




A guide to the
STUDENT SUPPORT CHANGES

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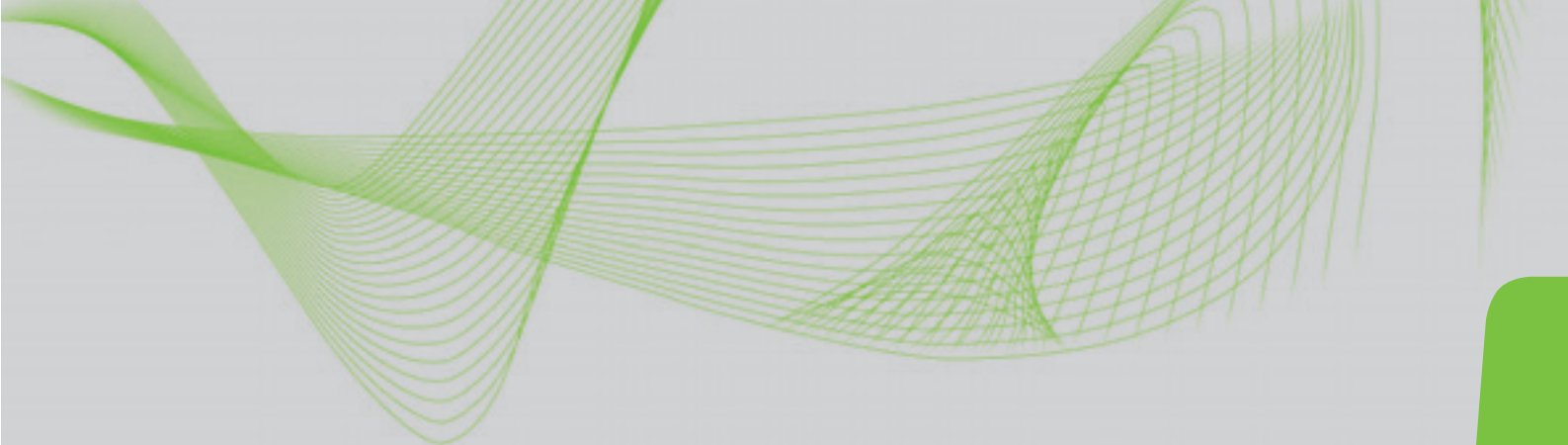
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A quick guide to the booklet

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1. Introduction

In September 2003, the government published a public discussion document, *Student Support in New Zealand*¹, in which it made a commitment to further improve the student support system. Informed by more than 100 submissions received in response to the discussion document, the government is making changes to the way it supports students through their tertiary education.

This guide explains the changes announced in the 2004 Budget that will take effect in 2005 and 2006, and what they will mean for students studying from 1 January 2005.

More students are participating in tertiary education and financing their study through the Student Loan Scheme. As a result, the total student loan debt is growing.

The government is aware of public concerns about the increasing levels of student debt and wants to make tertiary education more affordable for students so they will not need to borrow as much.

The policy changes announced in the 2004 Budget:

- increase the parental income thresholds for Student Allowances so that more people will qualify for allowances;
- remove discrimination in the Student Allowances Regulations so they comply with the New Zealand Bill of Rights Act;
- reduce the course-load requirement for students who want to take out a student loan for tuition fees for part-time part-year study;
- allow a newly created category of debtors to access the Student Loan Scheme but not to have any student loan debt written off; and
- simplify the administration of the Student Allowances Scheme.

These changes should be seen in the context of previous initiatives to reduce the cost of tertiary education by:

- capping student loan interest rates;
- removing interest on student loans for full-time students and for part-time part-year students on low incomes;
- changing how borrowers make their loan repayments so that assistance is given to borrowers whose post-study loan is high relative to their income; and
- stabilising the cost of tuition fees.

¹ The student support discussion document is available on the Ministry of Education website www.minedu.govt.nz.

2. Changes to parental income thresholds

How does the policy change?

