The Treasury

Budget 2011 Information Release

Release Document

June 2011

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Office of the Minister for Tertiary Education
Office of the Minister of Revenue

Cabinet

Student loan package for Budget 2011

Proposal

1. This paper seeks Cabinet's agreement to changes to the Student Loan Scheme for Budget 2011.

Executive summary

2. This student support package is part of the broader tertiary package for Budget 2011. The tertiary education package will continue the direction set in Budget 2010 by making the tertiary system more responsive to changes in demand and by controlling the cost of the Student Loan Scheme. The package will allow tertiary cost increases and initiatives, including additional funding for the Christchurch earthquake, to be funded from within baselines. A portion of the savings from changes to the Student Loan Scheme will be returned to the centre.

3. The New Zealand Student Loan Scheme is one of the most generous in the world. Unlike student loan schemes in many other jurisdictions, there is open access to loans that are interest-free over the lifetime of the loan for borrowers who remain in New Zealand. The purpose of the Scheme is to enable access to tertiary education, but this must be balanced against the cost of the Scheme to current and future taxpayers. The student loan package proposed as part of Budget 2011 will encourage repayments and improve the return on the country's investment in supporting students through their tertiary education.

4. This package reduces lending to borrowers who are less likely to repay. This means not relending to borrowers who have not met repayment obligations from previous loans. It also means restricting lending to those over the age of 55 to tuition fees only. These two groups of borrowers are much less likely to repay their loans than other borrowers. These proposals build on the changes made to student loan eligibility as part of Budget 2010.

5. The proposals in this package also look to increase personal responsibility for debt repayment. This means stopping the indexing of repayment thresholds, which will effectively increase the repayment obligations of New Zealand-based borrowers who can afford to pay. This will have a small effect for individuals but will improve the overall value of the Scheme. The package also includes a requirement for every new loan application to include a contact person, which will extend the network of support for borrowers to meet their repayment obligations. For overseas-based borrowers, this involves changing the repayment holiday provisions. In addition to the initiatives to improve collections from Australian-based borrowers, further work over the next year will develop a suite of initiatives to improve collection from overseas-based borrowers.

6. The financial implications of this package for the 2010/11 to 2014/15 financial years are: $276.640 million in operating impact savings and $169.961 million of capital, which is available for other initiatives.

7. The major impacts of the package are that it:
   7.1. reduces the write-down of student loan debt from 45.25 cents to 43.74 cents in the dollar, once the package is fully implemented
   7.2. ceases the indexation of the repayment threshold until 2015, which will increase the nominal repayment obligations of approximately 220,000 New Zealanders by an estimated 60 cents per week in 2012, rising to an estimated $3 per week in 2015
   7.3. restricts loan eligibility from 2013 for approximately 4,800 borrowers with overdue repayments who will not be able to borrow; and for approximately 3,200 borrowers aged over 55 who will not be able to borrow for living or course-related costs as a result of the changes
   7.4. increases repayment obligations for overseas borrowers by tightening eligibility for the repayment holiday and reducing the length of the repayment holiday
   7.5. removes the entitlement to borrow the $1,000 course-related cost component for approximately 28,700 part-time full-year students.

Background on the Student Loan Scheme

8. The Student Loan Scheme was established in 1992 as part of wider tertiary education reforms, which moved New Zealand's tertiary education system from an elite model, where Government subsidised a small number of students at a higher rate, to a model with more open access and where a large number of students are subsidised. Private contributions to tertiary education were introduced to make the expansion of tertiary participation affordable for Government, and the Student Loan Scheme was introduced to ensure that finance was not a barrier to participation. In addition to supporting access, a fundamental principle of the Loan Scheme is that repayments are contingent on an individual's income, which recognises that tertiary education should increase a borrower's post-study income.

9. Participation rates in tertiary education have increased over the life of the Loan Scheme – from 21% in 1990 to 39% in 2009 for those in the traditional tertiary education age group (18 to 24 year olds). The current economic environment has put further pressure on demand for tertiary education and this demand is forecast to continue.

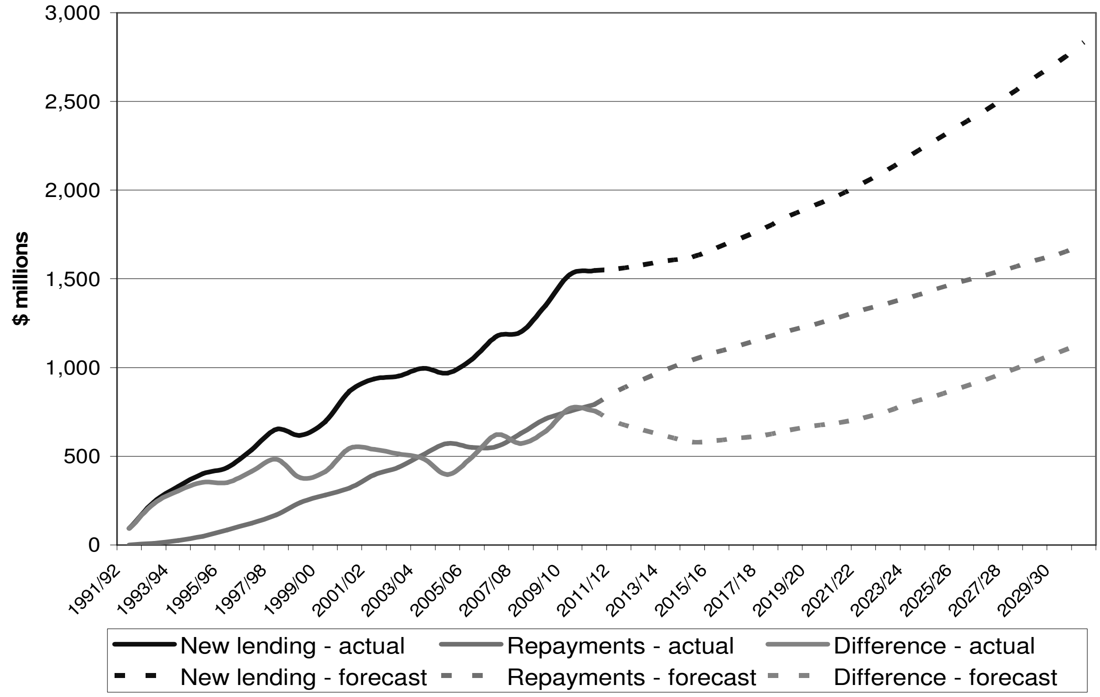
10. The removal of interest on student loans increased the cost of the Scheme to Government.[1] At present, the Government writes down 45 cents in every dollar lent out – the amount that the Government never expects to receive back in repayments. Changes made in Budget 2010 meant the write-down improved from 47 cents in 2009. However, when the Scheme was introduced in the 1990s, the write-down was 11 cents in every dollar, and this increased to 23 cents in the dollar when interest-free while studying was introduced in 2000.

