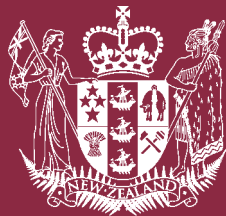


Student Support in New Zealand

Discussion Document

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MINISTERIAL FOREWORD

Tertiary education has a crucial role in helping equip New Zealanders with the necessary skills and knowledge to achieve the best they are capable of and so contribute to a vibrant and successful nation.

Access to tertiary education for all New Zealanders who have the ability and desire to study is fundamental to achieving the government's goal of fostering education and training to improve the nation's skills, knowledge and expertise. These are the tools we need to create the "knowledge society".

We are not prepared to limit participation in tertiary education as many other countries have done. But New Zealand's rapid growth in participation in tertiary education has put pressure on a number of aspects of tertiary education policy. Our goal must be to retain open access while encouraging participation in ways that contribute to our national capacity but remain fiscally sustainable.

More and more students are entering tertiary education. This has resulted in higher levels of total debt as more people use the Student Loan Scheme to help finance their study. The government is aware of public concerns about increasing levels of student debt and is committed to making tertiary education more affordable for students.

Over the last four years we have made a number of moves designed to reduce the cost of tertiary education to students. We have capped student loan interest rates, removed interest on student loans for those studying full-time and for those on low incomes, implemented changes to the student loan repayment rules, and stabilised tuition fees. These initiatives are intended, over the medium term, to reduce the level of debt and the length of time taken to repay loans.

The purpose of this document is to ensure that all those with an interest in these issues have a common base of information and share some common points of understanding as we move to develop our student support package. We want to achieve what has not been possible so far in any forum: a common understanding of the operation of the student support system and of the constraints on government, so that we can work together in identifying the best way forward.

There are similarities between issues relating to student loans and those relating to superannuation. Each involves setting aside money now in order to gain benefits from an investment in the future. Each requires contributions from individuals and government. Each requires some reasonable certainty about the level of financial contribution required. At a national level, each requires extremely large amounts of expenditure and involves significant proportions of the population. An enduring solution for both requires broad public consensus and support.

Intergenerational issues often emerge in debates about student support, as they do in superannuation. Many people point out difficulties for parents who are being encouraged to save for retirement at a time when they are supporting their children's tertiary education. It is imperative for New Zealand's future that our student support policies are not subject to the continual change and reversal that have characterised our superannuation policies.

The benefits of increased investment in tertiary education might appear to be clear, but we must be aware of the trade-offs. Other sectors of government also have pressing needs for expenditure. There will always be limits on the amount of money available. It is the role of government

to determine priorities and to use taxpayers' money in a prudent and equitable manner that ensures our social and economic objectives are met.

Policy issues in this area are complex. The amounts of money involved are vast. There are no easy answers. What is clear is that any changes will need to be incremental, and to be made over successive Budgets. The government's first priority for improving the student support system will be to meet its commitment to extend access to the Student Allowances Scheme. This will reduce reliance on the Student Loan Scheme.

I would like to invite you to take time to read this document and consider the information it contains. The government is interested in your feedback on what you consider to be the best steps forward for student support. I look forward to your suggestions.

A handwritten signature in dark blue ink that reads "Steve Maharey". The signature is fluid and cursive, with a long horizontal flourish extending from the end of the name.

Steve Maharey

Associate Minister of Education (Tertiary Education)

INTRODUCTION: BUILDING A NATION THROUGH TERTIARY EDUCATION

The government is committed to improving aspects of our student support system. It is looking to put together a package of initiatives that will build on the best features of what we have now, but which will also address some of the problems that have been identified in the student support system.

The government's recent tertiary education reforms – and its Tertiary Education Strategy for the 2002-2007 period – have a strong nation-building focus and are aligned closely with the government's broader vision for our nation's economic and social development.

The tertiary education system needs to have the capability to achieve:

- *excellence* – because increased skills, knowledge and research alone are not sufficient without a focus on improving quality
- *relevance* – because without a focus on our nation's needs, tertiary education will not be able to make an effective contribution to New Zealand's development
- *access* – because to maintain our progress both socially and economically, we must make the most of all of our peoples' potential. We must provide the opportunity for all New Zealanders to undertake tertiary study and obtain tertiary qualifications, as this will open up new horizons for individuals and also enable them to contribute to our knowledge society.

All three of these concepts are equally important – tertiary education is no longer a system that emphasises participation as its sole priority. The tertiary education reforms represent an interlocking and coherent policy package, focused on preparing New Zealand for the information age we are now entering.

Financial support for tertiary students is one of the most important parts of that policy package. This paper sets out the background to our system of student support – describing what it does well and how it compares

internationally, and exploring some areas where it does less well or could be improved.

The aim now is to work together in developing a broad consensus on what some of the future directions are for New Zealand's system of student support.

OUR DISTINCTIVE TERTIARY EDUCATION SYSTEM

Student support operates within a distinctive tertiary education system. We have one of the few systems in the world that has open access – every New Zealander with the ability and desire to take part in tertiary education can do so. What’s more, in most cases, students can do tertiary study in the subject areas and at the provider of their choice (if the subject area is offered by that provider). We also have a diverse but unified system that caters for industry training, vocational training, community education and foundation education, as well as for traditional higher education at degree and post-graduate levels.

The government’s current tertiary expenditure

The government spends a very high proportion of its budget on tertiary education. A 1999 OECD publication shows that the proportion of government expenditure devoted to tertiary education – 4.79 per cent – was the second highest in the OECD, just behind that of the United States.

The major items in the government’s tertiary education spending from July 2002 to June 2003 were as follows:

- \$1,754 million for tuition subsidies to fund student places at tertiary education providers
- \$108.5 million for student loans¹
- \$387 million for student allowances
- \$190.4² million for industry training and programmes such as Training Opportunities, Youth Training, Modern Apprenticeships, Gateway, and Skill Enhancement.

Other tertiary-education-related spending went to fund a variety of activities, including the Unemployment Benefit Student Hardship and Accommodation Supplement during

¹ It should be noted that this does not include capital expenditure (as loans will largely be repaid) which, if included, would increase this figure to \$952 million.

² These figures for industry training and other programmes are subject to audit and they might change. Unlike the figures in the first three items, this figure represents the money budgeted for these initiatives, not the money actually spent.

vacations, the Training Incentive Allowance for beneficiaries, community education, and administrative support.

Government expenditure on tertiary education – excluding spending on student support – is expected to reach 1.6 per cent of the country’s Gross Domestic Product (GDP) in the 2002/03 financial year, up from 1.3 per cent in 1999/2000. When you add in the spending on student support, government spending on tertiary education reaches 2.0 per cent of GDP, compared with 1.7 per cent in 1999/2000.

What the tertiary education system does well

New Zealand continues to enjoy very high and rising participation in tertiary education. Between 1997 and 2002 formal enrolments in tertiary education increased by 30 per cent³ whereas, over that time, the population of New Zealand grew by 4.2 per cent⁴.

Enrolments by women, Māori and Pasifika peoples increased at a much faster rate. Between 1997 and 2002, enrolments by Māori grew by 89 per cent, Pasifika peoples by 44 per cent, and women by 37 per cent.

The table below compares increases in enrolments at public tertiary institutions (TEIs) with increases in the population for the period between 1994 and 2002.

	Percentage Growth Between 1994 and 2002	
	Enrolments at TEIs	New Zealand’s population
<i>All</i>	35%	9%
<i>Women</i>	50%	9%
<i>Māori</i>	148%	18%
<i>Pasifika</i>	76%	39%

³ Source: 31 July enrolment data, Ministry of Education 1997-2002.

⁴ Source: Statistics NZ, population estimates 30 June 1997 and 30 June 2002.

Including enrolment data for private training establishments (PTEs) makes the growth even more pronounced. If we include PTE figures, overall enrolments between 1994 and 2002 grew by 61 per cent, and enrolments by women by 99 per cent.

As a result of New Zealand's commitment to open access for tertiary education, we now have one of the highest participation rates in the OECD. In 2002, the OECD reported that New Zealand's rate of entry to degree-level tertiary education was the second highest in the OECD, and our entry rate to vocational tertiary education was also second in the OECD. Ministry of Education projections suggest that enrolments are likely to rise by 20 per cent between 2001 and 2007⁵.

Expected contribution of the tertiary reforms

In addition to spending on increased access to tertiary education, the government is investing in the quality of the system. More than anything else, it has directed its efforts at getting *better value* for our spending.