Currently

- Student Allowances for single students under 25 depend on the level of combined parental income.
- Students whose parents earn below \$28,080 (the lower threshold) get a full allowance.
- Allowances are abated up to about 31 cents for each dollar of parental income earned above \$28,080 a year. This means that if a family's income goes up by \$100 a week the amount of Student Allowance a student gets decreases by up to about \$31 a week.
- Students living away from home whose combined parental income is over \$50,572 a year (the upper threshold) get no allowance.
- Students living at home whose combined parental income is over \$45,760 a year get no allowance.
- The thresholds are not adjusted for inflation.

From 1 January 2005

- The lower threshold will go up by 20% from \$28,080 to \$33,696.
- Allowances will be abated by a flat rate of 25 cents for each dollar of parental income earned above \$33,696. This means that if a family's income rises by \$100 a week, the amount of Student Allowance a student gets decreases by \$25 a week.
- Students living away from home will get no Student Allowance when their combined parental income reaches \$62,148, the upper threshold.
- Students living at home will get no Student Allowance when their combined parental income reaches \$56,457.

The parental income thresholds will be adjusted annually for inflation, starting on 1 April 2005.

Why the change?

Raising parental income thresholds will allow more students to get full or partial allowances.

Some basic information

- From 1 January 2005, parental income thresholds will be increased for the first time since 1992.
- The maximum rate of Student Allowance has been adjusted annually for inflation for some time. Now that the thresholds are also adjusted annually for inflation, all Student Allowance rates will keep their value in real terms.
- Increasing the lower threshold to \$33,696 will mean 12,000 more students each year who currently get a partial allowance will qualify for a full allowance.
- Increasing the upper threshold to \$62,148 will mean 28,000 more students each year will get a partial allowance, and approximately 3,000 students each year who currently get a partial Student Allowance will get a higher allowance.
- Raising the parental income thresholds effectively reduces the abatement rate from up to about 31% to 25%. This means that if a family's income goes up by \$100 a week, the amount of Student Allowance a student gets will decrease by \$25 a week, not \$31 as it does now.
- The proportion of eligible full-time students getting an allowance will increase from 39% to 50%. These figures compare favourably with many other countries².

Table 1 lists the weekly allowances rates payable under the current system and the new rates. This shows the effect of increasing parental income thresholds³.

² For example, in England 6.8 percent of loan eligible students received some type of grant or allowance in 2000/01. In Australia, 39 percent of undergraduates received government income support in 2000. Other examples can be found in the discussion document Student Support in New Zealand available on the Ministry of Education website – www.minedu.govt.nz.

³ The table provided assumes that students meet the personal income requirement, i.e. that their personal income from sources other than Student Allowances does not exceed \$135.13 a week before tax.

Table 1 Student Allowances: parental income tables effective from 1 January 2005 (after tax)

Student Allowances – dependent upon parents' income					
		CURRENT		NEW	
Parents' income before tax		after tax Student Allowance payable		after tax Student Allowance payable	
		Away from home	At home	Away from home	At home
\$ per year	\$ per week	\$ per week	\$ per week	\$ per week	\$ per week
28,000	538.46	136.79	109.43	136.79	109.43
29,000	557.69	130.52	103.16	136.79	109.43
30,000	576.92	124.27	96.93	136.79	109.43
31,000	596.15	118.00	90.65	136.79	109.43
32,000	615.38	113.00	85.64	136.79	109.43
33,000	634.62	106.74	79.37	136.79	109.43
34,000	653.85	100.46	73.13	135.33	107.97
35,000	673.08	94.22	66.86	130.52	103.16
36,000	692.31	87.96	60.59	125.71	98.35
37,000	711.54	82.95	55.60	120.91	93.55
38,000	730.77	76.68	49.32	116.10	88.74
39,000	750.00	70.42	42.96	111.29	83.93
40,000	769.23	64.15	36.81	106.48	79.12
41,000	788.46	57.91	30.55	101.67	74.31
42,000	807.69	52.92	25.56	96.87	69.51
43,000	826.92	46.62	19.26	92.06	64.70
44,000	846.15	40.38	13.03	87.25	59.89
45,000	865.38	34.11	6.77	82.44	55.08
46,000	884.62	27.87	0.00	77.64	50.28
47,000	903.85	22.87	0.00	72.83	45.47
48,000	923.08	16.59	0.00	68.02	40.66
49,000	942.31	10.34	0.00	63.21	35.85
50,000	961.54	4.07	0.00	58.41	31.05
51,000	980.77	0.00	0.00	53.60	26.24
52,000	1,000.00	0.00	0.00	48.79	21.43
53,000	1,019.23	0.00	0.00	43.98	16.62
54,000	1,038.46	0.00	0.00	39.17	11.81
55,000	1,057.69	0.00	0.00	34.37	7.01
56,000	1,076.92	0.00	0.00	29.56	2.20
57,000	1,096.15	0.00	0.00	24.75	0.00
58,000	1,115.38	0.00	0.00	19.94	0.00
59,000	1,134.62	0.00	0.00	15.14	0.00
60,000	1,153.85	0.00	0.00	10.33	0.00
61,000	1,173.08	0.00	0.00	5.52	0.00
62,000	1,192.31	0.00	0.00	0.00	0.00
63,000	1,211.54	0.00	0.00	0.00	0.00