11. Interest-free loans have provided an incentive for a higher number of students to borrow and decreased incentives to repay. The loan uptake rate increased dramatically following the introduction of interest-free student loans – from 56% in 2006 to 71% in 2009. The repayment rate[2] has decreased from 9.5% in 2005 to 7.3% in 2010. New Zealand-based borrowers generally have high repayment compliance, taking a median of 4.6 years to pay off their loan balance. However, compliance remains poor for overseas-based borrowers – overdue repayments from overseas-based borrowers are forecast to increase to $182 million between 2009 and 2010.

[1] Interest-free while studying was introduced in 2000. In 2006, student loans were made interest-free over a loan's lifetime for borrowers resident in New Zealand.
[2] Calculated as total repayments divided by the opening student loan balance.

12. Since 2006 when interest was removed from student loans, students have borrowed a total of $13.9 billion and over this time the Government has received $6.4 billion in repayments. The gap between new lending and repayments is forecast to narrow over the next four years as a result of recent government policy, but then widen again (see figure 1 below). The difference between new lending and repayments is currently $770 million. This is forecast to rise to $1.1 billion by 2030 if current settings remain.

Figure 1: Actual and forecast new lending and repayments, 1991/92 – 2029/30



13. In the last two budgets, the Government has improved the value of the Student Loan Scheme while maintaining interest-free loans. In Budget 2009, we introduced the voluntary repayment bonus to encourage repayments. In Budget 2010, we improved the value of the Scheme by supporting students to make the most of their educational opportunities. This involved limiting eligibility to students who had passed at least half their course load over the past two years and introducing a lifetime limit to the Student Loan Scheme. Eligibility to the Scheme was also limited to students who had shown a commitment to New Zealand. Administration fees were introduced or increased to cover administration costs and to discourage small amounts of borrowing.

Improving the value of the Student Loan Scheme

14. The changes to the Student Loan Scheme proposed in this paper will contain government expenditure and improve the performance of the Scheme, while maintaining the interest-free policy. The proposals facilitate greater personal responsibility from borrowers for their student loan debt. Any modifications to the Loan Scheme need to take into account the intention of student loans, which is to remove financial barriers to access to tertiary education.

15. In our package for Budget 2011, a mixture of initiatives will address the increasing cost of the Loan Scheme and thereby achieve a fairer distribution of benefits and costs between current and future taxpayers. The package is as follows:

Ensuring lending is good value

- Restrict student loan eligibility for those with an overdue student loan repayment obligation of $500 or more, in default for more than one year. Those who successfully apply to Inland Revenue for hardship would be exempt from this policy.
- Restrict borrowing for people aged 55 and over to tuition fees only.
- Remove the entitlement to borrow course-related costs for part-time full-year students.
- Require every new loan application to include a contact person as one of the conditions to access the Student Loan Scheme.
- Extend the exemptions to the two-year loan and allowance stand-down for permanent residents and Australians to include the sponsored family members of protected persons.

Maximising repayments from New Zealand-based borrowers

- Add losses back to income for student loan repayment purposes from 1 April 2012.
- Suspend the inflation adjustments to the repayment threshold until 1 April 2015.
- Further work on broadening the definition of income for student loan repayment purposes.