Centres of research excellence have been established, and tertiary sector research funding is being made contestable and more closely tied to research quality. New policies, such as charters and profiles for tertiary education organisations and the assessment of strategic relevance, will encourage providers to be more student focused, to engage with employers and communities, and to respond to Treaty obligations. And next year, the government will be advancing its review of quality-assurance arrangements at tertiary education institutions. Quality is not an end point; it's a process of continual self-improvement to meet ever-increasing demands for excellence.

Quite simply, the government would be failing the taxpayer, students, the tertiary sector and New Zealand if it compromised the quality of our tertiary education purely to reduce the costs of tertiary education to students. The government needs to find the right balance between excellence, relevance and access if we are to succeed as a knowledge society.

⁵ Source: Ministry of Education, *New Zealand's Tertiary Education Sector 2001: Profile & Trends*.

What the government has done already

Since coming into office the government has worked quickly to meet its commitment to making tertiary education more affordable for students. For instance, the government has:

- stabilised fees
- removed interest on student loans for those studying full-time and for low-income part-time students
- implemented changes to the student loan repayment system which mean that once a student finishes studying, 50 per cent of his or her repayment obligation goes to base interest and the other 50 per cent goes to inflation interest and principal, resulting in reduced repayment times.

Since 2000, the government has agreed to spend (over a four-year period):

- \$420 million for writing off interest while studying for full-time full-year students and low-income students, allowing borrowing for student association fees, and retaining the 7 per cent interest-rate cap on student loans
- \$109.7 million spent in 2001 to help keep fees stable
- \$118.6 million spent in 2002 to help keep fees stable
- \$214.3 million to help keep fees stable in 2003
- \$9.7 million for reducing the fees for dentistry students.

In addition, it has introduced or expanded a range of other student-focused initiatives since 2000:

- \$430 million to increase tuition subsidies as part of introducing its fee maxima policy (from 1 January 2004)
- \$186.3 million to increase the number of people participating in Industry Training
- \$146.9 million for the Modern Apprenticeships scheme since its establishment in 2000, including the expected growth to 7,500 Modern Apprentices by June 2006
- \$23 million for a scholarships and research fellowships package
- \$19.7 million for enhancements to the Training Incentive Allowance
- \$6 million to extend student loans to part-time part-year students
- \$5 million to assist students with dependants who are facing hardship as a result of the timing gap between

their final student-allowance payment and the commencement of their benefit

- \$4.9 million for additional funding to improve services for students as a result of the Output Price Review
- \$4 million to Student Job Search for capability and infrastructure development to increase job placements for students that are linked to their study as well as assisting businesses to overcome skill shortages
- \$3.9 million on the KiwiCareers: Future-Proofing initiative, which will improve students' ability to make informed training and career-related decisions by improving access to free and impartial guidance and planning
- \$4.2 million for CareerPoint – Career Services 0800 freephone contact centre which assists students in making career and training-related decisions by providing impartial information and advice
- \$2.7 million for the Kbase-on-campus initiative (which extends student associations' internet access to the Ministry of Social Development's KBASE tool) and for improvements to the administration of student loans and allowances
- \$2.4 million on Improved Tertiary Education Decision-making, an initiative aimed at maximising investment in tertiary education by providing potential tertiary students with enhanced access to independent information and advice
- \$2 million to provide a 50 per cent increase in the maximum rate of the Accommodation Benefit paid to sole-parent students
- \$1.6 million to extend student allowances to 16- and 17-year-olds who have completed year 13 at school
- \$1.3 million for the student work programme (SNAP) to match the needs of businesses with the qualifications of students, to respond to the difficulty that businesses have in finding affordable and capable short-term employees, and to meet the needs of students for meaningful holiday work
- \$0.390 million to extend the Student Loan Scheme to prison inmates as part of an approved sentence-management plan
- \$0.290 million for three pilot programmes that focus on improving the transition to work or training for young people who have left school but are still too young to be eligible for a benefit.

A SHARED CONTRIBUTION

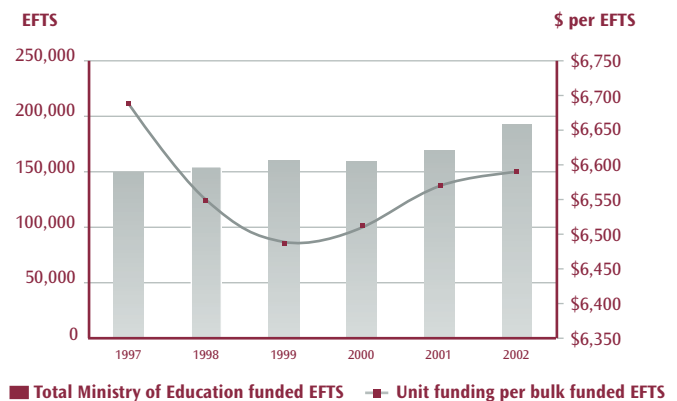
Financing tertiary education has become increasingly expensive as governments endeavour to meet rapidly expanding demand – and it has forced many countries to look for other sources of revenue to help meet the growing costs. In New Zealand, the government and students share the cost of tertiary education, with the government paying a tuition subsidy and students paying fees.

Participation in tertiary education in New Zealand dramatically increased from the mid 1980s. Total government spending on tertiary education also grew significantly. To make sure that participation was still funded, the share of the cost to be met by student fees rose. Students and the government paid more in total dollar terms throughout the period, although the government's level of funding per equivalent full-time student (EFTS) fell 29 per cent between 1991 and 1999. The government currently spends approximately \$7,500 (including GST) per EFTS on tuition subsidies.

Trends in tuition subsidies

The following graph shows the total EFTS enrolments and average tuition subsidies per individual EFTS in public tertiary education institutions (TEIs) over the last six years.

Total EFTS and average tuition subsidies per EFTS in TEIs 1997-2002⁶

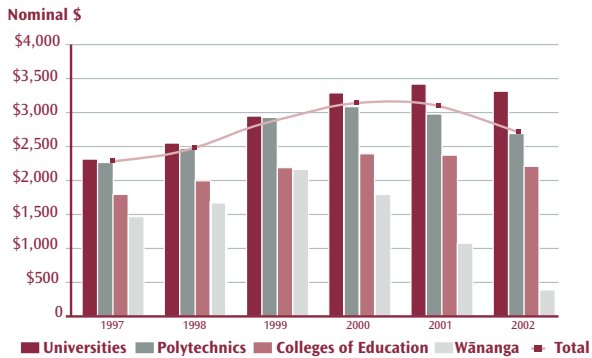


Trends in tuition fees

Average tuition fees per EFTS in public TEIs increased by 38.3 per cent between 1997 and 2000. They then dropped by 13.9 per cent between 2000 and 2002. These trends reflect the reductions in funding rates for tuition subsidies until 1999 (which led to compensating fee increases), the fee-stabilisation policy implemented in 2001, a shift to qualifications with lower fees, and the move to zero fees by some providers (initially the Southern Institute of Technology and Te Wānanga o Aotearoa and, more recently, a number of other providers).

⁶ The EFTS numbers only include places funded by the Ministry of Education and exclude international student places. Average tuition subsidies are GST exclusive. Source: TEI Sector Performance (1997-2002), Ministry of Education. Note that the extent of the increase in subsidy rates has been reduced by a trend towards more enrolments in lower funding categories.

Domestic tuition fees per EFTS in TEIs by sub-sector 1997-2002



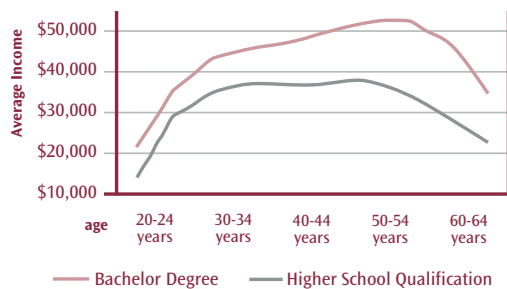
The government contribution to the cost of tuition in TEIs increased from 69 per cent in 2000 to 71 per cent in 2002.

Some advantages of tertiary education

In general, students who participate in tertiary education will find themselves in a better position than those who do not participate. For example, they are likely to have improved employment and income prospects after they have completed study.

Particular advantages for individuals include a lower likelihood of being unemployed as the level of qualifications rises; in addition, income levels increase along with qualification levels⁷. The graph below shows estimated lifetime incomes based on 2001 Census data for graduates from tertiary education alongside those who did not participate in or complete a qualification. Census 2001 data also show the same relationship between level of qualification and level of income for the Māori population, although it is not as strong as for the population overall.

