Education Report: Student Loan Scheme quarterly report January – March 2018

To: Hon Chris Hipkins, Minister of Education

C.C. Hon Stuart Nash, Minister of Revenue
Hon Carmel Sepuloni, Minister for Social Development
Hon Tracey Martin, Associate Minister of Education

Date: 26 April 2018 Priority: Medium

Security Level: In Confidence METIS No: 1120689

Drafter: Ameera Clayton DDI:

Key Contact: Andy Jackson DDI:

Messaging seen by Communications team: No Round Robin: No

Purpose of report

This paper provides you with an update on the performance of the Student Loan Scheme in the period January – March 2018. As part of Ministerial governance of the Student Loan Scheme, officials report quarterly on the performance of the Scheme.

Summary

For quarter three (1 January – 31 March) 2018 compared with quarter three 2017:

- total borrowing was down $141.9 million (15.5%)
- 25,455 (20%) fewer students borrowed for fees and 13,191 (10%) fewer students borrowed in total
- the average amount each student borrowed for fees increased by $90 (1%) and the average amount each student borrowed in total decreased by $437 (7%)
- total loan repayments increased by $15.5 million (4.7%)
- the number of borrowers with overdue payments decreased by 2.7% and the percentage of these borrowers who are overseas-based decreased by 4.0%.

The actual amount borrowed was lower than that forecasted by about $169.9 million (18%) and net repayment for quarter three was lower than that forecasted by about $2 million (1%).

The forecast value of the Scheme at 30 June 2018 is $9,313 million. The forecast indicates a positive shift in value of $113 million (around 1%) [METIS 1120886 refers]

Two papers on work relating to the Student Loan Scheme have been provided to you and are attached [METIS 1114612; IR2018/193 refer].
Recommended actions

The Ministry of Education recommends you:

a. **note** that this report has been prepared with input from the Ministry of Social Development and Inland Revenue.

b. **note** that work we are seeking your direction on includes:
   a. 
   b. [Redacted] s 9(2)(f)(iv) OIA

c. **proactively release** this paper, in consultation with the Ministry of Social Development and Inland Revenue, and with any necessary redactions under the Official Information Act 1982.

[Signature]

Claire Douglas  
**Student Loan Lead Official**  
**Graduate Achievement, Vocations and Careers**  
**Ministry of Education**

26 / 04 / 2018

[Signature]

Hon Chris Hipkins  
**Minister of Education**

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Figure one: Student Loan Scheme at a glance – Performance changes for quarter three (Jan – Mar) 2018 compared to quarter three 2017

- Total borrowing was down \$141.9m (15.5%) fewer students borrowed in total
  - 13,191 (10%) fewer students borrowed for fees
  - The average amount borrowed decreased by \$437 (7%)

- The average amount borrowed for fees increased by \$90 (1%)
- Total loan repayments increased by \$15.5m (4.7%)
- The percentage of borrowers with overdue payments who are overseas-based decreased by 4.0%
- The number of borrowers with overdue payments decreased by 2.7%

We expected fewer students to take out loans in quarter three 2018 compared with quarter three 2017 due to the introduction of the first year fees-free tertiary education policy.

We also expected the average amount borrowed to increase due to the \$50 weekly increase to the living cost component of the loan.

Whilst the number of borrowers with overdue payment (both in total and those who are overseas-based) decreased, the number of borrowers with overdue payment who are New Zealand-based continues to increase.

This is partly due to overseas-based borrowers returning to New Zealand.
Background

1. This is the second quarterly Student Loan Scheme performance report of the 2017/2018 financial year. The previous Student Loan Scheme (the Scheme) report covered quarters one and two (July – December), as we delayed the first report due to the general election and government formation period [METIS 1102057 refers].

2. This report provides you with an update on (1) Scheme performance, (2) Student Loan Scheme forecast, (3) value of the Student Loan Scheme, and (4) current policy we are seeking your direction on.

3. The quarterly report is compiled by the Ministry of Education (MoE), the Ministry of Social Development (MSD), and Inland Revenue (IR). It is intended to be a source of free and frank advice between these agencies, the Minister of Education, and the Minister of Revenue.

4. Throughout the year we will provide you with eight reports relating to the Scheme. These reports are provided regularly (see below).

<table>
<thead>
<tr>
<th>January</th>
<th>March</th>
<th>April</th>
<th>July</th>
<th>July</th>
<th>September</th>
<th>October</th>
<th>November</th>
</tr>
</thead>
<tbody>
<tr>
<td>quarterly report</td>
<td>student loan statistics</td>
<td>quarterly report</td>
<td>Draft valuation as at 30 June provided</td>
<td>quarterly report</td>
<td>student loan statistics</td>
<td>quarterly report</td>
<td>annual report</td>
</tr>
</tbody>
</table>

5. Most figures in this report are for the financial quarter three, spanning 1 January – 31 March 2018 compared with the corresponding quarter three in 2017.

Scheme performance

Table one: Borrowing over quarter three (1 January – 31 March) for 2017 and 2018

<table>
<thead>
<tr>
<th>Borrowing net of refunds ($m)</th>
<th>Repayments ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-Mar 17</td>
<td>Jan-Mar 17</td>
</tr>
<tr>
<td>913.5</td>
<td>330.6</td>
</tr>
<tr>
<td>Jan-Mar 18</td>
<td>Jan-Mar 18</td>
</tr>
<tr>
<td>771.6</td>
<td>346.1</td>
</tr>
<tr>
<td>Difference</td>
<td>-141.9</td>
</tr>
</tbody>
</table>

Source: MSD and IR

Loan borrowing

6. Total borrowing in quarter three 2018 was down $141.9m (15.5%), compared with quarter three 2017. This reflects a reduction in borrowing for fees and course related costs (Figure one). It also reflects a reduction in the number of borrowers across all three components (Figure two).