Improving repayments from overseas-based borrowers

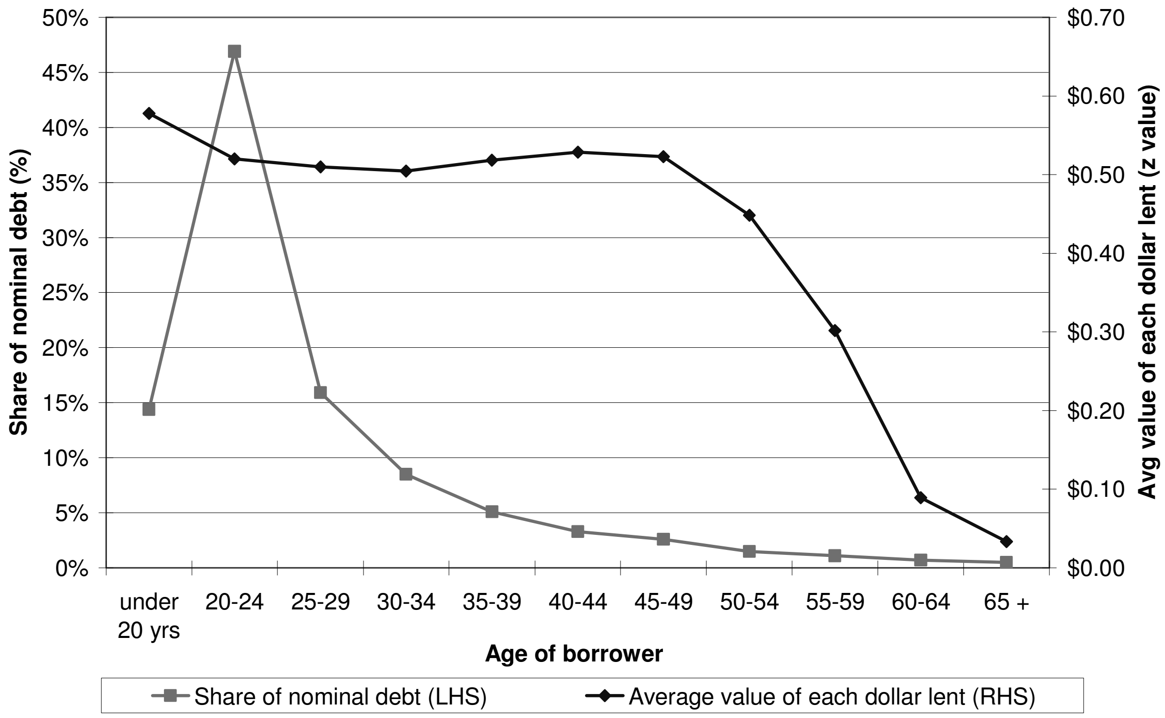
- Shorten the repayment holiday to one year and require that borrowers apply for a repayment holiday and provide a New Zealand-based contact person before they go overseas.
- **[2]**

16. **Ensuring that new lending is good value** is about limiting lending to borrowers who are less likely to repay their loans, while making sure that lending contributes to government priorities such as a higher number of young people achieving higher level qualifications. This includes not relending to borrowers who have not complied with the repayment obligations from previous loans, which reinforces that borrowing from the Loan Scheme carries with it the responsibility to repay.

17. Borrowers in older age groups have a lower return on investment than younger borrowers. This is because borrowers in older age groups are likely to be in the workforce for shorter periods than younger borrowers and they are less likely than younger borrowers to repay their loans. As a result, the Government writes down more than 70 cents in every dollar it lends to people over the age of 55 (see figure 2 overleaf). However, older people may need to retrain and there are some social benefits from tertiary participation of older people. Therefore the proposal is to limit borrowing by those aged 55 and over to tuition fees only. While the average income of borrowers aged 55 and over is consistently below the median for all borrowers, these borrowers tend to have a high net wealth with which to support themselves through tertiary study.

18. Even with the change to restrict borrowing to tuition fees for those over 55, the New Zealand Student Loan Scheme remains more generous than schemes in most other jurisdictions, as New Zealand does not restrict access based on financial need. As a comparison, Australia's student loan scheme only allows borrowing for tuition fees, with support for living costs determined by the benefit system. The United Kingdom restricts borrowing for living costs to people aged 60 and under. Sweden restricts borrowing to those aged 54 and under, and parts of Germany restrict borrowing to those aged 35 years and under at the commencement of study.

Figure 2: Value of loans against nominal debt by age group



Note: The average value of each dollar lent (z-value) represents the amount of each dollar that the Crown expects to receive back in repayments over the lifetime of the loan. For example, for those aged 55-59 years old, the Government expects to receive 30 cents in every dollar back in repayments over the life of the loan (70 cents in every dollar lent to this group is written down). The z-value for those aged 60-64 is 9 cents, and for those aged 65 and over it is 3 cents.

19. At present part-time part-year students are only eligible to borrow tuition fees from the Loan Scheme – they cannot borrow for living costs or course-related costs. This recognises that part-time students have more opportunity than full-time students to undertake part-time or full-time work to meet living costs and non-compulsory study costs such as text books. Part-time full-year students are eligible to borrow for both tuition fees and course-related costs from the Loan Scheme and this is an anomaly. We propose aligning the eligibility to the Loan Scheme for all part-time students so that these students can only borrow for tuition fees.

20. Recent experience with Australia-based borrowers shows that repayment is more likely when Inland Revenue is able to contact the family members of borrowers. Some family members make payments on behalf of the borrower and some contact the borrower directly about the repayment obligation. Currently borrowers have the option to nominate a person who has access to their loan information. We propose to extend this and require that every new loan application include a contact person as one of the conditions of access to the Student Loan Scheme. Unlike the nominated person process, the contact person would only be notified when repayments become overdue.

21. **Increasing total repayments from borrowers no longer in study** will improve the value of the Scheme and reduce future lending costs. New Zealand-based borrowers generally have high compliance with their student loan repayment obligations. The proposals relating to these borrowers are suspending inflation adjustments to the repayment threshold until 2015 and excluding (adding back) business and investment losses from the definition of income for student loan repayments. These proposals increase the repayment obligation for those who can afford to pay more, as well as broadening the base of borrowers who have a repayment obligation.

22. We also propose further investigation into broadening the definition of income for student loan repayment purposes **[2]**

23. **Improving repayment rates of overseas-based borrowers** is a high priority for improving the value of the Scheme, as overseas-based borrowers have the highest rate of non-compliance with their student loan repayment obligations. At 30 June 2010 there was $325 million in overdue student loan repayments for 92,400 borrowers. Overseas-based borrowers accounted for around $183 million (60%) of overdue repayments from 34,500 borrowers.

