down’ period, during which new permanent residents may not borrow. These policies place a volume constraint on the amount of money lent.

The 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. The repayment of loans is also conditional on income being above a threshold and therefore some loans may never be repaid. Loans are also written off if a borrower dies or is declared bankrupt. These policies have a significant effect on the overall costs that make up the discount factors applied to new loans.

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, but in a period of high unemployment or low earnings growth, more people will have low incomes, or 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. It has varied over time depending on the external economic factors described above—especially shifts in interest rates—and lending.

\(^9\) At $15.3 billion, the nominal value of loan balances is almost twice the value of New Zealand government equity holding in all state-owned enterprises ($8.5 billion at 30 June 2015).
policies that affect the value of the loan scheme such as the forecast rate of repayment (see Figure 8). The movements over recent years have reflected the relative importance of the external and internal pressures that have influenced lending costs at the time. These are discussed in detail in Section 4.1 of this report.

Figure 8 Cost of lending in cents per dollar lent

To make the scheme more affordable, a high priority has been given to policy changes to improve the value of the student loan asset. These changes have focused on the rate of repayment and on the compliance of overseas 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 many borrowers choose to go overseas once they finish their studies, this reduces the value of the scheme because it is more difficult to collect repayments—the repayment rates are slower and therefore the costs higher. The low compliance of overseas borrowers is one of the major drains on the cost of the loan scheme and provides the rationale for the extra effort going into collection from borrowers who are overseas. Measures taken since 2010 include:

- policy changes aimed at reducing repayment times, in particular:
  - freezing the annual repayment threshold at $19,084 until 2017 (Budgets 2010, 2011 and 2014)
  - increasing the repayment obligation from 10 cents per dollar to 12 cents per dollar of income over the repayment threshold (Budget 2012)
- improving the efficiency of collections and compliance by New Zealand-based borrowers
- initiating a programme of collection of loans from overseas-based borrowers
- replacing the automatic three-year repayment holiday for those going overseas with a one-year holiday on request, provided that an alternative contact person in New Zealand is provided.

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 2016 was 58.6 percent of the total amount of money on loan or nominal value. This is a decrease of just over 1 percentage point from the previous year, as shown in Figure 9 below. See Chapter 5 for a detailed explanation of this measurement.

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

Source: Valuation of the Student Loan Scheme.
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 might not be able to repay for a variety of reasons—for example, they have no income at all or their income is below the repayment threshold. However, it is desirable that most borrowers are able to repay their loans within a reasonable timeframe.

A number of recent initiatives are expected to help reduce the numbers who repay slowly, or who never repay at all. These include introducing a performance requirement for students to retain loan eligibility, an annual and life-time limit on the study for which they can borrow, adjusting 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 will help reduce student loan costs for people who undertake lower-level study and whose income when they leave study, may not have been 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 and the changes made to the rules governing repayment by borrowers overseas have led to two major changes. Firstly, it is less likely that people 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. Secondly, there was a fall-off in voluntary additional repayments after the introduction of interest-free loans.

Borrowers who remain in New Zealand have shorter repayment times than is often thought. Half of those who left study in 2014 and remain in New Zealand are forecast to settle their loan in six and a half years, while three-quarters will have repaid in just over eleven years. But borrowers who spend time outside of the country will have much longer repayment times. Based on forecasts for 2014 leavers, their median repayment time will be about 17 years. Those who have gained higher-level qualifications generally have shorter repayment times. (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 their loans may discourage home ownership or cause them to delay having children. Such surveys generally canvass students’ future intentions rather than record their actual behaviours.

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. As such 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.

The social effects of loans are difficult to verify. There has been very little statistical empirical research of income-contingent loans schemes such as we have in New Zealand. The available research is dated now, but indicates that there is no statistical evidence that the presence of income-contingent loans causes adverse effects in these areas. For a review of this research refer to previous annual reports.

10 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 2015

**Borrower uptake**

In 2015, 182,537 students borrowed under the loan scheme. This was a decrease of 2 percent on the 186,477 borrowers in 2014.

The fall in the number of new borrowers is consistent with the reduction in the number of people participating in tertiary education in 2015. The decline is due to the strengthening of the labour market and the demographic impact of the ‘birth bubble’ on the youth population over time.

Policy changes from Budget 2009 to Budget 2014 also had the effect of reducing eligibility to borrow from the scheme and to receive a student allowance. These changes included:

- the introduction of an academic performance requirement on borrowers
- changes to eligibility rules for New Zealand permanent residents
- changes to the entitlements for part-time students
- limiting loan eligibility for those with an overdue loan repayment obligation of $500 or more
- limiting loan eligibility for those aged 55 or over to tuition fees only
- policy changes for the student allowance, for example, removing of allowance eligibility for those aged 65 and over and reducing the allowance life-time limit for those aged 40 or over.

In 2015, the following trends can be seen in the borrowing data:

- Since 2010, there has been a continuing decline in the number of active borrowers, but the average amount borrowed has gone up.
- While there was a slight increase in uptake by full-time students, there was a marked decline in loan uptake by part-time students.
- The number of borrowers enrolled in highest-level studies, that is, doctorates, was about the same—borrower numbers at all other qualification levels fell except at masters and honours levels, which increased by 5 percent compared with last year’s level.

In 2015, active student loan borrowers represented about 5.0 percent of the estimated population living in New Zealand aged 15 and over. Figure 10 shows the growth in total active borrower numbers and in the number of new active borrowers since 1992. The new borrower intake is a key indicator of activity in the loan scheme because it reflects the current demand for loans.

**Loan uptake rates**

Figure 11 presents the proportion of students eligible to borrow who actually did borrow. In 2015, the overall uptake rate was 71 percent of eligible students. This is a decrease on the 72 percent uptake in 2014. In 2006, the overall uptake was 65 percent. Changes in uptake rates are partly a consequence of changes to loan policy, but also reflect economic conditions. Increases from 2006 onwards were a result of the interest-free loan policy, with additional rises as the economy went into recession in 2008 leading to a rise in tertiary enrolments. The decrease since 2010 is in part a reflection of the generally stronger labour market.
Figures 12 and 13 present the number of active borrowers by study status from 2005 to 2015. This shows that the rate of full-time eligible students accessing the loan scheme fell from 83 percent in 2014 to 82 percent in 2015, but this remains higher than 2005 when it was 68 percent.

There has been a decrease since 2011 in the uptake rates of part-time students (from 50 percent in 2011 to 40 percent in 2015). The policy introduced from 1 January 2012 that meant part-time, full-year students could no longer borrow for course-related costs was a contributing factor as it appears to have discouraged some part-time students from borrowing.

**Figure 12** Full-time uptake

![Full-time uptake graph]

**Figure 13** Part-time uptake

![Part-time uptake graph]

**Amounts borrowed**

**Overview of historical borrowing trends**

Since 1992, students have borrowed a total of $23,146 million. The total amount borrowed and the numbers of borrowers each year are shown in Figure 14. As the loan scheme developed and enrolments in tertiary education increased during the 1990s, the total amount borrowed per year grew significantly as a consequence of the steady rise in fees. 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 rise in total borrowing by 39 percent between 1999 and 2000 (from $537 million to $744 million).

From 2001 to 2005, the aggregate amount borrowed was relatively stable, partly because the 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 active borrowers. From 2005 to 2006, the number of borrowers increased by 8.4 percent and the amount borrowed by 12 percent.

Increased levels of enrolment in tertiary education in 2009 resulted in a significant rise in the number of students borrowing. The total number of active borrowers rose from 198,738 in 2009 to 212,485 in 2010, an increase of 7 percent. In 2011, the number of borrowers in the scheme fell for the first time since 2005; 207,330 students borrowed a total of $1,471 million, reflecting a reduction in tertiary education enrolments. From 2013, a borrowing limit of 2 EFTS per annum per loan account has been introduced. In 2013, the number of active borrowers fell by 4.4 percent; 192,257 students borrowed $1,599 million.

In 2014, the number of active borrowers fell by 3.0 percent; 186,477 students borrowed $1,601 million. In 2015, this trend continued and the number of active borrowers fell by 2.1 percent; 182,537 students borrowed $1,622 million.

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12 Net of refunds to StudyLink.
Loans by component

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

In 2015:
- 93 percent borrowed to pay fees (23 percent of these borrowed to pay fees only)
- 65 percent borrowed to help meet course-related costs
- 55 percent borrowed towards meeting their living costs (this was the only proportion to change from 2014, when it was 56 percent).

Amounts drawn by component as a percentage of total borrowing are as follows:
- From 2000 to 2015, the total amount drawn to pay for fees has been 64 percent of all money drawn from the loan scheme. In 2015, $1,073 million was used to pay for fees; this amounted to 67 percent of the amount drawn in 2015.
- Money used to pay for course-related costs was 7.3 percent of all money drawn in 2015.
- Money used to pay for living costs was 26.1 percent of all money drawn in 2015.

Average and median borrowing

Figure 15 illustrates the average and median amounts borrowed from 2000 to 2015. The fee stabilisation policy implemented in 2001 meant that tuition fees charged by most tertiary education providers remained stable between 2001 and 2003. From 2004, fees were regulated by the fee and course costs maxima policy and since 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 some growth in fees have contributed to a gradual increase in both the average and median amounts borrowed since 2005.

In 2015, the average amount borrowed was $8,888, an increase of 3.5 percent ($301) on the previous year. This compares with an increase of 3.3 percent ($272) from 2013 to 2014. The median amount borrowed in 2015 was $7,971, an increase of 3.4 percent ($263) on 2014. In both 2014 and 2015, the rise in borrowing was mainly due to fee increases.

Table 5 presents the average and median amounts drawn by loan components for the period 2000 to 2015. Over this period, the average amount borrowed to pay for fees increased by 49 percent.
Table 5 Average and median amounts borrowed by component

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<tr>
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</thead>
<tbody>
<tr>
<td><strong>Course fees ($)</strong></td>
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<td></td>
</tr>
<tr>
<td>Average</td>
<td>3,817</td>
<td>3,985</td>
<td>4,023</td>
<td>4,105</td>
<td>4,051</td>
<td>4,253</td>
<td>4,408</td>
<td>4,576</td>
<td>4,743</td>
<td>4,766</td>
<td>5,076</td>
<td>5,441</td>
<td>5,571</td>
<td>5,850</td>
<td>6,074</td>
<td>6,323</td>
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<tr>
<td>Median</td>
<td>3,690</td>
<td>3,807</td>
<td>3,787</td>
<td>3,906</td>
<td>4,068</td>
<td>4,230</td>
<td>4,455</td>
<td>4,638</td>
<td>4,744</td>
<td>5,084</td>
<td>5,422</td>
<td>5,666</td>
<td>5,925</td>
<td>6,189</td>
<td>6,426</td>
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<td><strong>Living costs ($)</strong></td>
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<tr>
<td><strong>Course-related costs ($)</strong></td>
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<td></td>
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</tr>
<tr>
<td>Average</td>
<td>896</td>
<td>935</td>
<td>940</td>
<td>936</td>
<td>938</td>
<td>943</td>
<td>950</td>
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<td>955</td>
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<td>992</td>
<td>990</td>
<td>988</td>
<td>987</td>
<td>987</td>
<td>988</td>
</tr>
<tr>
<td>Median</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
<td>1,000</td>
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<td>1,000</td>
</tr>
</tbody>
</table>

Source: Ministry of Social Development.

Living costs and support for students

Students are helped to meet their daily expenses by the provision of student loans or student allowances, or a combination of both. Student allowances do not have to be repaid and entitlement depends on personal and family circumstances. However, living costs paid as part of a student loan must be repaid.

For the 2015/16 tax year, full-time students could borrow up to $176.86 a week for living costs from the loan scheme, less any student allowances they receive. The maximum entitlement is adjusted for inflation on 1 April each year. The average amount borrowed for living costs increased by 4 percent in 2015.

In 2015:

- 42 percent of people receiving student allowances used the loan scheme to supplement their living costs. This is an increase compared with 44 percent in 2014
- 17 percent of all borrowers borrowed for living costs under the loan scheme and also received student allowances. In 2014, this group was 19 percent of all borrowers.

Table 6 presents the number of living costs borrowers and recipients of student allowances, and the average living costs and allowances received in 2015.