Note: The weekly Student Allowance rates (after tax) are based on the M tax code. Students may choose other tax Codes (eg M/SEC, M/SL), but these will alter the after tax rate.

You can use the following formula to calculate the effect of abatement on weekly entitlements for students living away from home, and at home, where:

Student Allowance away from home = $\$136.79 - 0.25$ (weekly combined parental income – \$648)

Student Allowance at home = $\$109.43 - 0.25$ (weekly combined parental income – \$648)

Example 1 If a student is living at home and his or her parents' annual income before tax is \$50,000 a year (or \$961.54 a week) then the student will be entitled to an at home allowance of:

$$\begin{aligned} &= \$109.43 - 0.25 (\$961.54 - \$648) \\ &= \$109.43 - 0.25 (\$313.54) \\ &= \$109.43 - \$78.38 \\ &= \$31.05 \text{ a week (after tax)} \end{aligned}$$

Example 2 If a student is living away from home and his or her parents' annual income before tax is \$40,000 a year (or \$769.23 a week) the student will be entitled to an away from home allowance of:

$$\begin{aligned} &= \$136.79 - 0.25 (\$769.23 - \$648) \\ &= \$136.79 - 0.25 (\$121.23) \\ &= \$136.79 - \$30.31 \\ &= \$106.48 \text{ a week (after tax)} \end{aligned}$$

Parents' annual income before tax is discounted by \$2,200 for each additional child between 16 and 25 in full time study.

Students eligible for a Student Allowance and living away from home may also be eligible for an Accommodation Benefit to help with accommodation costs.

3. Changes to comply with the New Zealand Bill of Rights Act

The government has to make sure the actions of the public sector don't infringe the right of New Zealanders to be free from discrimination. This is required under the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

The government has agreed that, except for employment matters, only one anti-discrimination standard should apply to government activity. This standard is whether the discrimination can be justified in the terms set out in the Bill of Rights Act:⁴ reasonable limits prescribed by law that can be demonstrably justified in a free and democratic country.

This means that the government's legislation, policies and practices should not treat people differently unless this discrimination can be justified in terms of these 'reasonable limits'.

The government continues to evaluate its policies, legislation and practices in order to identify inconsistencies with the Bill of Rights Act.

The government has removed three such inconsistencies in the Student Allowances Regulations so that similar groups of students will be treated in similar ways.

⁴ This is under section 5 of the Bill of Rights Act.

3.1 Removing discrimination on the basis of former marital status for students claiming an Independent Circumstances Allowance⁵

How does the policy change?

Currently

- The Independent Circumstances Allowance is designed for single students who cannot live at home with their parents and who cannot reasonably expect financial support from their parents (ie they can show exceptional circumstances).
- These students are not subject to a parental income test.
- Students under 25 who have been married but are now single can apply for an Independent Circumstances Allowance.

From 1 January 2005

- Previously married students under 25 who are now single will be subject to a parental income test when they apply for a Student Allowance.
- They will need to show exceptional circumstances to qualify for an Independent Circumstances Allowance.

Why the change?

We want to treat all single students under 25 who apply for a Student Allowance the same way.