24. Over the last year, Inland Revenue has begun contacting Australian-based borrowers to set up regular repayment arrangements. The student loan package builds on this initiative and includes two changes to the repayment holiday, which reinforce that borrowers need to meet their repayment obligations. Borrowers who go overseas currently automatically qualify for a three year repayment holiday. At the end of this repayment holiday, most of these borrowers do not commence repayments. We propose shortening the repayment obligation to one year and requiring borrowers to apply for a repayment holiday and provide an alternative contact in New Zealand before they go overseas. Requiring an application will strengthen borrowers' understanding of their obligation to repay a student loan and will mean Inland Revenue has more recent contact details for overseas-based borrowers.

25. **[2]**

26. **Alternative approaches to increase the value of the loan scheme** include other measures to increase repayments from New Zealand-based borrowers, **[2]**

27. A summary of the impacts of each element of the student support package is set out below. More details are provided in Appendix A.

Policy	Main Advantages	Main Disadvantages	Key Impacts
Ensuring new lending is good value and that loans contribute to priorities			
Limiting borrowing by those aged 55 and over to tuition fees only from 1 January 2013.	• Helps prioritise funding for younger students (those aged 25 years and under) who are a priority group in the Tertiary Education Strategy. • May also improve value for money because the return to the country of the investment in a person's education is much less if, after tertiary education, the person has few years in the workforce or if they are not active in the workforce.	• Low savings due to low and declining number of borrowers and declining enrolments in older age groups. • [2]	• Restricts borrowing for approximately 3,200 people per annum to tuition fees only.
Restrict student loan eligibility for those who have had an overdue student loan repayment obligation of $500 or more for one or more years. Applies to those in default from February 2012 for new lending from 7 February 2013.	• Signals that repayment obligations need to be met, and that there are consequences for non-compliance. • Reduce the risk of non-repayment.	• May increase administration costs for Inland Revenue due to an increase in hardship applications. • Disproportionate impact on low income earners and beneficiaries, though these groups will be able to apply for hardship exemptions. Māori and Pasifika borrowers are overrepresented in these groups.	• Some people with overdue repayment obligations will not be able to borrow again. • Exemption for those who successfully apply for hardship – likely to include many beneficiaries. • May disproportionally impact on priority groups (Māori and Pasifika borrowers).
Remove the entitlement to borrow course-related costs for part-time full-year students[3] from 1 January 2012.	• Aligns with the eligibility for part-time part-year students. • Recognises that part-time students have more opportunity to undertake part-time or full-time work to meet non-compulsory course costs.	• May pose financial difficulty for some part-time full-year students who have a sizeable study load that falls just short of a full-time study load.	• Approximately 28,000 borrowers study part-time full-year. • The average part-time full-year borrower borrowed $979 out of the $1,000 maximum for course-related costs.
Requiring every new loan application to have a contact person from 1 January 2013.	• Increases the number of borrowers whom Inland Revenue is likely to be able to contact through family and friends. • Improves repayments and reduces defaults by extending the network of support for borrowers to meet their repayment obligations.	• Some students may give incorrect or false information. • Some students will not be able to provide a contact person and will be turned down for a loan. • Set up costs for StudyLink that cannot be absorbed in baselines.	• All new student loan borrowers will be affected. • Increases repayments and reduces defaults, especially from overseas-based borrowers.

[3] Part-time full-year students are defined as studying for a minimum of 32 weeks in a year and with a course load of less than 0.8 of an equivalent full-time student (EFTS)

Policy	Main Advantages	Main Disadvantages	Key Impacts
Extending the exemptions to the 2-year stand-down for permanent residents and Australians for student loans and allowances to include protected persons' families. From 1 January 2012.	• Currently exemptions are already given to - refugees - family of refugees - protected person. • This change would extend the exemption to families of protected person. This ensures consistency with other government policy and with the Immigration Act 2005. This was an omission in the development of the original policy.	• May be seen to undermine the policy intent of the stand-down.	• People who were sponsored into New Zealand by a family member under the "protection" status (likely to be only one or two per year).
Maximising repayments from NZ-based borrowers			
Suspend inflation adjustments to the student loan repayment threshold until 1 April 2015.	• Improves the value of the loan scheme by increasing the amount collected in repayments. • Increases repayments by increasing the number of people with a repayment obligation.	• Inflationary effect on income (fiscal drag) increases the obligation amount for those currently over the threshold. • Over time, an increasing number of low income earners will come over the threshold and will have a repayment obligation. • No collection from benefits, so different income sources will have different obligations. • May increase hardship applications to Inland Revenue.	• Increases the amount collected in repayments from those with a repayment obligation (approx. 220,000 people). • [2] •
Excluding losses from the definition of income (adding back) for repayment purposes from 1 April 2012.	• Increases the rate of repayment by increasing the amount of NZ-based borrowers' student loan repayment obligations and the number of NZ-based borrowers with a repayment obligation. • Improve fairness by removing the risk a number of borrowers with a repayment obligation are structuring their income to avoid payment	• Restricts the amount of money available for investment and business start-ups, may discourage entrepreneurial activity as losses are no longer added back to income within the definition. • Increased administration costs for Inland Revenue. • May create affordability difficulties for some people with no or low income after losses.	• Increases in the amount collected in repayments.

[4] People who earn less than $26,520 per year. A person working 40 hours a week earning the minimum wage of $12.75 per hour has a pre-tax income of $26,520 per year.