Table 6 Student allowances compared with student loan living costs borrowings

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>Number of students</th>
<th>Average allowances</th>
<th>Average living costs loan</th>
<th>Average allowances and living costs loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student allowances only</td>
<td>43,521</td>
<td>$7,320</td>
<td>$7,320</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student allowances and living costs loan</td>
<td>31,530</td>
<td>$5,895</td>
<td>$1,954</td>
<td>$7,849</td>
<td></td>
</tr>
<tr>
<td>Living costs only</td>
<td>69,122</td>
<td>$5,194</td>
<td>$5,194</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministry of Social Development.
Provider type

Table 7 has lending information broken down into the course fees, course-related costs and living costs components of a student loan and also by provider type. It shows that the average amount borrowed for course fees at a private training institute was more than for any other provider type, while students at wānanga borrowed the least for course fees. University students on average borrowed more for living costs than any other group of students and this contributed to them also borrowing the highest average amount in total. Combined with the fact that there are far more university borrowers that any other group, this explains the more than one billion dollars lent to university students in 2015, more than every other provider type combined.

Table 7 Components of lending by subsectors

<table>
<thead>
<tr>
<th>2015</th>
<th>Subsector</th>
<th>Numbers 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>98,157</td>
<td>$672.1</td>
<td>$6,847</td>
</tr>
<tr>
<td></td>
<td>Polytechnic</td>
<td>46,890</td>
<td>$226.2</td>
<td>$4,825</td>
</tr>
<tr>
<td></td>
<td>Wānanga</td>
<td>2,590</td>
<td>$9.0</td>
<td>$3,475</td>
</tr>
<tr>
<td></td>
<td>PTE</td>
<td>22,052</td>
<td>$165.7</td>
<td>$7,513</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>169,689</td>
<td>$1,073.0</td>
<td>$6,323</td>
</tr>
<tr>
<td></td>
<td>Course-related costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>University</td>
<td>63,698</td>
<td>$62.2</td>
<td>$977</td>
</tr>
<tr>
<td></td>
<td>Polytechnic</td>
<td>34,266</td>
<td>$34.1</td>
<td>$994</td>
</tr>
<tr>
<td></td>
<td>Wānanga</td>
<td>3,399</td>
<td>$3.4</td>
<td>$1,003</td>
</tr>
<tr>
<td></td>
<td>PTE</td>
<td>18,094</td>
<td>$18.4</td>
<td>$1,017</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>119,457</td>
<td>$118.1</td>
<td>$988</td>
</tr>
<tr>
<td></td>
<td>Living costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>University</td>
<td>61,676</td>
<td>$288.8</td>
<td>$4,683</td>
</tr>
<tr>
<td></td>
<td>Polytechnic</td>
<td>24,458</td>
<td>$86.3</td>
<td>$3,530</td>
</tr>
<tr>
<td></td>
<td>Wānanga</td>
<td>1,642</td>
<td>$5.9</td>
<td>$3,568</td>
</tr>
<tr>
<td></td>
<td>PTE</td>
<td>13,478</td>
<td>$42.3</td>
<td>$3,138</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>101,254</td>
<td>$423.3</td>
<td>$4,381</td>
</tr>
<tr>
<td></td>
<td>Totals</td>
<td>102,408</td>
<td>$1,023.1</td>
<td>$9,991</td>
</tr>
<tr>
<td></td>
<td>University</td>
<td>50,916</td>
<td>$346.7</td>
<td>$6,808</td>
</tr>
<tr>
<td></td>
<td>Polytechnic</td>
<td>4,048</td>
<td>$18.3</td>
<td>$4,513</td>
</tr>
<tr>
<td></td>
<td>Wānanga</td>
<td>25,197</td>
<td>$226.3</td>
<td>$8,983</td>
</tr>
<tr>
<td></td>
<td>PTE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>182,569</td>
<td>$1,614.4</td>
<td>$8,843</td>
</tr>
</tbody>
</table>

Source: Ministry of Social Development.

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

The average course fees borrowed by provider type are shown in Figure 18. Universities and polytechnics had a year-on-year increase in the average course fees borrowed. Universities recorded an increase of 4.5 percent ($294) in fees borrowed, as the balance of enrolments shifted to qualifications with higher fees and as fees increased. Polytechnic students’ average fee borrowings rose by 3.9 percent ($175). The average course fees borrowed increased by 2.5 percent ($171) for students at private training establishments and increased by 2.1 percent ($72) for wānanga students.

Figure 18 Average course fees borrowed by provider type

The average course fees borrowed by provider type are shown in Figure 18. Universities and polytechnics had a year-on-year increase in the average course fees borrowed. Universities recorded an increase of 4.5 percent ($294) in fees borrowed, as the balance of enrolments shifted to qualifications with higher fees and as fees increased. Polytechnic students’ average fee borrowings rose by 3.9 percent ($175). The average course fees borrowed increased by 2.5 percent ($171) for students at private training establishments and increased by 2.1 percent ($72) for wānanga students.

Table 8 gives a breakdown of active borrower numbers and amount borrowed by the level of qualification. Overall there were 2.1 percent fewer borrowers in 2015. The largest decline has been in diplomas and certificates, which have been falling since 2010 as students who might take qualifications at this level are more likely to enter the workforce when the labour market is strong. Bachelors level has also fallen since 2013. The masters, honours and postgraduate levels increased by 4.7 percent in 2015, and were the only areas to see an increase.
Table 8 Student loan borrowers by level of qualification and average amounts borrowed

<table>
<thead>
<tr>
<th>Qualification level</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>n = numbers of borrowers</td>
<td>n $ avg</td>
<td>n $ avg</td>
<td>n $ avg</td>
<td>n $ avg</td>
<td>n $ avg</td>
</tr>
<tr>
<td>Doctorates</td>
<td>1,548</td>
<td>$7,117</td>
<td>1,573</td>
<td>$7,239</td>
<td>1,541</td>
</tr>
<tr>
<td>Masters, honours, postgraduate certificates and postgraduate diplomas</td>
<td>19,930</td>
<td>$8,377</td>
<td>19,465</td>
<td>$8,627</td>
<td>19,295</td>
</tr>
<tr>
<td>Bachelors degrees, graduate certificates and diplomas</td>
<td>106,849</td>
<td>$8,289</td>
<td>108,497</td>
<td>$8,507</td>
<td>106,349</td>
</tr>
<tr>
<td>Diplomas</td>
<td>26,316</td>
<td>$8,174</td>
<td>24,936</td>
<td>$7,761</td>
<td>22,100</td>
</tr>
<tr>
<td>Certificates</td>
<td>51,511</td>
<td>$5,754</td>
<td>46,440</td>
<td>$5,906</td>
<td>42,807</td>
</tr>
<tr>
<td>Other</td>
<td>1,073</td>
<td>$6,349</td>
<td>275</td>
<td>$5,583</td>
<td>165</td>
</tr>
<tr>
<td>Total borrower numbers</td>
<td>207,330</td>
<td>201,187</td>
<td>192,257</td>
<td>186,477</td>
<td>182,537</td>
</tr>
<tr>
<td>Average borrowed for all qualifications</td>
<td>$7,633</td>
<td>$7,822</td>
<td>$8,315</td>
<td>$8,587</td>
<td>$8,888</td>
</tr>
</tbody>
</table>

Source: Ministry of Social Development. Qualification classifications from the Ministry of Education.

Notes:
1. Some borrowers were enrolled in qualifications at more than one level.
2. This data is provisional.
3. Years are calendar years.

Table 9 Median debt and repayment time for leavers

<table>
<thead>
<tr>
<th>2014</th>
<th>Median leaving balance</th>
<th>Median post-study repayment time (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>Level 1-4 certificates</td>
<td>$9,430</td>
</tr>
<tr>
<td></td>
<td>Level 5-7 diplomas</td>
<td>$16,500</td>
</tr>
<tr>
<td></td>
<td>Bachelors and graduate certificates/diplomas</td>
<td>$29,610</td>
</tr>
<tr>
<td></td>
<td>Postgraduate</td>
<td>$32,410</td>
</tr>
<tr>
<td>Male</td>
<td>Level 1-4 certificates</td>
<td>$8,820</td>
</tr>
<tr>
<td></td>
<td>Level 5-7 diplomas</td>
<td>$17,650</td>
</tr>
<tr>
<td></td>
<td>Bachelors and graduate certificates/diplomas</td>
<td>$31,380</td>
</tr>
<tr>
<td></td>
<td>Postgraduate</td>
<td>$35,720</td>
</tr>
<tr>
<td>Female</td>
<td>Level 1-4 certificates</td>
<td>$9,970</td>
</tr>
<tr>
<td></td>
<td>Level 5-7 diplomas</td>
<td>$15,760</td>
</tr>
<tr>
<td></td>
<td>Bachelors and graduate certificates/diplomas</td>
<td>$28,790</td>
</tr>
<tr>
<td></td>
<td>Postgraduate</td>
<td>$30,670</td>
</tr>
</tbody>
</table>

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

Notes:
1. The population is those who studied and completed a qualification in 2014, and then did not study in 2015. It does not include those who continued to study in 2015 nor those who failed to complete their qualification.
2. Post-study repayment times are a mixture of real experience and modelling.
Table 10 Demographic characteristics of active student loan borrowers

<table>
<thead>
<tr>
<th>New active borrowers</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td></td>
</tr>
<tr>
<td>The number of new borrowers in 2015 was 46,721, a fall of 4.7 percent from 2014.</td>
<td></td>
</tr>
<tr>
<td>Gender</td>
<td></td>
</tr>
<tr>
<td>Female borrowers represented 57 percent of new active borrowers in 2015 and outnumbered males by 6,313. In 2014, there were 56 percent female borrowers, outnumbering males by 6,318.</td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td></td>
</tr>
<tr>
<td>The average age of new active borrowers was 23 years in 2015 and the median was 19, the same as the previous year. The number of new active borrowers in the 27-50 age group decreased by 826 or 10.6 percent and for those over 50 years it decreased by 167, or 14.7 percent, in 2015.</td>
<td></td>
</tr>
<tr>
<td>Ethnicity</td>
<td></td>
</tr>
<tr>
<td>Of new active borrowers in 2015, 64 percent identified themselves as European, 20 percent as Māori, 14 percent as Asian and 11 percent as Pasifika.</td>
<td></td>
</tr>
</tbody>
</table>

Active borrowers overall

Gender differences
In 2015, the number of female borrowers accessing the Student Loan Scheme was 108,707, compared with 73,830 males. The average amount borrowed by female borrowers increased by $294 in 2015, or 3.5 percent (from $7,291 in 2011 to $8,667). The average amount borrowed by male borrowers increased by $319 on average or 3.6 percent (from $8,117 in 2011 to $9,214).

Age
Between 2014 and 2015, the number of active borrowers in the over-50 group fell from 4,712 to 4,177, a decrease of 11.4 percent. The 27-50 year demographic also fell by 3.4 percent, from 46,643 borrowers in 2014 to 45,077 in 2015. The 20 and under age group also fell, down 1.7 percent, from 61,621 in 2014 to 60,561 in 2015. The 21-26 age group fell from 73,501 in 2014 to 72,722 in 2015, a decrease of 1.1 percent. In 2015, 73.2 percent (123,294) of all active student loan borrowers were under the age of 27. Those borrowers aged 27 to 50 represented 24 percent of active borrowers, while the over-50 age group constituted just 2.7 percent of all active borrowers.

Ethnicity
In 2015, 65 percent of active borrowers identified themselves as European, 20 percent as Māori, 14 percent as Asian and 10 percent as Pasifika. Further details on demographic characteristics of borrowers are available in the tables on the Education Counts website.

Notes:
1. New active borrowers are those entering the loan scheme for the first time in 2015.
2. The percentages of ethnicity are based on new data from MSD. It has different definitions of ethnicity from the previous reports based on IDI data. It no longer includes the Middle Eastern/Latin American/African category.
3. Borrowers can select more than one ethnicity so the sum may not add to 100 percent.

Leaving balances
Figure 19 gives the median leaving balances of male and female borrowers in the leaving cohorts from 1997 to 2014. Between 1999 and 2008, male borrowers left with larger median loan balances than females. However, since 2009 this trend has been reversed, with female borrowers’ median balances at $17,220 and males at $16,600 in 2014.