Average income comparison between graduates and non-graduates



As well, there is some evidence of improved health outcomes and improved prospects for their children. Society gains, of course, from educated higher-earning citizens who are healthier and better able to provide for their children. These benefits are difficult to quantify, however, and vary significantly from individual to individual.

It should be noted that all analyses of this kind present averages and there is always variation beyond these averages. While many people will be in a better position when they have participated in tertiary study, tertiary education is an investment with an uncertain return. There are some individuals who do not receive high levels of lifetime income despite their training and/or qualifications.

In particular, the life circumstances of certain people will mean that the cost of their education does not lead to high post-study income during their working life. These life circumstances could include mental or physical illness, long periods of unemployment, or family commitments.

Some students from particular backgrounds may not wish to take on the risk of debt to finance their tertiary education, whatever the benefits later in life may be; or they may not value the opportunity because of poor information about the potential advantages.

The government is committed to open access for all, and to increasing the already high participation rates in tertiary education. So the cost to the government of moving back to a system where students pay only a very small share of the costs of tertiary education is extremely significant. For this reason, the government recognises that individuals and the government both need to invest together in the cost of tertiary education.

The government cannot afford to fully fund tertiary education or the student support system. It would cost around⁸:

- \$2,800 million over four years for the government to meet all of the tuition fees for students in public tertiary education institutions

⁷ Among many references that support these findings is the recent Statistics New Zealand report "Human Capital Statistics". 2003. Refer to: <http://www.stats.govt.nz/domino/external/pasfull/pasfull.nsf/web/Reference+Reports+Human+Capital+Statistics+2003?open>

⁸ These figures provide an indication only of expected costs and do not take into account any behavioural responses that may occur as a result of such policies. Costs would also increase with any expansion of the population of eligible students.

- \$5,500 million over four years to introduce a universal student allowance equivalent to the Unemployment Benefit for current students⁹
- \$230 million over four years to provide levels of support similar to that of the Accommodation Supplement to students who currently receive a student allowance.

It would also cost approximately \$6 billion to write off all existing student loan debt tomorrow.

The government simply cannot afford to pay for all the costs of tertiary education. It would mean spending less in other areas (such as health, income support or policing), or limiting the number of students eligible for a funded place. Limiting the number of students who could receive a funded place would be more likely to restrict access for people from disadvantaged backgrounds. This would be a reversal of the access and participation gains made over the past 15 years.

⁹ This does not include providing a universal Accommodation Benefit or Supplement.

OUR SYSTEM OF STUDENT SUPPORT

Access to tertiary education remains vital if we are to achieve our goals as a nation. And the current system of tertiary student support is a key means of spreading participation in tertiary education as widely as possible. The tertiary student support system plays an important role in achieving the government's overall objectives for tertiary education by reducing financial barriers to participation.

Student support refers to the *direct* funding the government provides to students to allow them to enter tertiary education – primarily through student allowances and student loans. The government also provides financial support to students through a range of scholarships, and also through the Training Incentive Allowance. Furthermore, the government makes a financial contribution to students who participate in tertiary education by providing subsidies for tuition, industry training, Modern Apprenticeships, and adult and community education.

Students may receive support from a number of sources, including their parents and by doing part-time work. A number of students, particularly part-time students, may also rely on social security benefits for their main source of income¹⁰, and may have access to a range of supplementary assistance under the Social Security Act (for example, the Disability Allowance, Child Care Subsidy, Special Benefit, Special Needs Grant, and recoverable assistance). In addition, students with dependent children may be eligible to receive family assistance.

¹⁰ Full-time students are not eligible for an unemployment benefit, but may be eligible for the Domestic Purposes Benefit, Widow's Benefit or Invalid Benefit. These beneficiaries also have access to the Training Incentive Allowance.

The principles underlying the student support system

The government believes that, to be effective, our student support system must be built on a set of underpinning principles that reflect New Zealand's needs and circumstances. These are:

- *To maintain high levels of participation in, and completion of, tertiary education:* individual and national success requires a high level of achievement, and a lifelong commitment to learning. New Zealand currently has internationally high levels of participation in tertiary education, and the government believes strongly that it is important to maintain and improve participation. Open access should remain for all those with the desire and the ability to enter tertiary education.
- *To ensure that New Zealand's tertiary education system makes the best possible contribution to national development:* tertiary education is a major contributor to New Zealand's social and economic growth. Any reforms to student support must complement the government's Tertiary Education Strategy.
- *To ensure equity and fairness:* student support should recognise that students have different backgrounds and different access to resources, and that they will have different circumstances after study. Extra assistance should be available to those who need it, and the system should not place unreasonable burdens on anyone.
- *To ensure that government investment in student support and tertiary education is financially sustainable:* tertiary education is an expensive undertaking, and the government's investment in education is already significant. Any improvements to student support must be affordable for the government in the medium term.
- *To ensure that tertiary education is affordable for students:* it is important that the cost of tertiary

education does not deter students from participating, now and in the future. Equally importantly, we must ensure that students' post-study payments do not significantly affect the decision-making of our most talented and highly trained people in ways that are undesirable for New Zealand.

- *To ensure consistency with the wider social assistance system:* the design and delivery of the wider social assistance system (of which student support is a part) should ensure that the system does not create disincentives that discourage beneficiaries and low-income earners from participating in tertiary study.

In assessing our student support system, we need to keep these principles to the fore. The following sections describe the current student support system.

Student allowances

The Student Allowances Scheme is designed to help people who are not in a position to support themselves with the assistance of their families, to meet their living costs while they are studying full-time. Around 65,000 students are eligible for a student allowance each year¹¹.

Allowances are currently¹² available to:

- single students under 25 whose parents earn a combined income before tax of less than \$50,752 (if the student lives away from home) or \$45,760 (if the student lives at home)
- students under 25 who are considered to be independent from their parents, or cannot reasonably be expected to rely on parental support, or who have been (or are currently) married
- students over 25 who have a low income.

Students in all three categories may earn up to \$135.13 (gross) per week from other sources while they are studying. If they earn more than that, students lose their entire student allowance for that week. This system is known as "cliff-face" abatement. Its purpose is to deter full-time students from working excessively during the in-study period, and it also applies to semester breaks of less

than four weeks. One trend that is emerging, however, is for more and more students – throughout the OECD and not just in New Zealand – to combine full-time study and part-time employment.

The amount of allowance paid to single students under 25 depends on how much their parents earn in total. If their parents earn less than \$28,079, the student receives a full allowance. This is \$107.76 per week if a student is living at home. Students whose parents earn a total of between \$28,079 and \$50,752 receive a partial allowance (depending on whether the student is living at home or not). Students living away from home generally receive more than those who live at home, and students over 25 generally receive more than those aged under 25. Students who have dependent children and partners receive more than those students who do not.

Students who receive an allowance and live away from home, or who have a dependent partner, may also receive an Accommodation Benefit to help meet their costs of living. The amount of Accommodation Benefit paid varies, depending on where the student is living.

Students may receive an allowance for a maximum of 200 weeks (approximately five years) over their lifetime, but some students in particular programmes may receive more.

Despite the parental-income thresholds for student allowances, some 39 per cent of New Zealand full-time students receive a full or partial student allowance. This proportion is similar to that in Australia and compares favourably with countries such as England and Canada. It is slightly below the percentage in the United States and considerably below that in, for example, Ireland and the Netherlands.

In 2001, slightly more women (51 per cent) than men received a student allowance. But this percentage is smaller than the percentage of women who are domestic full-time students (55 per cent).

For the same year of those students for whom data on ethnicity are available, 59 per cent of student allowance recipients were European/Pakeha, 17 per cent were Māori, 17 per cent Asian, 7 per cent Pasifika students, and 1 per cent were from other ethnic groups.

¹¹ 2002 figures.

¹² From 1 January 2004 some 16-and-17-year-olds who have completed year 13, or who have been successful in University Bursary if they have not completed year 13, will be able to access the Student Allowances Scheme.

The government's commitment to improving student allowances

The government has a stated commitment to reducing the reliance of students on the Student Loan Scheme by bringing more students into the student allowance net. It will do this by adjusting the parental income thresholds – which will involve significant government expenditure.

The question is: What is the best way of doing this? Moving the bottom parental income threshold increases the number of students receiving a full allowance. Such a move would not affect those currently below the threshold but would give a greater level of assistance to those from lower-income backgrounds who are just above the threshold. Moving the top threshold increases the number of students receiving a partial allowance (and so assists a larger number of people from middle-income backgrounds).