Policy	Main Advantages	Main Disadvantages	Key Impacts
Encouraging repayments from overseas-based borrowers			
Shorten the repayment holiday to one year from 1 April 2012. Repayment holidays will only be available for those who apply for them and applicants will need to provide a New Zealand-based contact person.	• Signals importance of student loan obligations – a repayment holiday is a privilege not a right. • Reduces the perceived advantage of leaving New Zealand. • Receiving contact details for overseas-based borrowers prior to their departure, and receiving details of a New Zealand-based contact person will improve the ability of Inland Revenue to contact overseas-based borrowers.	• May increase debt as many may not apply and will therefore incur additional interest and penalty charges. • May discourage borrowers from returning to New Zealand due to higher debts.	• Likely to increase debt. • Likely overall to provide incentives to repay loans and remain in New Zealand. • Actual impact on borrower behaviour is uncertain. The current policy appears to have had little impact on borrower behaviour.

Overall impact of the package

28. The student loan package:
    - generates an operating impact savings for the 2010/11 to 2014/15 financial years of $276.640 million and a capital saving of $169.961, which will fund both tertiary education initiatives and will return savings to the centre.
    - will reduce the initial fair value write-down from 45.25 cents in the dollar to 43.74 cents in the dollar once the package is fully implemented[5], and increase carrying value of the scheme
    - will mean approximately 4,800 borrowers with overdue payments will not be eligible for new student loans from 2013, with a relatively greater impact on Māori and Pasifika who have a higher likelihood of having overdue repayments.
    - results in approximately 3,200 borrowers over the age of 55 only being able to borrow for tuition fees through the Scheme.
    - will mean approximately 28,700 part-time full-year students will not be able to borrow for course-related costs (the course-related cost component is a maximum of $1,000).
    - **[2]**
    - increases the number of low income earners with a repayment obligation, with a relatively greater impact on Māori, Pasifika and young people.

Financial implications

29. Tables A and B below set out the financial implications[6] of the changes to the Student Loan Scheme. The administration costs are included in these figures.

Table A: Operating impact of the student support package

	Operating ($ million)					
Proposals	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**Total**
Restrict student loan eligibility for those with an overdue student loan repayment obligation	-	0.242	(3.344)	(4.070)	(2.937)	(10.109)
Excluding (adding back) losses to income for student loan repayment purposes	-	-	(1.400)	(1.400)	(0.140)	(2.940)
Restrict student loan eligibility for borrowers aged 55 and over (fees only)	-	0.184	(10.076)	(13.986)	(14.173)	(38.051)
One-year application based repayment holiday	-	-	-	-	-	-
Remove course-related cost component for part-time full-year study	-	(4.932)	(6.599)	(6.254)	(5.970)	(23.755)
Changes to repayment threshold for 2011/12 year (already agreed by Cabinet)	(26.292)	(3.316)	(3.362)	(3.408)	(3.451)	(39.829)
Hold repayment threshold until 2015	(66.883)	(20.239)	(23.183)	(25.683)	(26.385)	(162.373)
Extend exemption from 2-year stand-down for new permanent residents to sponsored family members of 'protected persons'	-	0.062	-	-	-	0.062
Require a contact person for all new loan applications	-	0.284	0.071	-	-	0.355
TOTAL	**(93.175)**	**(27.715)**	**(47.893)**	**(54.801)**	**(53.056)**	**(276.640)**

[5] The package will be fully implemented when all the grandparenting provisions have come to an end in 2015.

[6] The operating savings figures for 2010/11 in the last two initiatives (extending the exemption to the 2-year stand-down and requiring a contact person for new loan applications) include the impact on the impairment of the Student Loan Scheme.

Table B: Capital available for other initiatives

Proposals	Capital available for other initiatives ($ million)					
	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**Total**
Restrict student loan eligibility for those with an overdue student loan repayment obligation	-	-	(3.028)	(3.874)	(3.208)	(10.110)
Excluding (adding back) losses to income for student loan repayment purposes	-	-	(11.000)	(11.000)	(1.000)	(23.000)
Restrict student loan eligibility for borrowers aged 55 and over (fees only)	-	-	(2.089)	(3.064)	(3.162)	(8.315)
One-year application based repayment holiday	-	-	-	-	-	-
Remove course-related cost component for part-time full-year study	-	(5.040)	(7.241)	(7.356)	(7.471)	(27.108)
Changes to repayment threshold for 2011/12 year (already agreed by Cabinet)	(1.713)	(7.602)	(8.636)	(9.542)	(10.609)	(38.102)
Hold repayment threshold until 2015	-	-	(11.036)	(22.129)	(30.161)	(63.326)
TOTAL	**(1.713)**	**(12.642)**	**(43.030)**	**(56.965)**	**(55.611)**	**(169.961)**

Administrative implications

30. The total four year administration cost for the Budget 2011 student support package is $1.077 million in operating costs ($0.9 million in 2011/12 and $0.177 million in 2012/13). These costs are for StudyLink to make changes to their information technology systems. Inland Revenue will absorb any administration costs associated with these proposals. The table below sets out the breakdown of StudyLink's costs by proposal.