The largest volume of borrowing has tended to be by students at bachelors level. Figure 19 also tracks the loan balances of those who studied at this level and left between 1997 and 2011. Male borrowers who studied bachelors-level qualifications have throughout the period left their study with higher median loan balances than female borrowers. The level of the loan balance on leaving depends on many factors such as the field of study, the provider attended, and the individual’s pass rate.

Figure 19 Median loan balances 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. Median loan balance in dollars following the last year of study.
2. Bachelors level includes people studying at graduate certificate and diploma level.
3. Data differs from that published in previous years as it now includes those who returned to study after repaying their loan.

Between 1997 and 2014, the median leaving balance for men rose by 106.7 percent and for women by 125.4 percent. Adjusting for inflation over that period, these amounted to a rise of 42.2 percent and a rise of 55.1 percent respectively.
3.2 Repayment performance

Analysis of repayments

The factors that affect loan repayment are:
- the size of the borrower segment actively repaying loans
- economic conditions that influence employment and incomes
- legislative changes to repayment obligations
- the proportion of borrowers in New Zealand and those overseas
- circumstances or events anticipated in the legislation such as having a low income, death or bankruptcy
- non-compliant behaviour by borrowers and the effectiveness of measures to improve compliance.

This section deals with these factors in more detail.

Trends

In the year to June 2016, repayments were over $1.2 billion, an increase of 8.5 percent from last year—see Table 11.

Table 11 Loan repayments

<table>
<thead>
<tr>
<th>Repayments</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAYE</td>
<td>$749.1</td>
<td>$794.8</td>
<td>$843.4</td>
</tr>
<tr>
<td>Directly from borrowers</td>
<td>$282.6</td>
<td>$318.9</td>
<td>$365.4</td>
</tr>
<tr>
<td>Total</td>
<td>$1,031.7</td>
<td>$1,113.7</td>
<td>$1,208.8</td>
</tr>
<tr>
<td>Annual % change</td>
<td>24.9%</td>
<td>6.1%</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

Payments through PAYE were 6.1 percent higher than in 2014/15 (the same rate of increase as the previous year). This was due to the growth of the borrower base which is repaying—both New Zealand and overseas based. Borrowers’ incomes have also increased slightly leading to relatively more being collected because the repayment threshold has been kept at $19,084.

Table 12 Loan repayments directly from borrowers

<table>
<thead>
<tr>
<th>Repayments</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand-based</td>
<td>$124.6</td>
<td>$134.2</td>
<td>$149.4</td>
</tr>
<tr>
<td>Annual % change</td>
<td>-57.6%</td>
<td>7.7%</td>
<td>11.3%</td>
</tr>
<tr>
<td>Overseas-based</td>
<td>$158.0</td>
<td>$164.7</td>
<td>$216.1</td>
</tr>
<tr>
<td>Annual % change</td>
<td>-1.5%</td>
<td>16.9%</td>
<td>17.0%</td>
</tr>
<tr>
<td>Total/overall change</td>
<td>$282.6</td>
<td>$318.9</td>
<td>$365.4</td>
</tr>
<tr>
<td>Annual % change</td>
<td>-37.8%</td>
<td>12.8%</td>
<td>14.6%</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

The amount repaid directly by borrowers increased by 14.6 percent on the previous year. Payments by overseas-based borrowers increased by 17.0 percent (similar to the previous year’s increase). This increase may be attributed to an ongoing programme of work to contact and collect overdue student loan debt from overseas-based borrowers. This programme includes communications and education activities and is resulting in an increase in the number of overseas-based borrowers who are meeting their repayment obligations.

Loans fully repaid

In the year to June 2016, 40,695 borrowers repaid their loans in full. More than 490,000 borrowers have repaid their loans since the scheme began, and Inland Revenue has collected $11,480 million in repayments.

Figure 20 shows the number of loans repaid over the last 10 years. The increase in repayments from 2008 reflects policy and administration changes such as better management of collections by Inland Revenue, which led to better compliance, and the increase in the repayment rate from 10 cents to 12 cents in the dollar. The cancellation of the voluntary repayment bonus on 1 April 2013 may have contributed to the spike in repayments that year as borrowers fully repaid while still eligible for the bonus.

13 At 30 June 2016, around 85 percent of borrowers were New Zealand-based.

14 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. In the year to 30 June 2016, $18 million was written off due to bankruptcy and $15 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 13 Write-offs due to bankruptcy or death

<table>
<thead>
<tr>
<th>Write-offs</th>
<th>2013/14</th>
<th>2013/14</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bankrupt</td>
<td>$15</td>
<td>$16</td>
<td>$18</td>
</tr>
<tr>
<td>Deceased</td>
<td>$9</td>
<td>$19</td>
<td>$15</td>
</tr>
</tbody>
</table>

Number of cases

Bankrupt 685 544 483
Deceased 720 1,255 973

Source: Inland Revenue administration data.

Overdue repayments

Trends

Table 14 presents a summary of overdue repayments by borrowers’ status as New Zealand-based or overseas-based. In 2016, the total overdue amount rose by 15 percent on 2014/15. This is lower than the 21 percent increase in the previous year. As in the previous year, the increase was driven by defaulting overseas-based borrowers. The overdue amount owed by this group rose by 17 percent (23 percent the previous year), which has influenced the average amount overdue.

Slower growth from the previous year can be attributed to increased awareness from borrowers as a result of media attention, advertising and direct marketing. In addition, there are no longer borrowers transitioning from a three-year repayment holiday.

Overdue repayments from New Zealand-based borrowers have risen by 3.3 percent ($2.9 million) between 2014/15 and 2015/16. This may be attributed to:

- New Zealand-based borrowers having overdue payments dating from the time they spent as overseas-based borrowers
- higher net migration to New Zealand
- New Zealand-based borrowers not meeting their repayment obligations so that as their debt ages it attracts late penalties, meaning the size of the debt grows.

Table 14 Overdue student loan repayments at 30 June

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>% Change</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>$85.2</td>
<td>$88.3</td>
<td>$91.2</td>
<td>3.3%</td>
</tr>
<tr>
<td>No. of borrowers</td>
<td>27,750</td>
<td>26,991</td>
<td>24,108</td>
<td>-10.7%</td>
</tr>
<tr>
<td>Average amount outstanding ($)</td>
<td>$3,068.8</td>
<td>$3,270.2</td>
<td>$3,782.3</td>
<td>15.7%</td>
</tr>
<tr>
<td>Overseas-based</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overdue amount ($m)</td>
<td>$683.2</td>
<td>$843.2</td>
<td>$982.6</td>
<td>16.5%</td>
</tr>
<tr>
<td>No. of borrowers</td>
<td>81,201</td>
<td>81,305</td>
<td>80,622</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Average amount outstanding ($)</td>
<td>$8,413.3</td>
<td>$10,370.9</td>
<td>$12,188.2</td>
<td>17.5%</td>
</tr>
<tr>
<td>Totals/all borrowers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overdue amount ($m)</td>
<td>$768.3</td>
<td>$931.5</td>
<td>$1,073.8</td>
<td>15.3%</td>
</tr>
<tr>
<td>No. of borrowers</td>
<td>108,951</td>
<td>108,296</td>
<td>104,730</td>
<td>-3.3%</td>
</tr>
<tr>
<td>Average amount outstanding ($)</td>
<td>$7,052.0</td>
<td>$8,601.2</td>
<td>$10,253.2</td>
<td>19.2%</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

Table 15 shows the age of overdue repayments for the last three years. The proportion of overdue payments over two years old has increased since last year, and the proportion over five years old has continued to increase, largely because of the continuing non-compliance of some overseas-based borrowers. There was a 0.8 percent reduction in the number of overseas-based borrowers in default in June 2016 compared with June 2015.

Table 15 Age of overdue repayments at 30 June

<table>
<thead>
<tr>
<th>Age of overdue repayments</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ million</td>
<td>%</td>
<td>$ million</td>
<td>%</td>
</tr>
<tr>
<td>0-1 month</td>
<td>$9.1</td>
<td>1.2%</td>
<td>$8.2</td>
<td>0.9%</td>
</tr>
<tr>
<td>2-3 months</td>
<td>$146.3</td>
<td>19.0%</td>
<td>$168.3</td>
<td>18.1%</td>
</tr>
<tr>
<td>4-6 months</td>
<td>$5.1</td>
<td>0.7%</td>
<td>$6.8</td>
<td>0.7%</td>
</tr>
<tr>
<td>7-12 months</td>
<td>$8.7</td>
<td>1.1%</td>
<td>$13.0</td>
<td>1.4%</td>
</tr>
<tr>
<td>1-2 years</td>
<td>$112.9</td>
<td>14.7%</td>
<td>$144.1</td>
<td>15.5%</td>
</tr>
<tr>
<td>2-5 years</td>
<td>$272.4</td>
<td>35.5%</td>
<td>$299.1</td>
<td>32.1%</td>
</tr>
<tr>
<td>&gt;5 years</td>
<td>$213.8</td>
<td>27.8%</td>
<td>$292.0</td>
<td>31.3%</td>
</tr>
<tr>
<td>Total</td>
<td>$768.3</td>
<td>100.0%</td>
<td>$931.5</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.
### Table 16: Age of overdue repayments by location

<table>
<thead>
<tr>
<th>Age of overdue repayments</th>
<th>NZB 2016</th>
<th>NZB %</th>
<th>OBB 2016</th>
<th>OBB %</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-1 month</td>
<td>$5.3</td>
<td>5.9%</td>
<td>$3.9</td>
<td>0.4%</td>
</tr>
<tr>
<td>2-3 months</td>
<td>$12.9</td>
<td>14.1%</td>
<td>$155.8</td>
<td>15.9%</td>
</tr>
<tr>
<td>4-6 months</td>
<td>$3.9</td>
<td>4.3%</td>
<td>$5.3</td>
<td>0.5%</td>
</tr>
<tr>
<td>7-12 months</td>
<td>$4.1</td>
<td>4.5%</td>
<td>$7.9</td>
<td>0.8%</td>
</tr>
<tr>
<td>1-2 years</td>
<td>$13.5</td>
<td>14.8%</td>
<td>$153.3</td>
<td>15.6%</td>
</tr>
<tr>
<td>2-5 years</td>
<td>$20.0</td>
<td>22.0%</td>
<td>$310.7</td>
<td>31.6%</td>
</tr>
<tr>
<td>&gt;5 years</td>
<td>$31.4</td>
<td>34.5%</td>
<td>$345.7</td>
<td>35.2%</td>
</tr>
<tr>
<td>Total</td>
<td>$91.2</td>
<td>100.0%</td>
<td>$982.6</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

---

**Improving repayment compliance**

Inland Revenue continues its programme of work including targeted collection for New Zealand-based borrowers in default as well as the continued programme of work to collect overdue repayments owed by overseas-based student loan defaulters.

New Zealand-based borrower debt has been relatively static since the introduction of the pay period repayments and real-time collection activities, whereby significant under-deductions are collected from employers before they become debt. Indicative figures show that borrowers returning to New Zealand from overseas are increasing and Inland Revenue is continuing to monitor this.

In the last year, overseas-based borrower collection from targeted collection activities reached more than $100 million, which, for the first time, aligned with the increase in the level of debt.

The range of options available to Inland Revenue to track and intervene with non-complying borrowers has enabled Inland Revenue to be more effective in collecting overseas-based borrower default.

A key feature of increasing the compliance of overseas-based borrowers is having up-to-date address details to keep them informed of their obligations and to follow up on their arrears. While borrowers must keep their contact details up to date, many do not do so. Inland Revenue uses private sector agencies to track and trace overseas-based borrowers. Its information-sharing agreements enable it to obtain information from New Zealand Customs when borrowers arrive in the country and from the Department of Internal Affairs when borrowers apply for their New Zealand passport.

In 2016, information obtained from New Zealand Customs allowed two borrowers to be arrested at the border as they attempted to depart New Zealand. Subsequently each of them reached an agreement with Inland Revenue. 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. Serious defaulters are first contacted to discuss their arrears and have time to make payments before the arrest sanction is imposed.

Overseas-based borrowers continue to represent a disproportionate share of the total amount overdue. In 2016, overseas-based borrowers:

- made up 15 percent of all borrowers; this was unchanged from 2015
- made up 77 percent of all borrowers with overdue repayments, up 3 percent from 2015
- had 92 percent of the amount overdue, up 2 percent from 2015.