The new policy will also:

- better support the purpose of the Independent Circumstances Allowance – it does not seem reasonable that a student is exempt from the usual parental income test requirements because they were once married;
- be fairer because it requires all students under 25 without dependants and who get an Independent Circumstances Allowance to show they live independently from their parents; and

- target help to students who need it based on their current (not former) circumstances.

Some basic information

- Previously married students will need to show exceptional circumstances to qualify for an Independent Circumstances Allowance.
- This policy will affect only a very small number of students (around 10) each year.
- Previously married students who do not qualify for an Independent Circumstances Allowance may still qualify for a Student Allowance when assessed on their parental income.
- The Student Loan Scheme is available for all students who do not qualify for a Student Allowance (or an Independent Circumstances Allowance).

3.2 Removing discrimination on the basis of work history

How does the policy change?

Currently

- Any student who has been living away from home for at least two years during which time they have been in paid employment for 96 weeks qualifies for an Independent Circumstances Allowance.
- These students are not subject to a parental income test.

From 1 January 2005

- Single students under 25 who have been living away from home for at least two years during which time they have been in paid employment for 96 weeks will be subject to a parental income test when they apply for Student Allowances.
- They will need to show exceptional circumstances to qualify for an Independent Circumstances Allowance.

⁵ This is also called the Independent Circumstances Grant (ICG).

Why the change?

We want to remove discrimination in favour of previously employed people in the rules for the Independent Circumstances Allowance.

The new policy will also:

- be fairer because it requires all students under 25 without dependants and who get an Independent Circumstances Allowance to show they live independently from their parents; and
- target help to students who need it based on their current circumstances, not on their previous employment history.

Some basic information

- This policy will affect 6,200 students each year⁶.
- Students who do not qualify for an Independent Circumstances Allowance may still qualify for a Student Allowance when assessed on their parental income.
- The Student Loan Scheme is available for all students who do not qualify for a Student Allowance (or an Independent Circumstances Allowance).

3.3 Removing discrimination on the basis of marital status for students under 25 with no dependants

How does the policy change?

Currently

- All students who are legally married are assessed as couples, whether they are under 25 or not and whether they have dependent children or not.
- Students in de facto relationships, where both partners are 25 or over, or where they have dependent children, are assessed as couples for Student Allowances eligibility.
- Students in de facto relationships, where at least one partner is under 25 and there are no dependent children, are assessed as singles for Student Allowance eligibility.
- This means married students under 25 who are married are not subject to a parental income test but are subject to a test of their spouse's income.
- Students under 25 who are in de facto relationships are subject to a parental income test.

From 1 January 2005

A married student under 25 or whose partner is under 25 and without dependants will be assessed for Student Allowances in the same way as students under 25 in de facto relationships with no dependent children. They will be subject to a parental income test.

This will affect married students in different ways, depending on their circumstances.

The change applies where:

- one of the partners is a student;
- both partners are students;

⁶ These students may still apply for an Independent Circumstances Allowance under family breakdown criteria.

- a student 25 or over is married to a person under 25, even if that person is not a student; or
- a student under 25 is married to a person 25 or over, even if that person is not a student.

The change does not apply where:

- both partners are 25 or over; or
- they have dependent children.

If both partners are over 25 or the couple have dependent children, then the changes don't apply and the current eligibility rules apply.

But if either or both of the partners are under 25 and they have no dependent children, then the new rules do apply. There are lots of different situations students can find themselves in. The way the new rules will operate will be different depending on students' circumstances. The examples below are not comprehensive, but they are meant to give you an idea of the way the new rules operate in different situations. The Student Allowances rates quoted in these examples are after tax at the 'M' tax code. The rates also only relate to the basic grant and not to the Accommodation Benefit or Independent Circumstances Allowance entitlements.

Example 1 A married couple with no children. Both are under 25. One is a student. The other partner is in work and the couple's joint income is more than \$270.26 a week before tax but less than \$610 a week before tax.

Currently:

- The student partner can apply for a Student Allowance of \$59.31 a week. The parents' combined parental income will not be considered.

From 1 January 2005:

- The changes apply as both partners are under 25.
- The student partner can apply for a single rate of Student Allowance and will be assessed on the basis of his/her parents' combined income.
- No account will be taken of the working spouse's income.