Table C: StudyLink (Ministry of Social Development) administration costs

Policy proposal	**StudyLink administration costs ($ million)**				
	2011/12	**2012/13**	**2013/14**	**2014/15**	**Four year total**
Remove course-related cost component for part-time full-year study	0.128				0.128
Restrict student loan eligibility for borrowers aged 55 and over (fees only)	0.184	0.046			0.230
Extending the student loans and allowances exemptions to the 2-year stand-down for permanent residents and Australians to include protected persons' families	0.062				0.062
Restrict student loan eligibility for those with an overdue student loan repayment obligation	0.242	0.060			0.302
Require a contact person for new loan applications (compulsory)	0.284	0.071			0.355
TOTAL	**0.900**	**0.177**	**0.000**	**0.000**	**1.077**

Consultation

31. The Ministry of Social Development, the Treasury, Te Puni Kōkiri, the Department of Prime Minister and Cabinet, and the Ministry of Pacific Island Affairs have been consulted on the proposals in this paper. The Ministry of Justice has been consulted on the proposal to restrict borrowing for borrowers aged 55 and over to tuition fees only. **[2]**

Treasury comment

32. Treasury is supportive of the overall direction of the Tertiary Education Budget 2011 package, including the vast majority of the savings initiatives proposed in this paper. We also note the Minister for Tertiary Education's intention to return operating savings and capital savings to the centre. We therefore support Cabinet accepting all of the savings initiatives put forward in this paper, with the exception of the following initiative:

Initiative	Savings	Treasury Comment
Changes to repayment holiday length and/or application	Unclear – is likely to increase debt in the long term	Given the uncertain nature of any savings associated with this proposal, we see a three year repayment holiday serves a useful purpose as: • it recognises that a group of people will go overseas anyway and balances the cost to the Crown by applying interest to these loans rather than seeking repayments from people who are often not in a position to repay easily • it recognises that New Zealand gains value from people gaining skills and experience overseas. The length was designed to cater for the 70% of people who return to New Zealand within three years and become compliant on return. We have seen no evidence that shortening the holiday will produce any significant change in behaviour, either by people choosing not to go overseas or in those overseas making more repayments therefore we support retaining the holiday at its current length. Reducing the holiday may also have negative consequences including creating a barrier to those overseas returning to New Zealand, and increasing the student loans scheme impairment. We are open to this proposal being re-investigated as part of Budget 2012, once further information is available around overseas-based borrower behaviour. We support the element of the proposal which would make it compulsory to apply for the holiday, as we think this will improve contact details for those overseas.

Human Rights Implications

33. **[8]**

Legislative Implications

34. Changes to the Student Loan Scheme Act 1992 will be required to give effect to the initiatives to restrict loan eligibility for those with overdue payments, to change repayment holiday rules, and to broaden the definition of income for repayment purposes. These can be included in the Student Loan Scheme Amendment Bill, scheduled for introduction in late 2011 and enactment in mid 2012.

35. Changes to Student Allowance Regulations 1998 are required to give effect to the student allowance element of the exemption to the two-year stand-down for the sponsored family members of protected persons.

Regulatory Impact Analysis

36. A regulatory impact analysis has been prepared for all proposals and this is included as appendix 2. The Ministry of Education has reviewed the regulatory impact statement and associated supporting material, and considers that the information and analysis summarised in it meets the quality assurance criteria.

37. We have considered the analysis and advice of the Ministry of Education, as summarised in the attached regulatory impact statement, and we are satisfied that, aside from the risks, uncertainties and caveats already noted in this Cabinet paper or in the Regulatory Impact Statement, the regulatory proposals recommended in this paper are consistent with our commitments in the government statement "Better Regulation, Less Regulation."

Gender Implications

38. In general, the proposals affect men and women in proportion to their participation rates in tertiary education. Women are more likely to participate in tertiary education. The proposals to remove the entitlement to borrow course-related costs for part-time full-year students has a greater impact on female students than male students, because women are more likely to study part-time.

Publicity

39. A communications plan will be developed prior to Budget 2011 announcements.

Recommendations

We recommend that Cabinet:

1. **note** that a package of changes to the Student Loan Scheme has been developed as part of Budget 2011 that will ensure new lending represents good value and will increase repayments, which will improve the performance of the Loan Scheme overall

Changes to the Student Loan Scheme

2. **agree** to remove loan eligibility for those with an overdue loan repayment obligation of $500 or more, and have been in default for one or more years from February 2012, which applies to new lending from 7 February 2013

3. **agree** to limit loan eligibility for those aged 55 years and over to tuition fees only from 1 January 2013

4. **agree**, in terms of transitional arrangements, to allow all current students over 55 at the date of the announcement, or who will reach 55 before the date of implementation, to borrow for living and course-related costs after the 1 January 2013 implementation date to complete the qualification in which they are enrolled on the announcement (but not in any related follow-on qualifications), or to borrow for living and course-related costs until 1 January 2015, whichever comes first

5. **agree** to remove the entitlement to borrow for course-related costs for part-time full-year students, who are defined as students studying for a minimum of 32 weeks in the year and with a course-load of less than 0.8 of an equivalent full-time student (EFTS), from 1 January 2012

6. **agree** to require that every new loan application include a contact person as one of the conditions to access the Student Loan Scheme from 1 January 2013

7. **agree** to extend the exemption to the two-year stand-down for permanent residents and Australians for student loan eligibility and student allowance eligibility purposes to include people who were sponsored into New Zealand by a family member who was granted residence on the basis of their protected person status, for study starting from 1 January 2012

8. **agree** to exclude losses from income (adding back) for student loan repayment purposes from 1 April 2012

9. **note** that further work on broadening the definition of income for student loan repayment purposes will be undertaken this year, this work will be announced at the same time as Budget 2011 changes

10. **agree** to suspend inflation adjustments to the student loan repayment threshold until 1 April 2015

11. **[2]**

12. **agree**

EITHER

a. to shorten the repayment holiday for overseas-based borrowers from three years to one year and require borrowers to apply for a repayment holiday and to specify a New Zealand-based contact person before going overseas from 1 April 2012; and

b. that, in terms of transitional arrangements, overseas-based borrowers on a repayment holiday as at 1 April 2012 will receive the lesser of a one-year repayment holiday beginning 1 April 2012 or the remainder of their existing repayment holiday

OR (The Treasury)

c. to retain the repayment holiday for overseas-based borrowers at three years and require borrowers to apply for a repayment holiday and to specify a New Zealand-based contact person before going overseas from 1 April 2012; and

d. that Ministers will reconsider the length of the repayment holiday as part of Budget 2012.