Contact through emails and phone calls with overseas-based borrowers is increasing, and compliance is also increasing as a result of this engagement. Since the inception of the overseas-based borrower compliance initiatives in 2010, Inland Revenue has collected an additional $311 million in repayments, of which more than $100 million was collected in the last financial year. It is unlikely these payments would have been received if the above measures were not in place.

In March 2015, the Commissioner of Inland Revenue and the Australian Commissioner of Taxation signed an arrangement to share information on New Zealand student loan borrowers residing in Australia. This arrangement will allow for the exchange of contact details of New Zealand borrowers in Australia and will assist Inland Revenue to improve overseas-based borrower compliance.
3.3 Loan balances and borrower segments

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

Number of borrowers

At 30 June 2016, there were 731,754 student loan borrowers, compared with 728,348 last year. The large increase between 2011 and 2012 was due to the changes made in the way loans are administered when the Student Loan Scheme Act 2011 took effect. Since then, 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, as seen in Figure 21 below.

![Figure 21 Number of borrowers at 30 June](image)

Source: Inland Revenue administration data.

Nominal value of loan balances

The nominal value of all loans was $15.3 billion at 30 June 2016. This is an increase of $503 million, or 3.4 percent, over the year, and a smaller increase than the previous year. The nominal value includes all borrower obligations—the loan principal outstanding, interest and late payment interest.

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

- lending made by MSD, 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, or small balance write-offs.

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

The value of total nominal balances since 2007 is shown in Figure 22.

![Figure 22 Aggregate nominal balances of student loans at 30 June](image)

Source: Inland Revenue and Ministry of Social Development to 2011; from 2012, Inland Revenue’s consolidated database.

Comparing Figures 21 and 22 shows that the nominal balance is increasing at a faster pace than the number of borrowers.

Figure 23 shows the average and median values since 2007. The range of loan balances is shown in Table 17.

![Figure 23 Average and median loan balances at 30 June](image)

Source: Inland Revenue administration data.

Notes:

1. The data for 2012 and 2013 includes loan information transferred on a daily basis from the Ministry of Social Development to Inland Revenue. In previous years there was a time lag of one year before loan data for an academic year was transferred.

2. Data for 2011 and earlier excludes data held by the Ministry of Social Development.

---

15 In April 2012, Inland Revenue received two intakes of information about loans. The first was a bulk transfer from MSD of all information for the 2011 academic year for borrowers who had drawn loans. This was the usual process for the period to April 2012. From April 2012, loan information was transferred to Inland Revenue on a daily basis. This resulted in Inland Revenue receiving records of borrowing for two academic years (2011 and 2012) in its system in 2012.
Table 17 Range of loan balances at 30 June 2016

<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>50,292</td>
<td>6.9%</td>
<td>6.87%</td>
</tr>
<tr>
<td>$2,000 – 3,999</td>
<td>51,807</td>
<td>7.1%</td>
<td>13.95%</td>
</tr>
<tr>
<td>$4,000 – 5,999</td>
<td>51,935</td>
<td>7.1%</td>
<td>21.05%</td>
</tr>
<tr>
<td>$6,000 – 7,999</td>
<td>59,655</td>
<td>8.1%</td>
<td>29.19%</td>
</tr>
<tr>
<td>$8,000 – 9,999</td>
<td>50,905</td>
<td>7.0%</td>
<td>36.15%</td>
</tr>
<tr>
<td>$10,000 – 14,999</td>
<td>103,315</td>
<td>14.1%</td>
<td>50.24%</td>
</tr>
<tr>
<td>$15,000 – 19,999</td>
<td>77,704</td>
<td>10.6%</td>
<td>60.86%</td>
</tr>
<tr>
<td>$20,000 – 24,999</td>
<td>64,813</td>
<td>8.9%</td>
<td>69.71%</td>
</tr>
<tr>
<td>$25,000 – 29,999</td>
<td>50,784</td>
<td>6.9%</td>
<td>76.65%</td>
</tr>
<tr>
<td>$30,000 – 34,999</td>
<td>38,000</td>
<td>5.2%</td>
<td>81.85%</td>
</tr>
<tr>
<td>$35,000 – 39,999</td>
<td>31,437</td>
<td>4.3%</td>
<td>86.16%</td>
</tr>
<tr>
<td>$40,000 – 44,999</td>
<td>24,358</td>
<td>3.3%</td>
<td>89.46%</td>
</tr>
<tr>
<td>$45,000 – 49,999</td>
<td>17,403</td>
<td>2.4%</td>
<td>91.84%</td>
</tr>
<tr>
<td>$50,000 – 54,999</td>
<td>13,929</td>
<td>1.9%</td>
<td>93.74%</td>
</tr>
<tr>
<td>$55,000 – 59,999</td>
<td>10,594</td>
<td>1.4%</td>
<td>95.19%</td>
</tr>
<tr>
<td>$60,000 – 79,999</td>
<td>21,191</td>
<td>2.9%</td>
<td>98.08%</td>
</tr>
<tr>
<td>$80,000 – 99,999</td>
<td>5,293</td>
<td>0.7%</td>
<td>100.00%</td>
</tr>
<tr>
<td>$100,000 – 119,999</td>
<td>1,535</td>
<td>0.2%</td>
<td>100.00%</td>
</tr>
<tr>
<td>$120,000 – 139,999</td>
<td>730</td>
<td>0.1%</td>
<td>100.00%</td>
</tr>
<tr>
<td>&gt; $139,999</td>
<td>544</td>
<td>0.1%</td>
<td>100.00%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>731,754</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

New Zealand-based borrowers

<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>45,748</td>
<td>7.4%</td>
<td>7.37%</td>
</tr>
<tr>
<td>$2,000 – 3,999</td>
<td>46,862</td>
<td>7.5%</td>
<td>14.91%</td>
</tr>
<tr>
<td>$4,000 – 5,999</td>
<td>46,426</td>
<td>7.5%</td>
<td>22.39%</td>
</tr>
<tr>
<td>$6,000 – 7,999</td>
<td>53,739</td>
<td>8.7%</td>
<td>31.04%</td>
</tr>
<tr>
<td>$8,000 – 9,999</td>
<td>44,744</td>
<td>7.2%</td>
<td>38.81%</td>
</tr>
<tr>
<td>$10,000 – 14,999</td>
<td>88,417</td>
<td>14.2%</td>
<td>52.48%</td>
</tr>
<tr>
<td>$15,000 – 19,999</td>
<td>66,339</td>
<td>10.7%</td>
<td>63.13%</td>
</tr>
<tr>
<td>$20,000 – 24,999</td>
<td>55,108</td>
<td>8.9%</td>
<td>72.01%</td>
</tr>
<tr>
<td>$25,000 – 29,999</td>
<td>42,291</td>
<td>6.8%</td>
<td>78.82%</td>
</tr>
<tr>
<td>$30,000 – 34,999</td>
<td>31,488</td>
<td>5.1%</td>
<td>83.89%</td>
</tr>
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<td>$35,000 – 39,999</td>
<td>25,799</td>
<td>4.2%</td>
<td>88.04%</td>
</tr>
<tr>
<td>$40,000 – 44,999</td>
<td>19,365</td>
<td>3.1%</td>
<td>91.13%</td>
</tr>
<tr>
<td>$45,000 – 49,999</td>
<td>13,645</td>
<td>2.2%</td>
<td>93.33%</td>
</tr>
<tr>
<td>$50,000 – 54,999</td>
<td>10,817</td>
<td>1.7%</td>
<td>95.07%</td>
</tr>
<tr>
<td>$55,000 – 59,999</td>
<td>8,005</td>
<td>1.3%</td>
<td>96.37%</td>
</tr>
<tr>
<td>$60,000 – 79,999</td>
<td>14,852</td>
<td>2.4%</td>
<td>98.76%</td>
</tr>
<tr>
<td>$80,000 – 99,999</td>
<td>6,242</td>
<td>0.7%</td>
<td>99.50%</td>
</tr>
<tr>
<td>$100,000 – 119,999</td>
<td>1,822</td>
<td>0.3%</td>
<td>99.79%</td>
</tr>
<tr>
<td>$120,000 – 139,999</td>
<td>730</td>
<td>0.1%</td>
<td>99.91%</td>
</tr>
<tr>
<td>&gt; $139,999</td>
<td>544</td>
<td>0.1%</td>
<td>100.00%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>621,015</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Overseas-based borrowers

<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>4,544</td>
<td>4.1%</td>
<td>4.10%</td>
</tr>
<tr>
<td>$2,000 – 3,999</td>
<td>4,045</td>
<td>4.5%</td>
<td>8.57%</td>
</tr>
<tr>
<td>$4,000 – 5,999</td>
<td>5,513</td>
<td>5.0%</td>
<td>13.55%</td>
</tr>
<tr>
<td>$6,000 – 7,999</td>
<td>5,826</td>
<td>5.3%</td>
<td>18.81%</td>
</tr>
<tr>
<td>$8,000 – 9,999</td>
<td>6,161</td>
<td>5.6%</td>
<td>24.37%</td>
</tr>
<tr>
<td>$10,000 – 14,999</td>
<td>14,698</td>
<td>13.3%</td>
<td>37.64%</td>
</tr>
<tr>
<td>$15,000 – 19,999</td>
<td>11,565</td>
<td>10.4%</td>
<td>48.09%</td>
</tr>
<tr>
<td>$20,000 – 24,999</td>
<td>9,705</td>
<td>8.8%</td>
<td>56.83%</td>
</tr>
<tr>
<td>$25,000 – 29,999</td>
<td>8,493</td>
<td>7.7%</td>
<td>64.52%</td>
</tr>
<tr>
<td>$30,000 – 34,999</td>
<td>6,512</td>
<td>5.9%</td>
<td>70.40%</td>
</tr>
<tr>
<td>$35,000 – 39,999</td>
<td>5,738</td>
<td>5.2%</td>
<td>75.58%</td>
</tr>
<tr>
<td>$40,000 – 44,999</td>
<td>4,993</td>
<td>4.5%</td>
<td>80.09%</td>
</tr>
<tr>
<td>$45,000 – 49,999</td>
<td>3,758</td>
<td>3.4%</td>
<td>83.49%</td>
</tr>
<tr>
<td>$50,000 – 54,999</td>
<td>3,112</td>
<td>2.8%</td>
<td>86.30%</td>
</tr>
<tr>
<td>$55,000 – 59,999</td>
<td>2,539</td>
<td>2.3%</td>
<td>88.59%</td>
</tr>
<tr>
<td>$60,000 – 79,999</td>
<td>6,339</td>
<td>5.7%</td>
<td>94.31%</td>
</tr>
<tr>
<td>$80,000 – 99,999</td>
<td>2,939</td>
<td>2.7%</td>
<td>96.97%</td>
</tr>
<tr>
<td>$100,000 – 119,999</td>
<td>1,500</td>
<td>1.4%</td>
<td>98.32%</td>
</tr>
<tr>
<td>$120,000 – 139,999</td>
<td>868</td>
<td>0.8%</td>
<td>99.11%</td>
</tr>
<tr>
<td>&gt; $139,999</td>
<td>991</td>
<td>0.9%</td>
<td>100.00%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>110,739</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Inland Revenue administration data.

Figure 24 Distribution of loan balances at 30 June 2016

Source: Inland Revenue administration data.

Note: NZB = New Zealand-based borrowers, OBB = Overseas-based borrowers.

Table 17 and Figure 24 show that overseas-based borrowers are likely to have higher balances compared with New Zealand-based borrowers: 52 percent of overseas-based borrowers have loan balances over $20,000 and 37 percent of New Zealand-based borrowers do. Approximately 3 percent of overseas-based borrowers have balances above $100,000 and 16.5 percent have balances over $50,000, compared with 0.5 percent and 6.7 percent respectively for New Zealand-based borrowers.
borrowers. These large balances are a result of overseas-based borrowers being charged interest on their loans, as well as the high level of non-compliance and subsequent late payment interest.

Figure 25 shows the age distribution of New Zealand-based and overseas-based borrowers. The largest groups of New Zealand-based borrowers are in their early twenties, which includes students still studying. Overseas-based borrowers are more likely to be in their late twenties or thirties, because they will have left New Zealand after studying.
Borrower segments

The data below divides the set of all those with a loan into segments based on borrowing and repayment activity. Figure 26 compares those in New Zealand with those overseas for the last three financial years.