Example 2 A married couple with no children. Both are students. One is under 25, the other over 25.

Currently:

- The couple would receive Student Allowances at the married couple's rate of \$136.79 each under the current rules.

From 1 January 2005:

- The changes apply as one partner is under 25.
- The couple rate won't apply under the new rules.
- Both students can apply for single rates of Student Allowances under the new rules.
- The under 25 partner's Student Allowances application will be assessed on the basis of his/her parents' combined income.
- The partner over 25 will be entitled to a Student Allowance of \$164.16 (away from parents' home) or \$131.31 (living in parents' home) on the same basis as a single student over 25.

Example 3 A married couple with no children. One is a student over 25 while the other is a dependent spouse under 25, the couples joint income is not more than \$270.26 a week before tax.

Currently:

- The couple would receive Student Allowances at the married couple's rate of \$273.58 or equivalent to \$136.79 each under the current rules.

From 1 January 2005:

- The changes apply as one partner is under 25.
- The couple rate won't apply under the new rules.
- The student partner will be entitled to a Student Allowance on the same basis as a single student over 25.
- The non-student partner may be eligible to assistance through the benefit system.

Example 4 A married couple with no children. Both are students under 25.

Currently:

- The couple would receive Student Allowances at the married couple's rate under the current rules.

From 1 January 2005:

- Both students will be able to apply for single rates of Student Allowances under the new rules.
- As both partners are under 25, they will both be individually assessed for Student Allowances on the basis of their individual parents' combined income.

Why the change?

We want to treat married and de facto students under 25 who have no dependants similarly.

The new policy will also:

- target extra help on the basis of a student's need and particular situation, not on his or her marital status; and
- remove incentives to avoid the parental income test because, effectively, every student under 25 will be subject to parental income testing (except students who qualify for an Independent Circumstances Allowance, or have dependent children).

Some basic information

- This policy will affect approximately 450 students each year.
- The Student Loan Scheme is available for all students who do not qualify for a Student Allowance.

Complying with the New Zealand Bill of Rights Act

Questions and Answers

Q Why didn't the government bring 'never been married' students into line with 'previously married' students, so they would not have to show exceptional circumstances when applying for an Independent Circumstances Allowance?

A This would make all students eligible for a full allowance and is not affordable. Requiring all students under 25 to show they live independently, when they apply for an Independent Circumstances Allowance, directs support to those most in need of help.

Q Why didn't the government extend access to the Independent Circumstances Allowance to all students who have been supported financially from sources other than their parents for 96 weeks (while they were living away from home for at least two years)?

A This would be too difficult to manage and be open to abuse. For example, if being 'independent' on the Unemployment Benefit for 96 weeks gave a student an Independent Circumstances Allowance it might encourage prospective students to spend time on the Unemployment Benefit first.

Q Why didn't the government recognise de facto relationships in the Student Allowances Regulations and bring students under 25 in de facto relationships into line with married students under 25?

A Where StudyLink was unsure a de facto relationship existed, this would be difficult to police without an expensive, very intensive, and intrusive checking system.

4. Access to student loans for part-time part-year students

How does the policy change?

Currently

Part-time part-year students studying a course-load equivalent to 0.3 Equivalent Full Time Study (EFTS) or more are able to apply for a student loan for their tuition fees.

From 1 January 2005

Students studying between 0.25 and 0.3 EFTS will also be able to get a student loan for tuition fees if:

- their course has a job-related element; and
- they are in employment or studying for a qualification that will lead to employment.

Why the change?

We want to make sure students who cannot get finance for their tuition fees from other sources can access education (including low-income workers). We also want to make sure students at this course-load level can get help for study that leads to relevant employment.

The new policy will also:

- support the government's objective of life-long learning; and
- provide better access to education and to career enhancement opportunities in the future.

Some basic information

- More students will be able to apply for a student loan to pay their course fees.

5. Changes to the Student Loan Scheme: No asset procedure debtors

How does the policy change?

Currently

- Insolvent people who declare bankruptcy are not eligible to access the Student Loan Scheme until their bankruptcy ends (normally three years).
- If they have a student loan, that debt is written off on bankruptcy.