The government intends to move both thresholds, but has the option of moving one threshold more than the other, depending on where it sees the most benefit for students. As an example, for a cost of \$50 million over three years, it would be possible to increase the number of students gaining a partial allowance by 4,500 recipients a year by shifting the upper parental-income threshold. This would represent a 7 per cent increase in students eligible for at least a partial allowance. Devoting the same expenditure to increasing the bottom threshold would increase the numbers receiving a full allowance, but would not significantly increase the total number of students receiving allowances.

The government has also signalled that it intends to look at assisting families with more than one dependent child, and non-custodial parents. These types of families face additional costs when it comes to putting their children through tertiary education. The Student Allowances Scheme may not fully recognise the extent of these costs.

For **families with more than one child aged 16 and over**, the parental income thresholds for student allowances are adjusted by \$2,200 for each child in recognition of the additional costs that parents face when supporting additional children in full-time secondary or tertiary study. There may be a case for extending the parental income threshold for student allowances for families with more than one dependent child under 16. Any changes to the parental income threshold for student allowances need to take account of changes in social assistance generally.

A **non-custodial parent** is separated from the parent who has the primary care giving responsibility for their children. For single students under the age of 25, the incomes of both parents are assessed to determine the eligibility and entitlement to student allowances¹³.

Questions have been raised about the fairness of the parental income testing regime for non-custodial parents. Expecting non-custodial parents to make a full contribution towards their children's education may not be realistic, and may unfairly penalise students whose non-custodial parents make no contribution whatsoever. It's not known whether or not non-custodial parents do, on average, make smaller contributions – and it could be argued that there are increased costs for parents in running two households.

Support for students during non-study periods

There is an expectation that students will move into employment over vacation periods. Student allowances, the Accommodation Benefit and student loans are not available to students during non-study periods of more than three weeks' duration.

Student Job Search is a service provided to help students find vacation jobs. In addition, financial support is available for students who are unable to find work and who are in hardship. Payments available to full-time students during non-study periods are the Unemployment Benefit Student Hardship (UBSH) and the Accommodation Supplement. Other assistance under the Social Security Act may be available during study and vacation periods (for example, the Disability Allowance, Special Benefit, and Special Needs Grant).

The UBSH is designed to provide short-term income support while people are seeking vacation employment. To be eligible for the UBSH, students must demonstrate hardship (including meeting a cash-assets test); and they must be available for, and actively seeking, full-time work. Students must have attended an approved tertiary education provider before the break and must be attending an approved provider after the break.

Income-testing provisions for the UBSH are designed to provide incentives for students to maximise their earnings

¹³ A student can apply to have only one parent's income assessed, if his or her parents are not living together and the student is "independent" from the non-custodial parent.

through full-time work. A UBSH payment is abated at 70 cents for every dollar earned on any earnings greater than \$80 per week. This is in line with the Unemployment Benefit abatement regime. Cut-out points vary according to the individual student's circumstances, ranging from \$234 per week for those receiving the single "at home" rate to \$489 per week for a married couple with children.

Rates of payment of student allowances and the UBSH are generally aligned, but differences occur for certain groups:

- Student allowances have an "at home" rate for those aged 18 to 24 (\$107.76 maximum rate) whereas UBSH has an "at home" rate for 18- and 19-year-olds only).
- Student allowances have an "at home" rate for recipients 25 years and over (\$129.31 maximum rate) whereas UBSH does not (\$161.65).
- UBSH and the Accommodation Supplement are tested and abated for personal and partner income only. They are not tested for parental income.

The differences between student allowances and the UBSH have arisen because of historical factors. There may be scope to improve the interface between the social assistance and student support systems to provide a more streamlined process for students while they are studying.

There is a minimum stand-down period of one week for people applying for the UBSH, which is in line with stand-down provisions for all social security benefits. Longer stand-down periods may be imposed, depending on the applicant's income over the preceding six months. For students with dependants who are experiencing hardship as a result of the delay between their last student allowances payment and commencement of the UBSH, a non-recoverable payment is available¹⁴. Other students experiencing hardship as a result of the stand-down may be eligible for a recoverable Special Needs Grant.

¹⁴ Student Allowance Transfer Grant.

Student loans

Student loan schemes around the world differ in the provisions about:

- who can borrow
- what people can borrow for
- how repayments are made
- how hardship provisions, if any, are organised.

In New Zealand, we have wide access to loans, money can be borrowed to cover the costs of living as well as the costs of studying, and repayments are made through the tax system according to the borrower's ability to repay.

These features are described in detail below.

Student loans were introduced in New Zealand in 1992 and, at present, the Student Loan Scheme assists around 150,000 students in undertaking their tertiary education. The scheme allows full-time and part-time full-year New Zealand students¹⁵ to borrow:

- the funds necessary to cover tuition fees¹⁶
- up to \$1,000 per annum for course-related costs
- up to \$150 per week for full-time students' living costs, less any student allowance received.

Student loan debt is written off only in cases of death or bankruptcy.

Apart from the financial limits described above, there are no restrictions on the ability of full-time students to apply for student loans. This contrasts with the Student Allowances Scheme, which requires a certain level of academic performance each year to retain eligibility for allowances.

From 1 January 2004, some students who are part-time for part of the year will be able to access the tuition fee component of the loan scheme.

¹⁵ This includes New Zealand permanent residents as well as citizens, but excludes undischarged bankrupts (who are denied access to the scheme).

¹⁶ Students in public tertiary institutions (universities, polytechnics, colleges of education, and wānanga) can borrow the full amount of their tuition fees. Until 2005, students in private training establishments are entitled to borrow up to \$6,500 per annum for their fees. From 2005, the Student Loan Scheme compulsory fee component will be linked to fee/course cost maxima.

The Student Loan Scheme is known as an income-contingent loan scheme, which means that borrowers are not required to repay any money until they earn sufficient income. Repayments are made through the tax system, and begin once a borrower earns more than the repayment threshold (currently \$15,964). Compulsory repayments are set at 10 per cent of all income earned above the repayment threshold¹⁷.

From 2000/01, the government capped the rate of student loan interest at 7 per cent in an effort to give greater certainty to students. The 7 per cent interest rate is made up of a base rate (currently 4.2 per cent) and an inflation component (currently 2.8 per cent).

Interest write-offs

While the notional interest rate is currently 7 per cent a year, a large proportion of interest is written off. The effective average interest rate on student loans for the 2002/03 year was 3.5 per cent.

Various types of interest write-offs are available to certain groups of borrowers:

- All full-time students, and part-time students earning under \$25,909, have their interest charges written off at the end of the income year in which the study was completed, and so do not pay interest on their loan while they are studying.
- Borrowers who earn less than the repayment threshold have only an interest charge equal to inflation added to their loan, and so no borrower's loan increases by more than the rate of inflation in any year.
- Only 50 per cent of a borrower's repayment obligation in any one year is used to pay the base interest charge. The other 50 per cent is credited first to the inflation component of the interest charge, with any balance being credited to the loan principal. (The amount of the base interest charge in excess of 50 per cent of the repayment obligation is written off.)

The effect of these interest write-offs is that \$198 million of interest accrued during 2002/03 was written off. This is just over 50 per cent of all interest on student loans for that year. Around 75 per cent of borrowers in 2002/03 had some interest written off. The write-offs are designed to give a greater benefit to those with low earnings. Since

the beginning of the scheme, a total of \$612.2 million in interest has been written off.

The cases below show the effect of the interest write-off policy on certain students:

Three borrowers, Hannah, David and Catherine have all finished study. Each has a Student Loan Scheme debt of \$14,000. Their incomes in the year following study are \$15,000, \$25,000 and \$35,000 respectively. These examples assume that no repayments are made during the year. If repayments are made, the interest charge would be less.

The interest rate on Student Loan Scheme balances is 7% per annum, comprising 4.2% base interest and an inflation component of 2.8%.

On a Student Loan Scheme balance of \$14,000, the interest is \$980, comprising \$588 base interest and \$392 inflation component.

Hannah

Hannah's income is \$15,000, which is under the repayment threshold of \$15,964. So she has no compulsory repayment, and so the base interest on her loan is completely written off. At the end of the year, Hannah's loan balance is her opening balance (\$14,000) plus the inflation component of her interest (\$392).

In nominal terms, Hannah's end-of-year balance is 2.8% above the original balance. In real (inflation-adjusted) terms, the balance hasn't changed.

¹⁷ This describes the repayment regime for those who remain in New Zealand. Different rules apply to those resident overseas.