**Figure 26** Borrower numbers by activity

New Zealand-based borrowers who are inactive are mostly people whose income is below the repayment threshold. These people have no repayment obligations and therefore do not need to interact with the loan scheme. Inactive New Zealand-based borrowers make up 22 percent of total borrowers, but only have 17 percent of the total balance owing.

Inactive overseas-based borrowers make up 8 percent of total borrowers but have 81 percent of the default amount. These borrowers are not meeting their repayment obligations, though a small number are on a repayment holiday.

The total number of borrowers in each segment generally equates to the overall share of the segment in total nominal balance. The important observation from this analysis is the size of the group both borrowing and repaying. Of the 193,000 active borrowers, 45.6 percent are also repaying, compared with 44.3 percent last year. The average nominal loan balance of this group is $28,600, compared with $24,500 for the entire borrowing group overall. There could be a number of reasons why someone was both borrowing and repaying in the same year. One likely situation is that they have reached the end of their borrowing period, having graduated and entered paid employment. As they are only beginning to pay their loan back this would explain why the average nominal loan balance is larger for this group. Compared with the previous year, there has been a 0.6 percent decrease in the borrowing and repaying group, but the group only borrowing declined by 5.2 percent. This is consistent with the overall decline in enrolments and loan uptake since 2010 (see Sections 1.2 and 3.1).

Of overseas-based borrowers, 60 percent are inactive, mainly because their payments are overdue and Inland Revenue often does not have current contact details for these borrowers. However, this group has declined by 6.1 percent in 2015/16 as a result of more borrowers getting in contact with Inland Revenue and making repayments.

The analysis is focused on the following activity segments:

- **borrowing**—the group described in Section 3.1 who are currently borrowing from the scheme
- **borrowing and repaying**—students who are borrowing, but their income is above the threshold and they are repaying previous loans, or making voluntary repayments
- **repaying**—the largest borrower segment, which is described in Section 3.2, consisting of borrowers who have completed their study and are repaying their loans
- **inactive scheme participants**—borrowers with a positive outstanding loan balance, but not having any interaction with the scheme in 2015/16.

Source: Inland Revenue administration data.

Notes:
1. NZB = New Zealand-based borrowers, OBB = Overseas-based borrowers.
2. The graph shows the number of people who had a loan at some time in each June year, by repaying and borrowing activity.
3. 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.
4. Totals are as at 31 December, in the middle of each year.
5. A small number of people classified as borrowing while overseas have been assigned to the OBB Repaying or Inactive groups as appropriate.

The total number of borrowers in each segment generally equates to the overall share of the segment in total nominal balance. The important observation from this analysis is the size of the group both borrowing and repaying. Of the 193,000 active borrowers, 45.6 percent are also repaying, compared with 44.3 percent last year. The average nominal loan balance of this group is $28,600, compared with $24,500 for the entire borrowing group overall. There could be a number of reasons why someone was both borrowing and repaying in the same year. One likely situation is that they have reached the end of their borrowing period, having graduated and entered paid employment. As they are only beginning to pay their loan back this would explain why the average nominal loan balance is larger for this group. Compared with the previous year, there has been a 0.6 percent decrease in the borrowing and repaying group, but the group only borrowing declined by 5.2 percent. This is consistent with the overall decline in enrolments and loan uptake since 2010 (see Sections 1.2 and 3.1).

Of overseas-based borrowers, 60 percent are inactive, mainly because their payments are overdue and Inland Revenue often does not have current contact details for these borrowers. However, this group has declined by 6.1 percent in 2015/16 as a result of more borrowers getting in contact with Inland Revenue and making repayments.
3.4 Repayment times

This section looks at the repayment phase of loans. It gives information on how long it has taken and 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 loans in particular
- the strength of the labour market
- the type of study undertaken
- whether a borrower stays in New Zealand or spends long periods overseas
- the size of loan on leaving study.

Estimates of the time taken for former students to repay are made from the Student Loans Integrated Model, which uses data from the Integrated Data Infrastructure. This model is used for projections of repayment times. Although there are always limitations on the power of models to predict future behaviour, this model has proved reliable in its forecasting to date.

Forecast repayment times

Table 21 looks at the expected repayment times of recent tertiary leavers—those who last studied in 2014. Forecast repayment times are calculated using actual repayment data to the end of March 2016. Projections after then are from the Ministry of Education’s Student Loans Integrated Model.

### Table 21 Forecast repayment times for borrowers who left study in 2014

<table>
<thead>
<tr>
<th>Repayment times (years)</th>
<th>% of leavers</th>
<th>25th percentile</th>
<th>Median</th>
<th>75th percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>100%</td>
<td>4.3</td>
<td>8.4</td>
<td>16.1</td>
</tr>
<tr>
<td>By gender</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>41.0%</td>
<td>4.0</td>
<td>7.9</td>
<td>15.1</td>
</tr>
<tr>
<td>Female</td>
<td>59.0%</td>
<td>4.5</td>
<td>8.8</td>
<td>16.7</td>
</tr>
<tr>
<td>By level of study</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certificates</td>
<td>3.7</td>
<td>8.2</td>
<td>18.6</td>
<td></td>
</tr>
<tr>
<td>Diplomas</td>
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<td>By ethnicity</td>
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<tr>
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<td>8.3</td>
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</tr>
<tr>
<td>By leaving debt band ($000)</td>
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<td></td>
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</tr>
<tr>
<td>&lt;5</td>
<td>15.3%</td>
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<td>2.4</td>
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<tr>
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<td>5.3</td>
<td>11.3</td>
</tr>
<tr>
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<td>4.3</td>
<td>7.4</td>
<td>14.3</td>
</tr>
<tr>
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<td>8.3</td>
<td>15.4</td>
</tr>
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<td>By location</td>
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<td></td>
<td></td>
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<tr>
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<td>3.3</td>
<td>6.5</td>
<td>11.4</td>
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<tr>
<td>Not always NZ-based</td>
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<td>9.9</td>
<td>17.0</td>
<td>n</td>
</tr>
</tbody>
</table>


Notes:
1. Repayment times are in years.
2. ‘n’ indicates the model predicts that full loan repayment by this proportion does not occur.
3. The repayment times reported in this table significantly update the material in last year’s annual report and cover an interval of three years.
The median repayment time for all borrowers was 8.4 years. This is the time it will take for half of the borrowers who left study in 2014 to have fully repaid their loans. This compares with the median repayment time of 7.0 years for borrowers who left study in 2011.

The forecast median repayment time for 2014 leavers who remain in New Zealand is significantly less (6.5 years) than for those who spend some time overseas (17.0 years).

The 25th percentile is the time it will take for one-quarter of borrowers to have fully repaid (4.3 years for all 2014 leavers; 3.6 years for all 2011 leavers). The 75th percentile is the time it will take for three-quarters of borrowers to have fully repaid (16.1 years for all 2014 leavers; 12.1 years for all 2011 leavers).

Other notable aspects of the cohort of borrowers who left study in 2014 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 less than for any other qualification, 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. This model shows that some people who leave with large debts will be repaying for decades to come, and for those leavers with a debt of more than $70,000, a quarter of them will not have fully repaid their debt after 37.7 years
- overseas-based borrowers have expected repayment times more than twice as long as New Zealand-based borrowers.

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. The data is a mixture of actual repayment performance and projection.
2. The middle (blue) line shows median repayment time following study.

Figure 27 gives more information about repayment times by qualification level, showing repayment times for leavers in each year between 1997 and 2014. 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 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 recently been increasing more modestly.
CHAPTER 4

Costs of the scheme
CHAPTER 4  Costs of the scheme

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 2016 was $15,340 million (2015: $14,837 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 contemporary view of future discount rates. This differs from the carrying value calculation, which uses discount rates at the time of borrowing. The fair value has been reported in the accounts since 2003.

The fair value as at 30 June 2016 was $9,794 million (2015: $9,267 million).

**Definition: 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 had been made in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). 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).

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. The carrying value as at 30 June 2016 was $8,982 million (2015: $8,864 million).

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

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16 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.
17 For a detailed description see Statement of accounting policies in Chapter 5.
18 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 that 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, which is discussed later.

The accounts in Chapter 5 show that in 2015/16 lending was $1,522 million\(^1\) and an initial write-down on new borrowing expense of $659 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 $659 million—or on average 43.31 cents of each dollar lent.

There are several reasons for the size of the cost of lending:

- There is no interest on the loan for New Zealand-based borrowers, which means that the longer it takes to repay, the less value the government receives from the repayments.
- Borrowers in New Zealand are only required to make repayments when income exceeds the threshold level ($367 per week until April 2017), so time spent out of the workforce (for example while undertaking full-time study) delays repayments.
- Loans are written off by the government when a borrower dies or becomes bankrupt.
- Borrowers who are overseas are required to make repayments based on the size of their loan. A large proportion of borrowers overseas do not meet their repayment obligation, and while interest is being charged on these loans, and while most are expected to commence repaying again, a number are expected not to fully repay their loan.

\(^1\) $1,512 million of cash lending plus $10 million of establishment fee lending.

**Figure 28** Lending and initial write-down on this lending, actual and forecast

Source: Ministry of Education.
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 (a reverse item).

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

At 30 June 2016, before the valuation, the carrying value of student loans was $9,122 million. The valuation this year assessed the value of all loans at this date to be $140 million lower, at $8,982 million.

Factors that contributed to the impairment of the student loan portfolio during the 2015/16 financial year include:

- macroeconomic effects—where a lower forecast of earnings growth and lower forecasts of interest rates for those overseas reduced the valuation by $176 million
- updated modelling—which decreased the value by $40 million
- experience variation—which represents the difference between what had been predicted for 2015/16 at last year’s valuation and the actual results. This amounted to an increase in value of $40 million.

Adjustments for improvements added $36 million to the valuation. This was done to reflect expected improvements in study leavers’ incomes—factors that, because of timing, had not been assimilated in the modelling.

Together these factors amount to a decrease of $140 million. Figure 29 shows the impairment over the last 11 years.

Figure 29 The loan scheme’s impairment and the ratio of carrying value to nominal value as 30 June

Source: Ministry of Education.

Figure 29 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.

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20 From 2014/15, the student loan asset has been 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 30 shows lending and repayments in fiscal years from 2005/06 to 2015/16, together with four years of forecast.21

Figure 30 Lending and repayments actual and forecast

Source: Ministry of Education.

We see that in 2005/06, for every dollar the government received in repayments, it lent $2.02 to current students. This pattern of receiving one dollar in repayments and lending a further two dollars remained fairly static from 2005/06 to 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 Section 3.2, the sharp rise in receipts was caused by the increase in the repayment rate from 10 cents in the dollar to 12 cents in the dollar, combined with a surge of repayments associated with the removal of the voluntary repayment bonus. In 2013/14, this number increased a little to $1.46, but in the following two years the ratio fell. In 2015/16, the government lent $1.25 for every dollar received in repayments.

Over these last 11 years, annual repayments have increased from $486 million per year to $1,209 million this year. Over the same period, lending has increased too, but at a far slower pace (from $981 million to $1,512 million). The excess of lending over repayments (the line in Figure 30) was $495 million in 2005/06 and rose to a maximum of $771 million in 2009/10. This fell gradually over the following two years and in 2012/13 fell to $416 million. Last year it was $404 million and this year (2015/16) was the lowest over the last eleven years at $303 million.

The forecasts suggest that the net cash out in 2015/16 will rise slightly to $333 million, but falls over the following three years to $227 million in 2019/20.

This fall in cash cost is partly due to the increase in the repayment rate. However, the fall in the numbers borrowing is also a driver of this result. The number of people borrowing in a year has fallen by 14 percent from a peak of 212,500 in 2010 to 182,500 in 2015. Had this not happened, the net cash out in 2015/16 would have been around $550 million.

21 Budget Economic and Fiscal Update 2016.
4.4 Impact on the operating balance

The net expenses of the scheme can be viewed in cash terms as lending less repayments. A different way of looking at net expenses is the operating balance. 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 above) also changes the operating balance. The establishment fees charged to students every year they borrow also add to the operating balance.

Over the year ending 30 June 2016, there was interest unwind of $603 million. Subtracting the initial write-down on new borrowing of $659 million and the impairment of $140 million, and adding the establishment fee of $10 million, gives the operating balance movement for the year—a net expense of $186 million.