13. **[2]**

14.

15.

Legislative implications

16. **authorise** the Minister for Tertiary Education and the Minister of Revenue to take any technical policy decisions needed in the drafting process for a Student Loan Scheme Amendment Bill to give legislative effect to the proposals of this paper

17. **invite** the Minister of Revenue to issue drafting instructions to the Parliamentary Counsel Office for a Student Loan Scheme Amendment Bill to give effect to the legislative changes proposed in this report

18. **invite** the Minister of Social Development and Employment to instruct Parliamentary Counsel to draft amendments to the Student Allowances Regulations (1998) to give effect to the changes to student allowances that extend the exemption to the two-year stand-down for permanent residents and Australians to include people who were sponsored into New Zealand by a family member who was granted residence on the basis of their protected person status, for study starting from 1 January 2012

Financial implications

19. **note** that the financial implications of this package for the 2010/11 to 2014/15 financial years are: $276.640 million in operating impact savings and $169.961 million of capital, which is available for other initiatives

20. **note** that the operating impact includes administration costs for the Ministry of Social Development of $1.077 million

21. **note** that changes to appropriations, including Ministry of Social Development administration costs, will be made as part of the tertiary education package for Budget 2011

22. **note** that Cabinet decisions on this paper are proposed to be announced as part of Budget 2011.

Hon Steven Joyce
Minister for Tertiary Education

______/________/_______

Hon Peter Dunne
Minister of Revenue

______/________/_______

Appendix A Analysis of the elements of the student loan package

Table 1: Restricting student loan eligibility for those aged 55 and over to tuition fees only from 1 January 2013

Proposal	Currently, the Student Loan Scheme is open to all New Zealanders. However, the cost to the Crown per student is significantly higher for older borrowers than for other groups, since older people are likely to repay under the income-contingent loan scheme at a slower rate and for a shorter time than other students. It is proposed that: • borrowers over the age of 55 only are allowed to borrow for fees but be restricted from borrowing from the scheme for living costs and course-related costs.
Benefits	The proposal would • help prioritise funding for younger students (those aged 25 years and under) who are a priority group in the Tertiary Education Strategy • improve value for money because the return to the country of the investment in a person's education is much less if after tertiary education, the person has few years in the workforce or if they are not active in the workforce.
Risks	• Low savings due to low and declining number of borrowers and declining enrolments. • **[8]**
Impacts and comment	Key impacts • Restricted borrowing for people aged 55 and over to fees only has an estimated impact of $16 - $17 million per annum. This will affect an estimated 3,200 borrowers per annum.
Transitional arrangements	It is proposed that • all current students over 55 at the date of the announcement, or who will reach 55 before the date of implementation, be allowed to borrow after the 1 January 2013 implementation date to complete the qualification in which they are enrolled on the announcement (but not in any related follow-on qualifications), or to borrow until 1 January 2015, whichever comes first.

Table 2: Remove student loan eligibility for those who have had an overdue student loan repayment obligation of $500 or more, and have been in default for one or more years from 7 February 2013

Proposal	It is proposed that: • loan eligibility be restricted for those who are in default for $500 or more and the age of that default is either one year or more • the proposal relates to borrowers who are in default from February 2012, and applies to new lending from 7 February 2013 • those who successfully apply for hardship to the Inland Revenue would be exempt from this policy.
Benefits	The proposal would: • signal that repayment obligations need to be met, and that there are consequences for non-compliance • reduce the risk of non-repayment.

Risks	• May increase administration costs for Inland Revenue due to an increase in hardship applications. • Disproportionate impact on priority groups.
Impacts and comment	Key impacts • some people with overdue repayment obligations will not be able to borrow again • exemption for those who successfully apply for hardship – likely to include many beneficiaries • may disproportionally impact on low income earners and beneficiaries who have borrowed from the Loan Scheme. Tertiary Education Strategy priority groups (Māori and Pasifika people) are overrepresented in low income groups.

Table 3: Removing the entitlement to borrow course-related costs for part-time full-year students from 1 January 2012

Proposal	Currently students studying part-time full-year are able to borrow up to $1,000 for course-related costs (CRCs) each year to cover expenses related to their studies such as equipment, textbooks, and travel. However, students studying part-time part-year are not eligible to borrow for course-related costs. In 2009, approximately 28,700 borrowers studied part-time full-year (14% of total borrowers). These part-time full-year borrowers drew down course-related costs of $16 million (1.2% of total borrowing in 2009). It is proposed that: • eligibility to CRCs is removed for part-time full-year (PTFY) study. PTFY students would only be eligible for the compulsory fees component of the student loan scheme. (PTFY study is for students who have a minimum of 32 weeks of study and a course load less than 0.8 EFTS). The proposal recognises that PTFY students have more of an opportunity than full-time students to meet the costs of their course-related materials.
Benefits	The proposals would: • reduce student loan borrowing and generate a savings for the Crown. • be consistent with reasons why students cannot borrow for living costs if they are studying part-time.
Risks	May cause hardship for some borrowers, in particular those who have a larger than average course load that falls just short of 0.8 EFTS.
Impacts and comment	Key impacts: • It is expected that the policy would have an impact on approximately 28,000 borrowers annually.