David

David's income is \$25,000. His compulsory repayment is 10 cents in each dollar of income above \$15,964. This works out to be \$904. Only 50 per cent of David's compulsory repayment can be used to pay his base interest charge – so the difference between his base interest charge (\$588) and that 50 per cent (\$452) is written off. Thus \$136 is written off. The other half of David's compulsory repayment is used to pay the inflation component of his interest (\$392); and any that is left (\$60) is used towards paying off the principal.

In nominal terms, David's end-of-year balance (\$13,940) is 0.43% below the original balance. In real (inflation-adjusted) terms, the balance has fallen by 3.14%.

This is summarised in the table below:

Opening loan balance 1 April 2003	\$14,000
Compulsory Repayment	\$904
Interest charge	\$980
CPI interest	\$392
Base interest	\$588
Base interest write-off	
Base interest charged	\$588
Less 50% repayment obligation	\$452
Written off	\$136
CPI interest	\$392
Less 50% repayment obligation	\$452
Reduction in principal	(\$60)
Closing balance 31 March 2004	\$13,940

Catherine

Catherine's income is \$35,000. Her compulsory repayment is 10 cents in each dollar of income above \$15,964 – and so works out to be \$1,904. Catherine's compulsory repayment covers all of the interest charged (that is, both the base interest and the inflation component – a total of \$980). This leaves \$924 towards paying off the principal.

At the end of the year, the outstanding balance on Catherine's loan is \$13,076. Her debt has reduced by 6.6% in nominal terms, and by 9.1% in real (inflation-adjusted) terms.

Student loan data

The number of student loans has grown each year since the scheme was introduced. In 2002, around 57 per cent of eligible students took out a loan. Of those borrowers, about 93 per cent took out a loan to pay their fees.

More women (57 per cent) than men use the Student Loan Scheme – roughly in proportion to their higher participation in tertiary education – although women tend to borrow less. On average, women borrow \$5,845 per year compared with \$6,677 per year for men.

In the 2002 year, of those students for whom data on ethnicity are available, just under half of all student loans borrowers were Pakeha. Māori borrowers have increased steadily as a proportion of all borrowers throughout the 1990s. In 2002, the proportion of Māori borrowers was 12 per cent, slightly below their overall representation in the domestic student population (16 per cent). A similar trend can be seen for Pasifika students: borrowing increased during the 1990s; and, in 2001 and 2002, around 5 per cent of borrowers were Pasifika students.

More than 70 per cent of borrowers are 30 years of age or younger, with just over half being under the age of 25. 1.72 per cent of borrowers over the age of 55.

Currently, the average period for repayment of a student loan is just under 10 years – similar to many other countries with student loans. There is concern, however, that repayment times for some groups are considerably longer than the average. Women, for instance, have an average repayment time of 11.1 years. Māori and Pasifika men and women have longer repayment times than their European counterparts. It is likely that lower life time earnings coupled with periods out of the workforce to raise children will lengthen repayment times for women.

Average student loan repayment times (years)

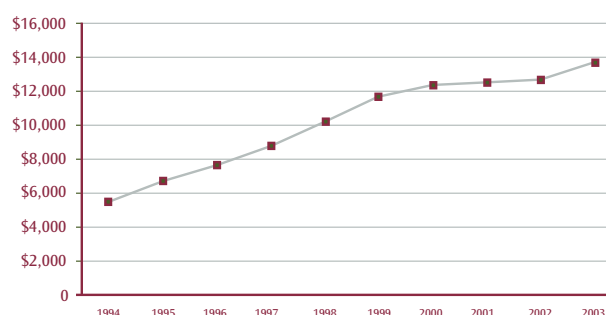
	Males	Females	Overall
<i>European</i>	6.8	10.6	8.9
<i>Māori</i>	7.4	10.8	9.4
<i>Other</i>	9.0	13.0	11.2
All groups	7.4	11.1	9.5

There is a relatively small group of borrowers who, because of life circumstances such as periods of unemployment or health problems, make little progress towards repaying their student loans and are unlikely to pay off their debt for a long time (if ever). Some countries allow people who are unable to pay back their loans to write them off after a certain period of time.

Internationally, most write-off periods range from 20 to 30 years after the loan period. There are usually stringent eligibility conditions attached to any loan write-off.

On 30 June 2003, the average student loan balance stood at \$13,680 – an increase of 8.2 per cent on 30 June 2002. This follows a relatively stable period between 1999 and 2002. Our analysis suggests that one of the main causes has been the large number of people fully repaying their loans¹⁸ and therefore removing a large number of low-value loans, including small balance write-offs. There was a 27 per cent increase in the number of fully repaid loans in 2002/03.

Average student loan balance at 30 June



¹⁸ There has been an increase in voluntary repayments.

Of loans held by borrowers who are making repayments, just over 50 per cent are for amounts less than \$9,500 and about 70 per cent are for amounts less than \$15,000. About 5 per cent are over \$40,000, while around 1 per cent (representing some 6,316 borrowers) are for more than \$55,000.

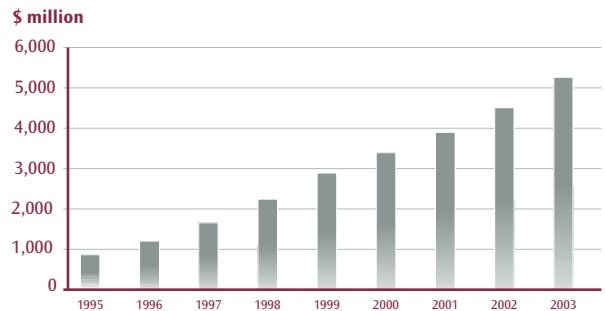
Range of loan balances on 30 June 2003

Range of Loan Balances	Number of Borrowers	Percentage	Cumulative Percentage
\$1 to \$1,999	37,637	9.65%	9.65%
\$2,000 to \$3,999	43,266	11.09%	20.74%
\$4,000 to \$5,999	46,901	12.03%	32.77%
\$6,000 to \$7,999	40,948	10.50%	43.27%
\$8,000 to \$9,999	34,424	8.83%	52.09%
\$10,000 to \$14,999	62,259	15.96%	68.06%
\$15,000 to \$19,999	36,926	9.47%	77.52%
\$20,000 to \$24,999	26,877	6.89%	84.41%
\$25,000 to \$29,999	18,087	4.64%	89.05%
\$30,000 to \$34,999	13,556	3.48%	92.53%
\$35,000 to \$39,999	9,039	2.32%	94.84%
\$40,000 to \$44,999	6,333	1.62%	96.47%
\$45,000 to \$49,999	4,539	1.16%	97.63%
\$50,000 to \$54,999	2,919	0.75%	98.38%
\$55,000 to \$59,999	2,038	0.52%	98.90%
\$60,000 to \$79,999	3,344	0.86%	99.76%
\$80,000 to \$99,999	747	0.19%	99.95%
over 99,999	187	0.05%	100.00%
Total	390,027	100.00%	100.00%

There were 390,027 borrowers with outstanding debt as at 30 June 2003.

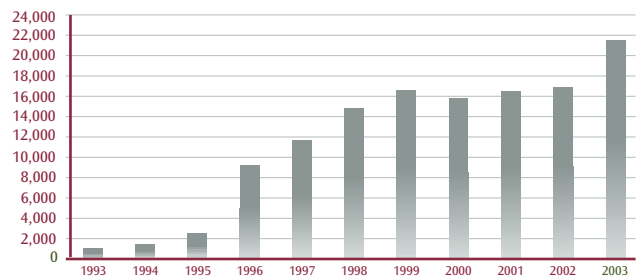
The total outstanding debt held by Inland Revenue at 30 June 2003 was \$5.267 billion (a rise of 15 per cent on the same date in 2002). Taking into account the debt held by the Ministry of Social Development at 30 June 2003 and the doubtful debt provision¹⁹ (\$723.8 million), the overall student loan debt is around \$6 billion.

Student Loan Debt with Inland Revenue at 30 June



More than 21,000 New Zealanders repaid their student loans in the year to 30 June 2003. This is an increase on the previous period, however, a portion of the loans repaid in this period related to Small Balance write-offs for amounts less than \$10²⁰. The total student loan repayments collected by Inland Revenue since the scheme began have now reached \$1,869 million.

Number of student loans repaid



¹⁹ This is currently calculated at 11.4 per cent of the value of outstanding debt.

²⁰ During the 2001/02 fiscal year the under \$10 write-off process did not occur in April 2002 as scheduled. This work ran in August 2002 and in April 2003. The effect was an increase in the numbers of loans repaid during the 2002/03 fiscal year.