Figure 31 Operating balance

This ‘cost 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. Viewed this way, the net expense for the Crown over the last nine years has been $2,086 million, of which $790 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 become due sooner
• increased or decreased for any impairment resulting from a revaluation.

New lending over the year was $1,512 million and repayments were $1,209 million so the net cash paid out was $303 million. Over the year, the nominal loan balances increased by $503 million from $14,837 million to $15,340 million, and over this period the carrying value has risen by $118 million to $8,982 million.

The ratio of carrying value to nominal value was 59.7 percent in 2015 and has decreased to 58.6 percent this year.

Fair value

As part of the annual valuation, the valuers undertake a measurement of the fair value, which is disclosed in a note to the financial schedules in Chapter 5. The fair value has increased from 62.5 to 63.8 percent of the nominal value (refer to Figure 33).

The outcome of the fair value calculations depends on current assessments of the level of future discount rates, as well as other factors such as policy changes and macroeconomic conditions which affect the carrying value. Last year, the representative discount rate was 6.20 percent and this year it is 5.44 percent. This change has increased the fair value by $420 million. Offsetting this are the same factors which led to this year’s impairment—in fair value terms this is $101 million.

Figure 32 graphs three forecasts of loan repayments generated by current loans. The three lines are taken from the scheme valuations in 2014, 2015 and 2016. The lines show the expected number of cents repaid annually for each dollar currently on loan. The 2016 valuation compared with 2015 has lower repayments over the first eight years (lower by a total of 3.3 cents), with higher repayments thereafter.

Nominal value

Figure 33 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.
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 ‘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.

The cost of lending between January and June 2016 was 43.30 cents for each dollar lent, up from 37.43 cents per dollar a year earlier.

<table>
<thead>
<tr>
<th>Table 22 Average cost of lending a dollar, actual and forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Year</strong></td>
</tr>
<tr>
<td><strong>Average cost of lending in cents per dollar—as applied</strong></td>
</tr>
<tr>
<td>2007/08</td>
</tr>
<tr>
<td><strong>Average cost of lending in cents per dollar—fiscal years</strong></td>
</tr>
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<td>2007/08</td>
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<tr>
<td><strong>Average cost of lending in cents per dollar—calendar years</strong></td>
</tr>
<tr>
<td>2007/08</td>
</tr>
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</table>

Source: Ministry of Education.

Note: Forecasts are in italics.

Table 23 shows the main financial parameters of the scheme over the last 11 years and forecasts for a further four years. Adding up figures in this table shows that over the last 11 years the scheme has:

- lent out $14,833 million to students
- received $8,660 million in repayments
- written down new lending over the period by $6,404 million (and also incurred an initial write-down of $1,415 million in 2006)
- experienced an aggregate impairment of $1,487 million
- booked $5,537 million in interest unwind income.

The net result of the movements over the period shows that the asset was worth $6,465 million in 2005 and is now worth $8,982 million.
### Table 23 Nominal and carrying value movements

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</tr>
</tbody>
</table>

| **Carrying value** |         |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Open balance      | 6,465   | 5,569   | 6,011   | 6,741   | 6,553   | 6,749   | 7,249   | 8,291   | 8,288   | 8,716   | 8,864   | 8,982   | 9,272   | 9,555   | 9,772   |
| New lending       | 8       | 981     | 1,107   | 1,122   | 1,259   | 1,423   | 1,453   | 1,477   | 1,470   | 1,511   | 1,518   | 1,512   | 1,580   | 1,614   | 1,619   |
| Initial write-down | -1,415 |         |         |         |         |         |         |         |         |         |         |         |         |         |         |
| Establishment fee | 8       | 9       | 9       | 10      | 11      | 12      | 12      | 11      | 11      | 11      | 10      | 10      | 10      | 10      |
| Interest unwind   | 358     | 451     | 406     | 473     | 463     | 484     | 526     | 590     | 579     | 604     | 603     | 609     | 616     | 621     | 623     |
| Impairment        | -13     | -151    | 231     | -779    | -280    | 124     | 286     | -484    | -12     | -269    | -140    | 0       | 0       | 0       | 0       |
| **Closing carrying value** | 5,569  | 6,011   | 6,741   | 6,553   | 6,790   | 7,459   | 8,291   | 8,288   | 8,716   | 8,864   | 8,982   | 9,272   | 9,555   | 9,772   | 9,965   |

| **Average cost of lending in cents per dollar (headline)** | 31.17 | 41.15 | 40.25 | 39.15 | 47.39 | 45.25 | 44.62 | 36.19 | 41.35 | 39.35 | 43.31 | 41.7   | 40.3   | 40.3   | 40.3   |

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

**Notes:**
1. The balance at 30 June 2007 has been restated as per Table 15 of the 2008 annual report to exclude accrued interest that would be subsequently written off. All other nominal balance figures are as per the accounts as published in annual reports.
2. Interest and penalty amounts are only available for the 2008/09 and later fiscal years. Prior to this, these amounts are implicit in the balancing item.
3. The no interest for New Zealand-based borrowers policy came into effect on 1 April 2006.
4. The establishment fee is the amount charged by MSD to a borrower each time he or she takes out a loan. Before 2012, this was known as the administration fee.
5. The administration fee is an annual fee added to loans on 31 March. This fee is only charged if an MSD establishment fee has not been charged in the same tax year. This was first charged in 2011/12.
6. Prior to 2008/09, the balancing item includes penalties and loan interest charged. In 2011/12, the balancing item reflects adjustments over the period.
7. 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.
8. In all years, new lending is net of repayments made to MSD (which were mostly refunded course fees) and the repayments are those made to IRD only. In the 2011 and earlier annual reports, refunded course fees were counted in both the lending and the repayment lines.
9. From 1 April 2012, the initial write-down is applied to new borrowing net of refunded course fees. Prior to this, gross lending was written down.
10. In the forecast period, interest and penalties are considered together.
11. 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, 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 5.44 percent, which is also the rate used to derive the fair value of the asset. This discount rate consists of the Representative Risk Free Rate (2.46 percent), the Risk Premium (2.50 percent), and the costs of collection and administration of the scheme (0.48 percent).

The proxy of the Crown’s cost of holding the asset on 30 June 2016 is set out in Table 24 below.

Table 24  Government’s cost of ownership of the Student Loan Scheme

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of the asset</td>
<td>$9,794 million</td>
</tr>
<tr>
<td>Discount rate for the asset</td>
<td>5.44%</td>
</tr>
<tr>
<td>Cost of capital associated with the</td>
<td>$533 million</td>
</tr>
<tr>
<td>Student Loan Scheme</td>
<td>financial year 2016/17</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 for the implementation of new policies.

Table 25 Student Loan Scheme administration costs

<table>
<thead>
<tr>
<th></th>
<th>2011/12</th>
<th>2012/13</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Social Development</td>
<td>16.4</td>
<td>15.8</td>
<td>16.2</td>
<td>13.4</td>
<td>15.0</td>
</tr>
<tr>
<td>Inland Revenue</td>
<td>31.5</td>
<td>30.2</td>
<td>33.5</td>
<td>33.9</td>
<td>36.1</td>
</tr>
<tr>
<td>Ministry of Education</td>
<td>0.8</td>
<td>0.9</td>
<td>0.7</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Statistics New Zealand</td>
<td>0.7</td>
<td>0.7</td>
<td>0.7</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Total</td>
<td>49.4</td>
<td>47.6</td>
<td>51.1</td>
<td>48.7</td>
<td>52.6</td>
</tr>
</tbody>
</table>


Note: All amounts exclude GST.

Table 25 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.

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 MSD 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. This new policy improves value for money of student support expenditure by recovering more of the costs of administering the Student Loan Scheme.

Table 26 Estimated cost ratios

<table>
<thead>
<tr>
<th></th>
<th>2011/12</th>
<th>2012/13</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cents per dollar</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministry of Social Development cost for each dollar advanced</td>
<td>1.11</td>
<td>1.07</td>
<td>1.06</td>
<td>0.88</td>
<td>0.99</td>
</tr>
<tr>
<td>Inland Revenue cost for each dollar collected</td>
<td>4.11</td>
<td>2.87</td>
<td>3.25</td>
<td>3.04</td>
<td>2.99</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost as a percentage of turnover</td>
<td>2.20%</td>
<td>1.89%</td>
<td>2.00%</td>
<td>1.85%</td>
<td>1.93%</td>
</tr>
</tbody>
</table>


Note: All amounts exclude GST.

Table 26 shows the administrative costs from Table 25 in light of the scale of the scheme. The cost ratios for the scheme have remained relatively stable over the last four years.
CHAPTER 5

Financial schedules
5.1 Financial schedules for the year ended 30 June 2016

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 2016 of $8.982 million ($8.864 million at 30 June 2015).
## 5.2 Schedule of revenue and expenditure

**Table 27 Schedule of revenue and expenditure for the year ended 30 June 2016**

<table>
<thead>
<tr>
<th></th>
<th>2014/15 Actual $m</th>
<th>2015/16 Budget* $m</th>
<th>2015/16 Actual $m</th>
<th>2016/17 Forecast* $m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest unwind</td>
<td>604.2</td>
<td>605.0</td>
<td>603.3</td>
<td>608.0</td>
</tr>
<tr>
<td>Establishment fees</td>
<td>10.9</td>
<td>10.9</td>
<td>10.4</td>
<td>10.5</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>615.1</td>
<td>615.9</td>
<td>613.7</td>
<td>618.5</td>
</tr>
<tr>
<td><strong>Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impairment</td>
<td>269.0</td>
<td>100.0</td>
<td>140.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Fair value write-down on new borrowings</td>
<td>601.6</td>
<td>646.0</td>
<td>659.4</td>
<td>689.0</td>
</tr>
<tr>
<td><strong>Total expenditure</strong></td>
<td>870.6</td>
<td>746.0</td>
<td>799.4</td>
<td>789.0</td>
</tr>
<tr>
<td><strong>Net surplus/(deficit)</strong></td>
<td>(255.5)</td>
<td>(130.1)</td>
<td>(185.7)</td>
<td>(170.5)</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 for the year ended 30 June 2016.
- Details of the consolidated movements are shown in Note 1.
### 5.3 Schedule of assets

**Table 28** Schedule of assets as at 30 June 2016

<table>
<thead>
<tr>
<th>2014/15</th>
<th>2015/16</th>
<th>2015/16</th>
<th>2016/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>$m</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td><strong>Actual</strong></td>
<td><strong>Budget</strong></td>
<td><strong>Actual</strong></td>
<td><strong>Forecast</strong></td>
</tr>
<tr>
<td>1,122.0</td>
<td>1,251.0</td>
<td>1,209.0</td>
<td>1,303.0</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,122.0</td>
<td>1,251.0</td>
<td>1,209.0</td>
<td>1,303.0</td>
</tr>
<tr>
<td>Student loans</td>
<td>Total current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7,742.4</td>
<td>7,919.5</td>
<td>7,772.9</td>
<td>7,957.0</td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7,742.4</td>
<td>7,919.5</td>
<td>7,772.9</td>
<td>7,957.0</td>
</tr>
<tr>
<td>Student loans</td>
<td>Total non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8,864.4</td>
<td>9,170.5</td>
<td>8,981.9</td>
<td>9,260.0</td>
</tr>
<tr>
<td>Total assets</td>
<td></td>
<td></td>
<td></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 for the year ended 30 June 2016.
- Details of the consolidated movements are shown in Note 1.
5.4 Schedule of cash flows

Table 29 Schedule of cash flows for the year ended 30 June 2016

<table>
<thead>
<tr>
<th>2014/15</th>
<th>2015/16 Budget*</th>
<th>2015/16 Actual</th>
<th>2016/17 Forecast*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual</td>
<td>$m</td>
<td>$m</td>
<td>$m</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,113.8</td>
<td>1,161.0</td>
<td>1,208.9</td>
<td>1,247.0</td>
</tr>
<tr>
<td>99.0</td>
<td>97.3</td>
<td>98.3</td>
<td>99.1</td>
</tr>
<tr>
<td></td>
<td>(1,616.9)</td>
<td>(1,680.5)</td>
<td>(1,610.3)</td>
</tr>
<tr>
<td>(404.1)</td>
<td>(422.2)</td>
<td>(303.1)</td>
<td>(291.6)</td>
</tr>
</tbody>
</table>

Cash flows from – investing activities

Cash was provided from:

- Repayments received: 1,161.0
- Refunded course fees: 97.3

Cash disbursed for:

- New borrowings: (1,680.5)

Net cash outflow from investing activities: (422.2)

Net student loan cash outflow: (422.2)

*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 for the year ended 30 June 2016.
- 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 2016 and include forecast financial schedules for the year ended 30 June 2017. They have been combined to provide a single view of actual and forecast information.