The new policy

- The government is putting in place a new procedure – the no asset procedure – as an alternative to bankruptcy. The no asset procedure will assist some debtors with low incomes and few assets who are insolvent, but for whom bankruptcy is inappropriate. This procedure will be introduced by the Insolvency Law Reform Bill, which is expected to be enacted in 2005/06.
- No asset procedure debtors will be eligible to access the Student Loan Scheme. If planned insolvency law reforms are enacted in 2005, they will be eligible to access the Student Loan Scheme from 1 January 2006.
- If someone who has a student loan is assessed as a no asset procedure debtor, their student loan will not be written off. This change will take effect on the day after the enactment of the enabling legislation (expected to be during the 2005/06 financial year).

Why the change?

The no asset procedure will target some low income debtors with few assets. We want to give them a chance to apply for a student loan so that they may benefit from tertiary study.

No asset procedure debtors will not get the benefit of a write-off of student loan debt. This is different from the treatment of bankrupts under the Student Loan Scheme. This will reduce any incentive for students to enter the no asset procedure to avoid paying back their student loan.

Some basic information

- Compared with bankruptcy, the no asset procedure has a shorter term, fewer restrictions and less stigma attached.
- No asset debtors will be able to access the loan scheme for study commencing on or after 1 January 2006 provided the insolvency law reforms are enacted before this date.
- Students will not be able to have their student loan debt written off through the no asset procedure.
- Extending access to the Student Loan Scheme for no asset procedure debtors will affect between 250 and 270 students each year.
- Not writing off the student loan debt of no asset procedure debtors will affect approximately 250 people each year.

6. Simplifying administration

We have made two policy changes to simplify the administration of Student Allowances. The first will remove the 60-day rule that applies to Student Allowances, and the second will clarify the definitions of personal and spouse's income for scholarships and other merit awards.

6.1 Removing the 60-day rule

How does the policy change?

Currently

- Students have to apply for Student Allowances within 60 days of becoming eligible to receive allowances, otherwise they miss out on payment for the whole course.
- The Chief Executive of the Ministry of Social Development has some discretion if there are 'special circumstances', but late applications are not usually allowed.
- The Student Allowances Regulations also provide for backdating the date of payment to a date before an application is received.

From 1 January 2005

- Students will be able to apply for a Student Allowance at any time (up to the end of study); but
- Payments will not be backdated beyond the week in which they apply.

Why the change?

The new rules give help when it is needed, rather than rewarding or penalising a person for when they applied.

6.2 Clarifying the definitions of personal and spouse's income for scholarships and merit awards

How does the policy change?

Currently

The rules about personal and spouse's income from awards and scholarships are difficult to understand and administer, resulting in confusion about what they mean and why.

From 1 January 2005

Scholarships and awards will be assessed to see how they affect personal or spousal income for Student Allowance purposes. Unless a decision is made that government scholarships don't affect Student Allowance entitlement, or scholarship/award payments do clearly not constitute income, anything that exceeds the personal or spousal income threshold will be assessed for entitlement purposes.

Why the change?

We want to make it clear how income from awards or scholarships is assessed for Student Allowance entitlement. We also want to make it clear how we will treat particular awards.

Some basic information

- The definitions of income in the Student Allowances Regulations 1998 will be amended so that income from an award or scholarship will be assessed for the effect it has on personal and spouse's income assessment for Student Allowance entitlement. This might mean imposing conditions on giving a Student Allowance in a particular situation.
- Each type of award or scholarship will be assessed to determine if access to Student Allowances will be affected, and if any conditions will apply.

7. Future changes

Our future work will look at:

- Student Allowance parental income thresholds for families with more than one child aged 16 and over and where one parent is separated from another parent who is the student's primary caregiver;
- simplifying the administration of the Student Allowances Scheme further and bringing it into line with the wider social assistance system; and
- the submissions we received in response to our discussion document Student Support in New Zealand again, to see where we can make further developments.

The government has many options for improving the student support system and will make any further changes in stages over future Budgets.

Further information

If you want more information about:

- the student support system in New Zealand, or
- the education policy changes announced in Budget 2004

visit the Ministry of Education website – www.minedu.govt.nz or the StudyLink website www.studylink.govt.nz