As the Student Loan Scheme matures, repayments will rise to match the amount of borrowings more closely. This means that the rate of increase in student loan debt will slow and eventually stabilise.

For 2003, the government estimates that there will be \$429 million more borrowed than is repaid. As the number of borrowers entering the workforce increases and as their earnings rise, the amount of repayments will start to exceed the amounts drawn down – especially as the numbers of people in the typical student age-groups falls. By the year 2016 it is estimated that the scheme will have higher repayments than borrowings. The net value of the scheme will however, continue to rise because interest charges will exceed the gap between repayments and borrowings. The rate of increase will fall over time, however, on current settings, the annual rate of increase in total student debt is forecast to reach between 2 and 3 percent by 2020 (compared with an annual growth rate of around 15 per cent now).

While Student Loan Scheme debt is approximately \$6 billion, this figure needs to be kept in perspective. Overall student loan debt makes up a relatively small percentage of New Zealand's total debt. At 5 per cent of total debt, student loan debt is smaller than bank debt²¹ (10 per cent) and is equivalent to the combined value of credit card debt (3 per cent), hire-purchase debt (1 per cent) and other debt (1 per cent). The 2001 Household Savings Survey has estimated the debt composition held by New Zealanders is as follows:

Debt composition held by New Zealanders

Type of Debt	Proportion of population with debt	Total value (\$million)	Proportion of total debt value %	Median debt value
Mortgage	29	54,526	80	86,000
Bank debts	24	6,707	10	3,000
Credit card	46	1,926	3	1,000
Student loan	16	3,511	5	8,500
Hire purchase	18	741	1	1,100
Other	6	852	1	4,000
Total Value		68,263	100	15,000

Some people have claimed that the Student Loan Scheme encourages people to travel overseas following their tertiary education – either to earn larger salaries to help settle their debts or to avoid the repayments. Most studies show that around 5 to 6 per cent of those who have used the scheme will be registered with Inland Revenue as resident overseas for tax purposes at any one time²². This figure needs to be seen in context.

There is nothing wrong in itself with New Zealanders residing overseas for a period following graduation. There are often considerable benefits for the country when these people return to New Zealand, having had the experience of working in other countries. There is a long tradition of New Zealanders travelling and living overseas in the years following completion of tertiary study. Many return to New Zealand after several years' absence. Residing overseas is a problem only if large numbers choose to live and work overseas for an extended period.

²¹ This figure excludes mortgages from banks.

²² It is recognised that some Student Loan Scheme borrowers who leave New Zealand do not register with Inland Revenue as resident overseas. There is therefore an element of undercounting in this figure of 5 to 6 per cent.

Student Loan Data Integration Project

There remains significant public concern about the effects of the scheme on New Zealand's social and economic development. The government is aware of this concern and is implementing a project to provide more extensive and accurate information about the Student Loan Scheme. The data integration project – combining borrower information from Inland Revenue, the Ministry of Education, and the Ministry of Social Development – will be able to provide useful information on the longer term effects of the Student Loan Scheme on particular groups of borrowers.

The integrated dataset currently contains details of borrowing only for the years 1997 to 2000. Over time, however, the dataset has the potential to give us much more information on the relationship between study, borrowing, income, and repayments.

The Ministry of Education is currently using the dataset to study the 2000/01 levels of income and debt of those who last borrowed and studied in 1997. This study will give useful data on, for example, repayment rates and how these vary according to the type of qualification, field of study, gender, and ethnicity.

It is expected that some results from this study will be published in the Student Loan Scheme Annual Report due out in early October 2003.

Scholarships

The government is introducing new Step Up scholarships to be piloted from 2004. These scholarships are for study towards degrees in the areas of animal- and human-health and are aimed at students who have the ability to succeed in tertiary education and who come from low-income backgrounds. Recipients of these scholarships will be expected to make a set contribution towards their tuition fees, with the scholarships paying the rest of their costs. The scholarships will be subject to a bonding arrangement – and will result in reduced levels of debt for these students.

While the reasons people don't take part in tertiary education are complex and varied, research in the United States and the United Kingdom shows that the initial cost of study can be a deterrent to those from low-income

families. The new Step Up scholarships are intended as a first step in addressing that problem in this country. They will assist in reducing the costs of tuition fees for students from the most disadvantaged backgrounds.

Many tertiary education providers, charities, businesses, local authorities, and other agencies fund scholarships that provide financial assistance to students or that recognise excellence in study. While it is difficult to obtain complete information on the numbers supported in this way, an idea of the range and value of awards can be obtained from the Breakout database on the website of the Funding Information Service²³.

In addition to the recently announced Step Up scholarships, the government funds a large number of other scholarship schemes.

Other scholarship schemes funded by the government

Top Achievers' Doctoral and Enterprise Scholarships

These awards are designed to support doctoral research students and to promote linkages between commercial enterprises and tertiary education institutions.

University Bursaries Maths and Science Awards

These awards encourage students to undertake study in science and technology subjects.

Manaaki Tauria

This scheme is designed to provide financial assistance to Māori. Those awarded a Manaaki Tauria scholarship receive a grant towards their tertiary tuition fees of \$1,250 or 90 per cent of their fees, whichever is the lesser.

Māori and Pacific Higher Education Scholarships

These scholarships provide for full payment of fees for the length of the course of study, plus a living allowance.

TeachNZ Scholarships

These scholarships support people starting their study to become a teacher.

²³ <http://www.fis.org.nz/>

Other Government Awards for Tertiary Study

Other government awards for tertiary study include:

- the Technology for Industry Fellowships, which enable students and experienced researchers to complete research and development projects in companies
- the Prime Minister's Scholarships, which assist successful sportspeople resident in New Zealand in combining full-time tertiary study with a programme of training and competition, with the aim of ensuring that they have the qualifications needed for employment at the end of their sporting careers.

Training Incentive Allowance

The Training Incentive Allowance is a payment which recognises that some groups of people face additional financial barriers to achieving educational qualifications. People receiving the Domestic Purposes Benefit, Emergency Maintenance Allowance, Widow's Benefit, and Invalid's Benefit can gain access to the Training Incentive Allowance to help them meet the costs of education and training.

The Training Incentive Allowance is paid for the actual costs of attending a course up to a maximum of \$81.98 for each week of the course. Typically, the Training Incentive Allowance is used for fees and compulsory course costs, other course costs (such as textbooks), childcare costs, and transport costs. Expenditure on the Training Incentive Allowance in the current financial year is expected to be approximately \$48.1 million and will fund approximately 27,000 grants.

COMPARING OUR SYSTEM OF STUDENT SUPPORT WITH OTHER COUNTRIES

Internationally, there is no preferred model or approach for student support – although all systems have much in common. Each country devises its own system based on its culture, heritage, and the particular issues it has to deal with in funding, supporting, and setting quality goals for its tertiary education sector. The economic structure and taxation arrangements within individual countries also influence their approach to funding tertiary education.

Nordic countries such as Denmark and Sweden, which still uphold the principle of free admission to tertiary education, tend to have a flat wage structure in the labour market. Graduates earn hardly more than non-graduates do. In Sweden, people also pay relatively high taxes and benefit from "free" university education. The student support systems in these countries traditionally have a strong emphasis on using loans to help with students' living costs.

In the majority of countries, the government sets tuition fees and allocates funding for a set number of places (that is, a quota on enrolments) as a means of managing its expenditure on tertiary education. New Zealand, on the other hand, currently funds all those who wish to participate in tertiary education and allows institutions to set their own fees within limits (to be introduced in the 2004 year).

Further education

Post-secondary education in New Zealand is more integrated than in other countries – and the government's funding of it at all levels is also more integrated. The boundaries between providers of vocational training and more academically focused education are less distinct. For instance, degree and post-graduate courses are offered by universities, polytechnics, colleges of education, and a small number of private providers. The same student support is offered to students attending these different types of providers.

In some other countries, however, further education (vocational) and higher education (degree-level education) are treated differently. In countries such as the United Kingdom, Australia, and the Netherlands, their further-education systems are distinct from the higher-education sector.

In many countries, the fees for the further education sector are lower than for higher education. In some countries the system of student support for further education is different – usually less generous – than that provided for students in higher education, while in others it is the same.

Several countries have significantly increased the contribution by students and their families towards the cost of tertiary education over the past decade. In addition, many countries have changed the methods by which they support students. There appears to be no country that offers "free" tertiary education for everyone and a universal allowance.

Some important trends are briefly described below.