Table 4: Require that every new loan application include a contact person as one of the conditions to access the Student Loan Scheme, from 1 January 2013

Proposal	Currently borrowers have the option to have a nominated person who would have access to their loan information, but the process is not compulsory. Inland Revenue's recent experience with Australia-based borrowers has shown that, when family members were made aware of a borrower's default, a limited number remedy the default themselves and others contact the borrower and put pressure on them to repay. It is proposed that: • every new loan application to be required to include a contact person as one of the conditions to access student loan. In contrast to the nominated person process, the contact person would only be notified when repayments become overdue.
Benefits	The proposal would • increase the number of borrowers whom Inland Revenue is likely to be able to contact through family and friends

	• improve repayments and reduce defaults by extending the network of support for borrowers to meet their repayment obligations.
Risks	• Some students may give incorrect or false information. • Some students may not be able to provide a contact person and will therefore not be able to borrow through the Loan Scheme. • One-off set up costs for StudyLink.
Impacts and comment	Key impacts: • All new student loan borrowers will be affected. • Increase repayments and reduce defaults, by increasing the number of borrowers for whom Inland Revenue has contact details.

Table 5: **Extending the exemptions to the 2-year stand-down for permanent residents and Australians for student loans and allowances to include protected persons' families from 1 January 2012**

Proposal	Currently, the exemptions to the 2-year stand-down for permanent residents excludes family members who are sponsored by protected persons. It is proposed that: • the exemption be extended to the sponsored family members of protected persons for both student loans and allowances
Benefits	The proposal would: • extend the exemption to the sponsored family members of protected person. This ensures consistency with other government policy and with the Immigration Act 2005. Currently exemptions are already given to - refugees - family of refugees - protected persons. A protected person is defined in sections 130 and 131 of the Immigration Act 2009. Protected persons must be recognised as such if there are substantial grounds for believing that they would be in danger of being subjected to torture, arbitrarily deprived of life, or subjected to cruel, inhuman or degrading treatment or punishment if deported from New Zealand.
Risks	A small one-off cost for StudyLink. The proposal may be seen to undermine the policy intent of the two-year stand-down.
Impacts and comment	Key impacts • People who were sponsored into New Zealand by a family member under the "protection" status will be excluded from the 2-year stand-down (likely to be only just one or two per year).

Table 6: Suspend inflation adjustments to the student loan repayment threshold until 1 April 2015

Proposal	Currently, the repayment threshold for student loan borrowers is not adjusted for inflation. In December 2010, Cabinet agreed that inflation adjustment of the repayment threshold should be suspended for the 2011-12 year. The size of the group earning under the threshold coupled with the large number of overseas-based borrowers means that currently 50% of all borrowers do not have a repayment obligation. It is proposed that: • the inflation adjustment to the student loan repayment threshold be suspended until 2015. • student loan repayments will not be deducted from benefits (status quo).

Benefits	The proposal would: • improve the value of the loan scheme by increasing the amount collected in repayments • increase repayments by increasing the number of people with a repayment obligation.
Risks	• The inflationary effect on income (fiscal drag) increases the obligation amount for those currently over the threshold. • Over time, an increasing number of beneficiaries, student allowance recipients, and low income earners will come over the threshold and will have a repayment obligation. • May increase hardship applications to Inland Revenue.
Impacts and comment	Key impacts • **[2]** • Disproportionate impact on priority groups – Māori, Pasifika and those aged under 25. • **[2]**

Table 7: Excluding (adding back) business and investment losses from the definition of income for student loan repayment purposes from 1 April 2012

Proposal	Currently, business and investment losses are calculated into the definition of income for student loan purposes. It is proposed that: • the definition of income exclude (add-back) business and investment losses. The policy rationale for this exclusion (adding back) is that while losses may reduce an individual's economic income, such losses result from business decisions. The Government should not provide subsidies for those decisions through social assistance.
Benefits	The proposal would: • be consistent with Working for families and student allowance income definitions. • improve fairness and increase compliance by ensuring a higher number of New Zealanders with a repayment obligation are meeting their repayments with available income.
Risks	• Restricts the amount of money available for investment and business start-ups, as losses are excluded from the definition of income. • Borrowers with little or no cash income may find themselves with a repayment obligation. This may create or increase financial hardship for some borrowers. • Increased administration costs for the Inland Revenue.
Impacts and comment	Key impacts: • Borrowers with little or no cash income, who previously had no repayment obligation, may find themselves with repayment obligations.

Table 8: Shorten the repayment holiday to one year from 1 April 2012. Repayment holidays will only be available for those who apply for them and applicants must supply a New Zealand-based contact person.

Proposal	Currently, the Student Loan Scheme requires borrowers to provide Inland Revenue with up-to-date contact details before leaving New Zealand. However, there is no sanction for failing to comply with this obligation, and only 16.5% of current overseas-based borrowers contacted Inland Revenue prior to going overseas. The lack of contact details makes it difficult for Inland Revenue to advise borrowers of their obligations, or of any changes to the operation of the student loan scheme. It is proposed that: • the repayment holiday is shortened to one year • borrowers are required to make an application for a repayment holiday before going overseas • borrowers are required to provide details of a New Zealand-based contact person.
Benefits	The proposal would: • signal importance of student loan obligations – a repayment holiday is a privilege not a right • reduce the perceived advantage of leaving New Zealand • require borrowers to provide contact details prior to going overseas.
Risks	• May increase debt as many may not apply and will therefore incur additional interest and penalty charges. • May discourage borrowers from returning to New Zealand due to higher debts.
Impacts and comment	Key impacts : • likely to increase debt • likely overall to provide incentives to repay loans and remain in New Zealand. • actual impact on borrower behaviour is uncertain. The current policy appears to have had little impact on borrower behaviour.
Transitional arrangements	It is proposed that • overseas-based borrowers on a repayment holiday as at 1 April 2012 will receive the lesser of a one-year repayment holiday beginning 1 April 2012 or the remainder of their existing repayment holiday