References to the financial schedules incorporate the 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 2015/16 are those included in The Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2016.

The forecast 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 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 and circumstances as at 25 April 2016.

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 2016 (http://www.treasury.govt.nz/budget/forecasts/befu2016).

These assumptions are adopted as at 25 April 2016.

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 2016/17 will be incorporated into The Supplementary Estimates of Appropriations for the Government of New Zealand for the year ending 30 June 2017.
Financial instruments

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

Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that Inland Revenue will not be able to collect all amounts due according to the original terms of the receivables. Impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and the event has an impact on the estimated future cash flows of the loan that can be reliably measured. The amount of the provision is the difference between the asset’s carrying amount and the estimated impaired value.

Interest

Interest is calculated on the nominal student loan account balances on a daily basis at a rate determined by the government and was 5.3 percent per annum in the period 1 April 2015 to 31 March 2016. Interest is charged to New Zealand-based borrowers and overseas-based borrowers; however, there is a concurrent write-off for New Zealand-based borrowers under the interest-free policy.

Credit risk

For the Student Loan Scheme, credit risk is the risk that borrowers will default on their obligation to repay their loans or die before their loan is repaid, causing the scheme to incur a loss.

The Student Loan Scheme policy does not require borrowers to provide any collateral or security to support advances made. As the total sum advanced is widely dispersed over a large number of borrowers, the Student Loan Scheme does not have any material individual concentrations of credit risk. The credit risk is reduced by the collection of compulsory repayments from New Zealand-based borrowers through the tax system.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in interest rates. Changes could impact on the return on loans advanced. The interest rate and the interest write-off provisions attached to student loans are set by the government.

Changes in accounting policies

There have been no new relevant standards and interpretations issued this year and there has not been any 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 30 Consolidated movements schedule for the year ended 30 June 2016

<table>
<thead>
<tr>
<th></th>
<th>2014/15</th>
<th></th>
<th></th>
<th>2015/16</th>
<th></th>
<th></th>
<th>2015/16</th>
<th></th>
<th></th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td></td>
<td></td>
<td>Actual</td>
<td></td>
<td></td>
<td>Actual</td>
<td></td>
<td></td>
<td>Actual</td>
</tr>
<tr>
<td></td>
<td>$m</td>
<td></td>
<td></td>
<td>$m</td>
<td></td>
<td></td>
<td>$m</td>
<td></td>
<td></td>
<td>$m</td>
</tr>
<tr>
<td>Opening nominal balance</td>
<td>14,235.0</td>
<td></td>
<td></td>
<td>14,837.0</td>
<td></td>
<td></td>
<td>14,837.0</td>
<td></td>
<td></td>
<td>0.0</td>
</tr>
<tr>
<td>New borrowings</td>
<td>1,616.9</td>
<td></td>
<td></td>
<td>1,610.3</td>
<td></td>
<td></td>
<td>1,522.4</td>
<td></td>
<td></td>
<td>(1,522.4)</td>
</tr>
<tr>
<td>Borrowings transferred</td>
<td>0.0</td>
<td></td>
<td></td>
<td>0.0</td>
<td></td>
<td></td>
<td>1,522.4</td>
<td></td>
<td></td>
<td>1,522.4</td>
</tr>
<tr>
<td>Repayments</td>
<td>(1,113.8)</td>
<td></td>
<td></td>
<td>(1,208.9)</td>
<td></td>
<td></td>
<td>(1,208.9)</td>
<td></td>
<td></td>
<td>0.0</td>
</tr>
<tr>
<td>Refunded course fees</td>
<td>(99.0)</td>
<td></td>
<td></td>
<td>(98.3)</td>
<td></td>
<td></td>
<td>0.0</td>
<td></td>
<td>(98.3)</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>141.4</td>
<td></td>
<td></td>
<td>135.4</td>
<td></td>
<td></td>
<td>135.4</td>
<td></td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Administration and establishment fees</td>
<td>33.3</td>
<td></td>
<td></td>
<td>33.1</td>
<td></td>
<td></td>
<td>22.7</td>
<td></td>
<td>10.4</td>
<td></td>
</tr>
<tr>
<td>Penalties</td>
<td>58.4</td>
<td></td>
<td></td>
<td>63.8</td>
<td></td>
<td></td>
<td>63.8</td>
<td></td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Deaths and bankruptcies</td>
<td>(34.9)</td>
<td></td>
<td></td>
<td>(32.4)</td>
<td></td>
<td></td>
<td>(32.4)</td>
<td></td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Voluntary repayment bonus</td>
<td>(0.3)</td>
<td></td>
<td></td>
<td>(0.2)</td>
<td></td>
<td></td>
<td>(0.2)</td>
<td></td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Closing nominal balance</td>
<td>14,837.0</td>
<td></td>
<td></td>
<td>15,339.9</td>
<td></td>
<td></td>
<td>15,339.9</td>
<td></td>
<td></td>
<td>0.0</td>
</tr>
<tr>
<td>Adjustment due to initial fair value recognition and impairment</td>
<td>(5,972.6)</td>
<td></td>
<td></td>
<td>(6,358.0)</td>
<td></td>
<td></td>
<td>(6,358.0)</td>
<td></td>
<td></td>
<td>0.0</td>
</tr>
<tr>
<td>Total carrying value</td>
<td>8,864.4</td>
<td></td>
<td></td>
<td>8,981.9</td>
<td></td>
<td></td>
<td>8,981.9</td>
<td></td>
<td></td>
<td>0.0</td>
</tr>
<tr>
<td>Opening carrying value</td>
<td>8,715.8</td>
<td></td>
<td></td>
<td>8,864.4</td>
<td></td>
<td></td>
<td>8,864.4</td>
<td></td>
<td></td>
<td>0.0</td>
</tr>
<tr>
<td>Repayments</td>
<td>(1,113.8)</td>
<td></td>
<td></td>
<td>(1,208.9)</td>
<td></td>
<td></td>
<td>(1,208.9)</td>
<td></td>
<td></td>
<td>0.0</td>
</tr>
<tr>
<td>Refunded course fees</td>
<td>(99.0)</td>
<td></td>
<td></td>
<td>(98.3)</td>
<td></td>
<td></td>
<td>0.0</td>
<td></td>
<td>(98.3)</td>
<td></td>
</tr>
<tr>
<td>Establishment fees</td>
<td>10.9</td>
<td></td>
<td></td>
<td>10.4</td>
<td></td>
<td></td>
<td>10.4</td>
<td></td>
<td>10.4</td>
<td></td>
</tr>
<tr>
<td>New borrowings</td>
<td>1,616.9</td>
<td></td>
<td></td>
<td>1,610.3</td>
<td></td>
<td></td>
<td>1,522.4</td>
<td></td>
<td></td>
<td>1,522.4</td>
</tr>
<tr>
<td>Fair value write-down on new borrowings</td>
<td>(601.6)</td>
<td></td>
<td></td>
<td>(659.4)</td>
<td></td>
<td></td>
<td>(659.4)</td>
<td></td>
<td></td>
<td>0.0</td>
</tr>
<tr>
<td>Borrowings transferred</td>
<td>0.0</td>
<td></td>
<td></td>
<td>0.0</td>
<td></td>
<td></td>
<td>1,522.4</td>
<td></td>
<td></td>
<td>1,522.4</td>
</tr>
<tr>
<td>Impairment</td>
<td>(269.0)</td>
<td></td>
<td></td>
<td>(140.0)</td>
<td></td>
<td></td>
<td>(140.0)</td>
<td></td>
<td></td>
<td>0.0</td>
</tr>
<tr>
<td>Interest unwind</td>
<td>604.2</td>
<td></td>
<td></td>
<td>603.3</td>
<td></td>
<td></td>
<td>603.3</td>
<td></td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>Student loans carrying value</td>
<td>8,864.4</td>
<td></td>
<td></td>
<td>8,981.9</td>
<td></td>
<td></td>
<td>8,981.9</td>
<td></td>
<td></td>
<td>0.0</td>
</tr>
</tbody>
</table>
Note 2: Recognition

Student loan nominal value

The nominal balance is the sum of all obligations that borrowers have including loan principal, 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 2015. Some supplementary data from Inland Revenue and Customs, about loan transactions and borrowers’ cross-border movements for the period up to 31 March 2016, is also factored into the modelling.

Table 31 Significant assumptions

<table>
<thead>
<tr>
<th></th>
<th>30 June 2015</th>
<th>30 June 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying value</td>
<td>7.00%</td>
<td>6.93%</td>
</tr>
<tr>
<td>Effective interest rate</td>
<td>4.5%-6.2%</td>
<td>3.6%-5.5%</td>
</tr>
<tr>
<td>Interest rate applied to loans for overseas borrowers</td>
<td>0.3%-2.5%</td>
<td>0.4%-2.0%</td>
</tr>
<tr>
<td>Consumer Price Index</td>
<td>2.3%-3.5%</td>
<td>1.1%-3.0%</td>
</tr>
</tbody>
</table>

Source: Inland Revenue

Note: The effective interest rate is a weighted average rate across all cohorts.

The impairment of student loans in 2015/16 totalled $140 million (2014/15: $269 million). Factors that contributed to the impairment of the student loan portfolio include:

- macroeconomic effects—where a lower forecast of earnings growth and lower forecasts of interest rates for those overseas reduced the valuation by $176 million
- updated modelling—which decreased the value overall by $40 million. This was made up of two significant movements and a number of smaller changes:
  - an improvement in overseas-based borrower repayment behaviour, which has resulted in increased repayments. This increased the loan value by $388 million
  - changes to earlier assumptions on the recovery of domestic borrowers’ employment prospects and changes to the modelling of borrowers’ incomes, which together caused a $377 million impairment
  - other modelling changes, including updated mortality and bankruptcy assumptions, which led to a further $51 million impairment
- experience variance—which represents the difference between what had been predicted for the 2015/16 year at last year’s valuation and the actual results. This amounted to an increase in loan value of $40 million
- adjustments for improvements—which added $36 million to the loan value. This was done to reflect expected improvements in study leavers’ incomes, factors that, because of the timing, had not been assimilated in model development.

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.
- The proportion of borrowers becoming low earners (ie. earning below $25,000 per annum) has been steadily increasing since 2005. The income sub-models are based on recent experience so the current trends are being modelled. However, if this experience continues to deteriorate, these income models will need refining, which may result in an impairment.
- Any change in the adjustments for improvement 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 2016. 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 2016 has been determined to be $9,794 million ($9,267 million at 30 June 2015).

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 2016.

The significant assumptions behind the fair value are shown below.

**Table 32 Significant assumptions**

<table>
<thead>
<tr>
<th>30 June 2015</th>
<th>30 June 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair value</td>
</tr>
<tr>
<td>$9,267.0</td>
<td>Fair value ($m)</td>
</tr>
<tr>
<td>6.20%</td>
<td>Discount rate</td>
</tr>
<tr>
<td>($492.0)</td>
<td>Impact on fair value of a 1% increase in discount rate ($m)</td>
</tr>
<tr>
<td>$554.0</td>
<td>Impact on fair value of a 1% decrease in discount rate ($m)</td>
</tr>
</tbody>
</table>

**Note**: The discount rate is the single discount rate that is equivalent to a set of year-specific discount rates used to compute the fair value.