Tuition fees

Tuition fees have been put in place in a number of industrialised and OECD countries (for example, Japan, Canada, and the United States) to help meet the costs of tertiary education. There has been no tradition of charging tuition fees in European countries for higher education, and they are only now beginning to introduce fees (the United Kingdom, the Netherlands, and Portugal adopted tuition fees in the 1990s). In 2000 Austria began charging a tuition fee, and tuition fees are now being considered in Germany.

In Russia and in Eastern and Central Europe, free higher education is still constitutionally protected – but generally for the top students. The proportion of fee-paying students is growing in these countries. In Russia, 56 per cent of

students are charged tuition fees. India and South Korea have national policies requiring moderate tuition fees and China implemented a national tuition fee policy in 1997.

Comparison of university tuition fees for undergraduate courses*

	University fees (per annum for undergraduate courses) in New Zealand dollars
New Zealand	Varies. On average in 2003**: Arts \$3,180 Law \$3,600 Science \$3,765 Medicine \$9,400
Australia#	Three bands in 2003: Arts \$3,630 Mathematics etc \$5,710 Law, Medicine etc \$6,684
England	Flat fee \$2,618 (means-tested). No fees for 50% of students in 2002/03. From 2006, differentiated fees of up to \$7,855 at universities.
United States	In 1999/2000: Public 2-year colleges \$2,582 Public 4-year colleges \$6,941 Private 4-year colleges \$24,213
Ireland	No fees for first-time undergraduates### The costs for students paying the undergraduate tuition fee in 2003 are: Arts \$7,058, Science \$9,389, and Medicine \$11,297 (University College of Dublin). Students without a local authority grant must pay a student-services charge of approximately \$1,351. Those with a grant will pay approximately \$111
Canada	Regulated by the provinces; they currently average \$5,236
Netherlands	Flat fees set by government: \$2,570 in 2002/03 \$2,663 in 2003/04

* All fees per annum and in New Zealand Dollars

** Calculated on 2003 fees for undergraduate courses charged at Otago, Auckland, Victoria and Canterbury universities.

The Australian government has recently announced partial deregulation of tuition fees which is likely to see fees rise for some courses.

Fees are charged for those repeating a year, having failed their end-of-year examinations or as the result of changing courses, and for those undertaking a second undergraduate course. Fees apply to post-graduate study or for student at private colleges.

Student loans

There is a world-wide trend towards student loans as a means of helping to spread the costs of tertiary education. Loans are operating in over 60 countries.

There are two main types of loan schemes operating internationally:

- *mortgage-type schemes* – in which repayments are organised like a mortgage. Borrowers face fixed repayments per month for a predetermined period (for example, in the United States and Canada)
- *income-contingent schemes* – in which repayments are determined on the basis of the student's subsequent earnings until such time as the loan is repaid (for example, in New Zealand, Australia, and the United Kingdom).

Within these broad categories of loan schemes, some may have a flat interest rate (without concessions); others may have a set of variable rates (often with a cap); and still others may have interest concessions for certain groups of borrowers.

Hardship assistance for loan borrowers varies between countries and schemes. Assistance will involve finding the right balance between managing the costs to the government and the repayment times of borrowers. This can be done in a number of ways:

- *Interest rates* – assistance can be provided more broadly to borrowers through a low interest rate (examples are the United Kingdom and Australia).
- *An interest write-off regime* – in which interest concessions are targeted to specific groups. In New Zealand, for example, full interest write-offs are available for those studying full-time (or part-time below a certain income). There are partial interest write-offs for those with high debts relative to their income after study.
- *Repayment thresholds and rates* – in the United Kingdom and New Zealand there is one repayment threshold and rate, which applies only to income earned over the threshold. In Australia there are a number of income thresholds; and the repayment rate triggered at each threshold applies to all income earned. The trade-off for adopting higher repayment thresholds and lower repayment rates is longer repayment times for borrowers

- *Explicit hardship provisions* – in the United States and Canadian mortgage-style systems, hardship provisions are available through more relaxed repayment arrangements for those experiencing difficulty in repaying. Repayment is also deferred for six months after study to allow graduates sufficient time to find a job and to establish themselves. Repayment times are managed by the design of the scheme itself. For instance, student loans must be repaid within 9.5 years in Canada and within 15 years in Denmark and the Netherlands. In the United States, there are several repayment plans that can extend up to 30 years.
- *Income contingency* – the design of these schemes, in which repayments are calculated as a percentage of the student's subsequent earnings, is to ensure that repayments remain manageable for borrowers, particularly in the early part of their working lives (for example, in New Zealand, Australia, and the United Kingdom).
- *Tax credits* – some countries offer tax credits to borrowers. In Denmark, interest accumulated on the balance of loans before graduation and interest charged on loans during repayment is tax-deductible during repayment at an average tax-rate of 44 per cent. In Canada there is a 17 per cent tax credit on the interest portion of the loan repayments made each year. In the United States, there are tax benefits for parents saving for their children's tertiary study. There are also tax benefits for parents and students while students are studying, as well as tax deductions on interest paid on student loans.
- *Sponsored pre-savings schemes* – some countries also provide grants for schemes that allow families to save for their children's tertiary study. For instance, the Canada Education Savings Grant provides an incentive for Canadians to finance the tertiary education of children by saving in a Registered Education Savings Plan.

There has been a trend internationally towards income-contingent schemes, as these are seen to offer borrowers more protection from the risk that they will be unable to repay their loans.

Student loan interest rates and assistance provisions*

	Interest rates	Assistance to borrowers	Repayment schedule
New Zealand	No interest while studying and nominal 7% after study.	Interest write-off regime lowers the interest rate for some borrowers. The effective interest rate in 2002/03 was 3.5%.	Income contingent: repayment is 10% of income over \$15,964. No time limit for repayment.
Australia	Interest rate set according to changes in the Consumer Price Index.**	Progressive repayment rates. 15% discount for voluntary repayments (to be reduced to 10% in 2005).	Higher Education Contribution Scheme: income contingent at \$26,326 – repayment rates ranging from 3%-6% income at \$47,389 & over. Applies to all income and not just that above the thresholds.
United States	Federal scheme has a variable rate with a cap of 8.25%.	Options for addressing hardship, including an income-contingent plan. Tax benefits.	Mortgage-style scheme. Several repayment plans ranging from 12 to 30 years. The conventional plan is for 10 years.
England	Interest rate set according to changes in the Consumer Price Index.	Mortgage-style scheme (largely discontinued) = loan write-off when borrower is 50, or after 25 years if this is sooner.# Income-contingent scheme = loans are written-off at age 65.	Income contingent: repayment is 9% of income over \$26,260. In 2005, the threshold will increase to \$39,390.
Denmark	During study = 4%. Post-study = current minimum lending rate of the Danish Central Bank plus 1%.	Interest charges are tax-deductible.	Mortgage-style scheme (15-year repayment plan).
Canada	No interest while studying. Post-study = prime interest rate plus 2.5% (floating rate); and prime plus 5% (fixed rate).	Some interest relief if income is below a certain level. Tax credits. Education Savings Plan.	Mortgage-style scheme (repayment plan is 9.5 years).

* In New Zealand Dollars.

** Australia's 25% up-front discount for paying fees is an effective interest rate study. The effective interest rate varies with the rate of repayment and size of debt. For an arts graduate earning \$40,000 a year, the effective interest rate, if debt is repaid in the first six years of graduation, is about 7 per cent.

Students in England must be under 50 years of age to be eligible for a student loan.

New Zealand student loan debt and repayment times are similar to those in other countries with income-contingent loan schemes.

Average repayment times for New Zealand student loans are currently 9.5 years, although some groups of students have longer average repayment times. The overall average of 9.5 years is in line with England (11 years) and Denmark (10 years). While Nordic countries such as Denmark have no tuition fees, they have student loans for

living costs. In 2001, 52 per cent of students in Denmark took out loans.

Australia has a quicker average repayment time – around 6.5 years for its Higher Education Contribution Scheme (HECS), which covers tuition fees but not living costs. Australia's Student Financial Supplement Scheme (SFSS) is available to meet living costs for all income support recipients.