**Note 3: Reconciliation of impairment allowance account**

**Table 33 Reconciliation of impairment allowance account**

<table>
<thead>
<tr>
<th>30 June 2015</th>
<th>Impairment allowance account</th>
<th>30 June 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,448</td>
<td>Balance at beginning of year</td>
<td>1,717</td>
</tr>
<tr>
<td>269</td>
<td>Impairment expense recognised on receivables</td>
<td>140</td>
</tr>
<tr>
<td>1,717</td>
<td>Balance at end of year</td>
<td>1,857</td>
</tr>
</tbody>
</table>

Source: Inland Revenue
Independent Auditor’s Report

To the readers of Student Loan Scheme’s financial schedules for the year ended 30 June 2016

We have audited the financial schedules of the Student Loan Scheme (the Scheme) on pages 53 to 60 that comprise the schedule of assets as at 30 June 2016, 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 2016 and its financial performance and cash flows for the year ended on that date; and
- are consistent with the audited schedules of non-departmental activities from which they have been extracted.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Secretary for Education and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General’s Auditing Standards, which incorporate the International Standards on Auditing (New Zealand) and in particular with the International Standard on Auditing (New Zealand) 805: Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.

The financial schedules of the Scheme represent extracts from the audited schedules of non-departmental activities that are managed on behalf of the Crown by the Inland Revenue Department and the Ministry for Social Development. The financial schedules of the Scheme and the schedules of non-departmental activities from which they are derived do not reflect the effects of events that occurred subsequent to the date of our reports on the audited schedules of non-departmental activities of the Inland Revenue Department and the Ministry for Social Development. We expressed unmodified audit opinions on the non-departmental schedules of both the Inland Revenue Department and the Ministry for Social Development in our reports dated 30 September 2016.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor’s judgement, including the assessment of risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of
expressing an opinion on the effectiveness of Student Loan Scheme’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, as well as evaluating the overall presentation of the financial schedules.

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

**Responsibilities of the Secretary for Education**

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

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

**Responsibilities of the Auditor**

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

**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  
7 December 2016
Appendix 1: Management and design of the scheme

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, scheme performance management, and scheme 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 around 230,000 applications per year and making loan payments to students and tertiary education organisations. The Ministry of Social Development provides operational policy advice regarding student loan eligibility and entitlement.

Inland Revenue is responsible for collecting student loan repayments and ensuring repayment obligations are met by borrowers. Inland Revenue provides operational policy advice on matters concerning the collection of loans and is responsible for the Student Loan Scheme Act.

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 Integrated Data Infrastructure, or IDI.

Statistics NZ disclaimer

This report uses data from the IDI. Statistics NZ 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 NZ.

Legal structure and authority

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

The purpose of the Act is to:

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

Parameters of the scheme

Eligibility

To be eligible a student must be:

• a New Zealand citizen or a refugee or protected person (under the Immigration Act 2009)

Permanent residents (including Australians) are subject to a three-year stand-down before they can receive a student loan

• enrolled in an approved qualification offered by a recognised tertiary education provider

• studying:
  - full-time, or
  - part-time for a full year (32 weeks or longer), or
  - part-time for part of the year (less than 32 weeks) with a course load of 0.25 equivalent full-time student units or more.
In addition:

• students under 18 years 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 2010). Students may be eligible for additional entitlement beyond the 7 EFTS limit to:
  - finish a paper or course of study if it takes the student over the 7 EFTS limit
  - undertake 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)
• 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.

From 1 January 2017, there will be changes to student loan eligibility for people studying outside New Zealand for part of their New Zealand qualification. These changes are set out in Section 1.4 of this report.

Loan components

Loans have four components:

Compulsory fees

Students can borrow the full amount of their compulsory 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 compulsory 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.

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 2014, students could borrow up to $175.96 per week. From 1 April 2015, this was $176.86.

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, MSD charges an establishment fee of $60. This is added to the student’s loan balance at the first draw-down. The establishment fee is charged for each loan account established. If a student borrows for three academic years, this requires three loans to be established and therefore three establishment fees are charged, one for each academic year.

If a student cancels their loan within seven days of the account being established, and repays any money that has been drawn down, the $60 establishment fee (and any interest charged on it) will be waived. Otherwise, the establishment fee is always included in the loan balance.

An annual administration fee of $40 is charged to the borrower’s account by Inland Revenue if the loan balance is $20 or more at 31 March each year. This fee is not payable if an establishment fee has been charged in the same tax year.

Loan repayments

Inland Revenue handles the collection of loan repayments. Borrowers have obligations depending on whether they are defined as being New Zealand-based or overseas-based. Repayments from New Zealand-based borrowers are generally made through the tax system.

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

On 1 April 2013, the student loan repayment rate for New Zealand-based borrowers was increased from 10 to 12 cents per dollar in excess of the threshold.
In New Zealand—earning salary or wages

New Zealand-based borrowers are required to declare to their employer that they have a student loan as part of the PAYE (pay as you earn) deductions system. From 1 April 2012, deductions are made when a borrower earns over the pay period threshold (for example, if a borrower is paid weekly, the annual repayment threshold is divided by 52 weeks). These deductions are generally considered as meeting a borrower’s repayment obligation for that pay period, unless there has been a significant over- or under-deduction. This means there are no end-of-year repayment obligations for borrowers earning solely salary or wages.

Borrowers can apply for an exemption from having repayment deductions if they are in full-time study and expect to earn under the annual repayment threshold. Those who have two or more jobs can apply for a reduced student loan deduction rate on their secondary income, if they earn less than the pay period repayment threshold from their main job.

In New Zealand—adjusted net income

Borrowers have adjusted net income if they have income other than salary or wages, for example if they are self-employed. These borrowers generally make repayments in three instalments during the tax year in the same way that businesses pay provisional tax.

Borrowers with adjusted net income of $1,500 or more and whose total income is $20,584 or more (annual repayment threshold + $1,500) have the following obligations:

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

Overseas

Overseas-based borrowers are those defined as being overseas for 184 days or more. Interest applies to loans from the day after the borrower leaves New Zealand. The interest rate applying from April 2015 to March 2016 was 5.3 percent per annum, and is 4.8 percent for the tax year to March 2017.

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.

Repayment holiday

Borrowers who go overseas for 184 days (six months) or more can apply to Inland Revenue for a one-year ‘holiday’ from their repayment obligations and must do so within six months of leaving New Zealand. Interest accumulates on the loan during this period. Borrowers must provide contact details for an alternative contact person in New Zealand when applying for the repayment holiday.

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 additional deductions from salary or wages by using a special repayment code, automatic payment, online banking, or with credit or debit cards. Borrowers who are overseas can make an international money transfer, including fee-free repayments.

Overdue repayments and late payment interest

Collection of overdue loan repayments is achieved in the same way as for overdue taxes. If repayment obligations are not met by the due date, late payment interest will be added to the unpaid amount from the day after the due date, and then monthly until the overdue amount is paid in full. From 1 April 2015 to March 2016, the late payment interest rate was 0.743 percent monthly. From 1 April 2016, it has been 0.705 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 student loans. To be eligible, student loan borrowers must be living in New Zealand for 183 consecutive days or more, though some borrowers based overseas may be treated as New Zealand-based in limited circumstances. \(^\text{22}\)

Overseas-based borrowers do not qualify for an interest-free student loan and continue to be charged loan interest.

The interest rate for the tax year from April 2015 to March 2016 was 5.3 percent per annum. The interest rate is 4.8 percent per annum for the tax year from April 2016 to March 2017.

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\(^\text{22}\) Some borrowers may qualify for exemption from interest charges if they are overseas and, for example, they are studying, or working as a volunteer. Full details are available on ird.govt.nz
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 2015 supplemented with transactional data to March 2016. 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 (such as ethnic groups or gender) and the borrowing and repayment behaviour of borrowers in different fields or levels of study. In this year’s model, up to 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 2016 version of SLIM has 25 such sub-models. Together, these sub-models encapsulate former borrowers’ characteristics. These include borrowing and repayment behaviour, 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 (for example, 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 34 Student Loans Integrated Model assumptions

<table>
<thead>
<tr>
<th>Area</th>
<th>Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic assumptions</td>
<td>The Treasury publishes a central table of 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. 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 3.1 percent and 2.4 percent over the next four years, 2.7 percent for the following 15 years, then rising gradually to the long-term rate of 3.0 percent by 2056.</td>
</tr>
<tr>
<td>Discount rates</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. As with the CPI, the risk-free rates are as prescribed by the Treasury. The risk margin was determined by the consulting actuaries as 2.50 percent. 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 5.64 percent.</td>
</tr>
<tr>
<td>Income of borrowers</td>
<td>Personal income growth from ‘career advancement’ is modelled from the experience of the loan scheme and from Census data for longer durations. Salary inflation is imposed on top of this ‘career advancement’ analysis as an economic assumption.</td>
</tr>
<tr>
<td>Transitions between being a student, employment and overseas</td>
<td>Modeled from the recent experience of the loan scheme’s participants.</td>
</tr>
<tr>
<td>Voluntary repayments</td>
<td>The probability and amount of voluntary repayments of those not in study are modelled from the experience of the loan scheme since the introduction of the interest-free policy but before the introduction of the (discontinued) voluntary repayment bonus scheme. The output from the sub-models is then adjusted to allow for the impact of moving to pay period assessments.</td>
</tr>
<tr>
<td>Repayment threshold</td>
<td>$19,084 until 31 March 2017 and increasing by annual CPI thereafter. From April 2012, repayment obligations are based on pay periods rather than total annual earnings (see Pay period repayment threshold in the glossary). This means that some borrowers earning below the annual threshold of $19,084 may still end up having repayment obligations. The consulting actuaries allow for this by adjusting the $19,084 threshold according to the borrower’s income.</td>
</tr>
<tr>
<td>Resident underpayments</td>
<td>The probability and amount of underpayment by New Zealand-based borrowers not in study have been modelled from recent data and adjusted for the expected impact due to moving to pay period assessments, and changes to the underpayments collection process.</td>
</tr>
<tr>
<td>Area</td>
<td>Assumption</td>
</tr>
<tr>
<td>---------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Study repayments</td>
<td>The probability and amount of repayment by New Zealand-based borrowers currently studying have been modelled separately from New Zealand-based non-studiers, 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>Bankruptcy</td>
<td>Age-specific, graduated rates were constructed based on the experience of the loan scheme, and have 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>Mortality</td>
<td>Mortality rates are based on the experience of the scheme and have 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 MSD). 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 (FCCM) 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.

Borrowers overseas
Until 31 March 2007, a borrower living overseas was called a non-resident borrower and defined as a borrower not living in New Zealand in terms of section OE 1 of the Income Tax Act 1994.
From 1 April 2007, borrowers living overseas are referred to as ‘overseas-based borrowers’.

An overseas-based borrower now 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.
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.

**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 stabilisation policy**
The fee stabilisation policy was introduced in 2001 to prevent increases in tuition fees before the FCCM 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 (for example, 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**
Refer to Total interest rate.

**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**
In some previous years, interest has been charged on student loans. There were a number of provisions under which this interest was written off or cancelled. From 1 April 2007, interest write-offs ceased to exist due to the introduction of interest-free student loans. For more detail refer to previous years’ reports and the web document at www.educationcounts.govt.nz

**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 borrowers**
Borrowers who entered the loan scheme for the first time in a given year.

**New Zealand-based borrowers**
Borrowers who have lived in New Zealand for 183 days (six months) or more. Since 1 April 2006, New Zealand-based borrowers qualify for an interest-free student loan.

**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 borrowers**
Borrowers who have 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. Overseas-based borrowers are not eligible for an interest-free student loan unless they qualify for an exemption.23

**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 2012, 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 (for example, 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**
If income is from salary, wages, benefits or taxable pensions, tax is deducted automatically under the pay as you earn (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.

23 Some borrowers may qualify for exemption from interest charges if they are overseas and, for example, they are studying, or working as a volunteer. Full details are available on ird.govt.nz.
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. Pay period deductions are generally considered as meeting a borrower’s repayment obligation for that period, unless there has been a significant over- or under-deduction. 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. Once a person earns more than the threshold, they must pay 12 cents for every dollar earned over the threshold. The repayment threshold was set at $19,084 in the 2011/12 income year and will be held at that level until 31 March 2017. (See also Pay period repayment threshold.)

Student Achievement Component (SAC)
The Student Achievement Component is the government’s contribution to tertiary education organisations (TEOs) 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 TEO’s investment plan.

Student allowances
Income-tested grants provided to support 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.

Total interest rate
The interest charged on loans. Interest is adjusted annually from 1 April. The total interest rate:

• was 5.5 percent for 2014/15
• was 5.3 percent for 2015/16
• will be 4.8 percent for 2016/17.

From 1 April 2006, only overseas-based borrowers were liable for interest.

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. It excludes overpayments.

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