Average student debts* and repayment times

	Borrowing eligibility	Average debt	Average repayment times**
New Zealand	For living costs, course-related costs and fees.	\$13,660 (as at 31 March 2003).	9.5 years
Australia	For living costs: (SFSS) For tuition fees: (HECS).	\$9,306 at 30 June 2003 (HECS only).**	6.5 years (HECS only).
England	Currently only for living costs. (From 2006, loans will be available for tuition fees.) Loans for part-time students have been recently introduced.	\$17,412 (for those starting repayment in 2002). For those on courses in 2001/02, estimated debt on graduation is \$21,296.	11 years
Denmark	For living costs.	\$18,591	Approximately 10 years

* In New Zealand Dollars

** Countries calculate their average repayment times in different ways and so they are not directly comparable.

Grants and allowances

The shift towards greater cost-sharing in tertiary education has seen the reduction of grants or scholarships. This has happened in the United Kingdom and in most of the former Soviet republics and Eastern and Central Europe. In the Netherlands, the size of the basic grant (for all full-time undergraduates) has decreased, whereas the means-tested supplementary

grant has increased. In New Zealand, the parental income thresholds for student allowances have remained static since 1992.

In terms of student support for tertiary students, most countries consider that parents have some obligation to support their children in tertiary education to some time in the children's early to mid 20s.

Percentage of students receiving grants and their age of dependence

	Age of dependence	Percentage receiving maintenance grants
New Zealand	parental income-test for student allowances up to age 25.	39% of full-time eligible students received a student allowance in 2001.
Australia	Parental income-test up to age 25.	39% of undergraduates received government income support in 2000.
England	Loans are primarily provided for living support (means-tested for those under 25). Other forms of means-tested grants exist for students in particular circumstances.	6.8% of loan-eligible students received some type of grant or allowance in 2000/01.
United States	An expected parental contribution up to age 25.	44% of all undergraduates; and 48% of all graduates received a grant in 1999/2000.
Ireland	A student under 23 is subject to a personal and parental income-test. A student over 23 (a mature student) will be parentally income-tested if living with their parents. A mature student living away from their parents will be subject to a personal (and spousal income)-test.	58% of all students received a grant in 1996/97.
Canada	Varies. In Ontario, students must have been out of high school at least 5 years (at the start of their study period).	15% of students who received a Canadian Student Loan also received a Canada Study Grant in 2001/02.
Netherlands	Students considered dependent until 30.	80% of all students receive a basic grant and 25% receive a means-tested supplementary grant.

There is an expectation in most countries that students will undertake part-time work in order to meet some of the costs of their study. As mentioned earlier, some countries, such as the United States and Canada, provide financial incentives for pre-saving schemes that help students and their families meet a share of tertiary costs.

Most student support systems (grants and/or loan schemes) include a personal-income assessment as part of their eligibility criteria. This determines the amount of support available to the student. The amount of paid work per week undertaken by tertiary students in New Zealand is similar to that of tertiary students in countries

like Australia and the United Kingdom.

Our student support system is in the international mainstream

New Zealand is in the mainstream of international practice for tertiary student support. Its tuition fees are broadly in line with those charged in similar countries, its income-tested allowances ensure that students in the greatest need receive support, and its income-contingent loan scheme offers more protection than many loan schemes in its effects on lower-income earners.

Full-time students in paid work

Country	Average number of hours per week
New Zealand (NZUSA Student Income and Expenditure Survey 2001)	13 hours
Australia (DEST Report 2002)*	15 hours
United Kingdom (2001) (Barclays Student Survey, 2002)	13 hours

*Information relates to undergraduates only.

FUTURE STEPS – IMPROVING THE SYSTEM OF STUDENT SUPPORT

The purpose of this document is to describe the current student support system and its relationship to the tertiary education system as a whole. It gives us a common base of information so we can conduct an informed debate on possible changes to student support.

The government is committed to a philosophy of continuous improvement. Its aim is not to turn the system of student support upside down but to build on its strengths to create a better system that supports the government's goals for tertiary education and that has a shared understanding of its purposes and future direction.

While our student support system is in the international mainstream, there are areas where it could be improved. The government has already expressed its wish to extend the student allowances net. It is necessary to decide how we might do that in a way that is affordable and that delivers the fairest result. We also need to think about what changes, if any, might improve the operation of the Student Loan Scheme. In thinking about loans, we need to decide whether changes need to be made in the four key areas:

- *Who can borrow.* Currently, all New Zealanders except undischarged bankrupts are entitled to borrow to assist with the costs of study for an approved qualification.
- *What people can borrow for.* Currently we allow students to borrow to off-set study costs, and full-time students to borrow for living costs.
- *How repayments are made.* Repayments are income-contingent. They are made through the tax system at the rate of 10 cents for every dollar of income over a threshold – which means that the repayment burden is low for low-income people.
- *How hardship provisions are organised and what the highest priorities for change are, given the financial constraints.* In addition to the income-contingent repayment arrangement described above, we have a system of interest write-offs that target further assistance to those with low incomes.

We also need to consider whether any changes we make will have negative consequences for other parts of the tertiary education system. Sometimes these consequences are not immediately obvious, so careful thought and working-through of the issues is important.

The government's principles for improving student support

We noted earlier that the government has established a number of principles that reflect New Zealand's needs and circumstances. These principles will underpin any changes to student support. The principles are:

- *To maintain high levels of participation in, and completion of, tertiary education:* individual and national success requires a high level of achievement, and a lifelong commitment to learning. Access to tertiary education should remain for all those with the desire and the ability to enter tertiary education.
- *To ensure that New Zealand's tertiary education system makes the best possible contribution to national development:* tertiary education is a major contributor to New Zealand's social and economic growth and complements the government's Tertiary Education Strategy.
- *To ensure equity and fairness:* student support should recognise that students have different backgrounds, different access to resources, and will have different circumstances after study. Extra assistance should be available to those who need it.
- *To ensure that government investment in student support and tertiary education is financially sustainable:* the government's investment in education is already very significant. Any improvements to student support must be affordable for the government.
- *To ensure that tertiary education is affordable for students:* it is important that the cost of tertiary education does not deter students from participating in tertiary

education. We must also ensure that the cost of tertiary education does not affect the decision-making of our most talented and highly trained people in ways that are undesirable for New Zealand.

- *To ensure consistency with the wider social-assistance system:* the design and delivery of student support and of the wider social assistance system should ensure that the system does not create disincentives that discourage beneficiaries and low-income earners from participating in tertiary study²⁶.

Any improvements to student support must meet all six principles because only then will the changes be equitable, have public acceptance, meet our national goals, and be sustainable over the longer term.

The current student support system is a cost-effective intervention that has been extremely successful in achieving high rates of participation compared with other OECD countries over the past decade. The student support system is generally not well understood by the public. This has caused unnecessary concern in some cases. This document seeks to provide the necessary information upon which the public can make constructive suggestions for improvement.

As a general rule we believe that we meet these principles but we believe that we could do better. This is why we want your input.

A fiscally sustainable future direction

The government is particularly concerned that its investment in student support and tertiary education is financially sustainable over the medium to long term.

Some have claimed that the government can afford to spend more on tertiary education than it currently does. Real growth in GDP has been slightly higher than the OECD average for much of the past 10 years, and the government accounts show a fiscal surplus. But there are other claims on public funds such as rising demands for health services, increased spending to improve transport infrastructure, and investing in human physical capital to

support world-class research and innovation. The government, therefore, has to weigh carefully how to spend its resources to make the most effective contribution to building a successful economy and meeting social needs.

As the government puts its student support package together, it must work within these financial constraints. The government already spends a great deal on a diverse and open-access tertiary education system – amongst the very highest expenditures in the OECD.

It has also made considerable recent commitments to increased tertiary education funding – and these have been set out earlier in this discussion paper. As well, the government is reviewing the broad field of social assistance; some of the decisions made here will affect the final package of measures for student support.

Priorities need to be set and choices made. The government's final proposals will be part of a staged implementation through several Budgets. What the government wants is an improved package of student support that will provide the greatest benefits for New Zealanders within available funds.

There are many possible options at the government's disposal for improving the system of student support. The government wishes to work with students, parents, other stakeholders, and the public in building a consensus on what the future directions are for New Zealand's system of student support.

²⁶ There are important interface issues here. The ways in which social assistance meshes with student support may influence the choices made by beneficiaries or low-income earners in undertaking tertiary study. The link between tertiary study and the goal of sustainable employment is important in terms of this group; and there is a need to monitor the alignment of, and transition between, student allowances and social assistance.

Public feedback

The government wants to hear from you about what your priorities are for improving student support and where you think particular changes should be made. Your views will be taken into account as the government develops detailed proposals for the forthcoming Budget round.

Your views should be received by 30 October 2003. They should be sent to:

Student Support Responses
Tertiary Education Policy
Ministry of Education
PO Box 1666
Wellington

Email: studentsupport.responses@minedu.govt.nz

A copy of this discussion document is also available on the Ministry of Education website:
<http://www.minedu.govt.nz/goto/tertiarystudentsupport>