1 Borrowing refers to the amount students take out against their loan. A borrower is anyone who has drawn from the Student Loan Scheme and who has not yet repaid in full. This includes the amount borrowed for fees, course related costs and living costs. These figures do not include the establishment fee and do not allow for repayments and refunds.
7. Fees-free will have contributed to the reduction in fees borrowing. The Tertiary Education Commission and the Ministry of Education will be updating Ministers on the fees-free uptake once the results of the April Single Data Return become available in May.

8. As we would expect, borrowing for fees is greater than for course related costs and living costs in this quarter. This is because students typically borrow for fees and course related costs at the start of the year. We expect to see the effects of the $50 increase to student loan living costs across each quarter as students borrow the living costs component throughout the year.

**Figure one: Student loan borrowing ($)**

9. Figure two shows that the number of students borrowing for fees in quarter three 2018 decreased by 25,455 compared to quarter three 2017. This decrease is due primarily to the introduction of the fees-free policy, which saw a reduction of $151m (19.2%) in the overall amount borrowed for fees during this period.

**Figure two: Number of student loan borrowers**

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*Source: MSD*
10. The number of students borrowing for living costs in quarter three 2018 decreased, although the total amount they borrowed increased by $15m (Figure one and two). The average amount borrowed for living costs was $1,012 per student (Figure three), up $231 (29.6%) compared with 2017. The increase in average amount borrowed can be attributed to the increase of $50 to the maximum amount students can borrow for living costs. A shift in the main study start date, from 6 March in 2017 to 26 February this year, also saw students borrowing for living costs a week earlier. Further, the increase is consistent with fee rises and the ongoing shift towards higher-cost and more full-time study.

Figure three: Average borrowing per student ($)

Source: MSD

Loan repayments

Repayments

11. Repayments made through employers were 2.9% higher than the previous quarter and 8.1% higher than quarter three in 2017. The repayments made from borrowers\(^2\) were 32.9% higher than the previous quarter\(^2\) but 3.0% lower than quarter three in 2017.

Default\(^4\)

12. The total amount of student loans in default is $1.175 million.

13. The total number of borrowers in default decreased by 0.7% compared with the previous quarter and by 2.7% compared with quarter three 2017. The amount in default decreased by 0.4% compared with the previous quarter.

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\(^2\) Direct repayments come from self-employed borrowers, overseas-based borrowers or are voluntary.

\(^3\) February and March are key payment dates. This large quarterly change reflects that and is consistent with the percentage change between these quarters in previous years.

\(^4\) A borrower is in default if they fail to meet their loan repayment obligations. The default amount is the portion of the amount that is overdue.
Overseas-based borrowers


Figure four: Number of overseas-based borrowers by compliance category

Source: MSD

15. Inland Revenue has made significant inroads into engaging with more borrowers to repay their student loans. The number of borrowers in default decreases and repayments increase year on year. However, the overall level of default will continue to increase, albeit at a slower rate, because of the overseas-based borrower assessment and late payment interest regime. Those borrowers who have been assessed and are compliant make up 27.7% of the total overseas-based borrower group.

Student Loan Scheme forecast

Borrowing versus Ministry of Social Development’s forecast

16. Quarter three 2018 saw a decrease in borrowing of $169.9 million (18%) compared to forecast. A lower than expected amount of borrowing can be attributed primarily to the introduction of fees free policy.

Table two: borrowing versus forecast for the quarter ending 31 March 2018

<table>
<thead>
<tr>
<th>Actual vs forecast ($)</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-24.7m</td>
<td>-169.9m</td>
</tr>
<tr>
<td>Actual vs forecast (%)</td>
<td>-2.6%</td>
<td>-18.0%</td>
</tr>
</tbody>
</table>

5 Compliance means borrowers who are meeting their current obligations and are not in default, or borrowers who are repaying their default amount. Further definitions of compliance categories are in Annex three.
6 The Ministry of Education prepares student loan forecast information for the Ministry of Social Development twice a year (for BEFU and HYEFU).
Collections performance compared with Inland Revenue's forecast and the valuation forecast

17. Quarter three 2018 saw: a decrease in repayments of $2.0 million (1%) compared to the forecast. A lower than expected amount of direct repayments from borrowers contributed to the decline.

Table three: Net repayment versus forecast for quarter three 2018

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual vs forecast ($)</td>
<td>$11.7m</td>
<td>-$2.0m</td>
</tr>
<tr>
<td>Actual vs forecast (%)</td>
<td>4.0%</td>
<td>-1.0%</td>
</tr>
</tbody>
</table>

18. Overall collection is down slightly reaching 99% ($346m) of forecast. Overseas-based borrowers continue to be a challenge to collect repayments from. Inland Revenue continues to engage with borrowers before and after they go overseas to encourage compliance.

Value of the Student Loan Scheme

Forecast valuation

19. The Scheme’s valuers have finalised the forecast value of the Scheme as at 30 June 2018. The forecast value of the scheme at 30 June 2018 is $9,313 million (up from $9,199 million). The forecast indicates a positive shift in value of $113 million (around 1% movement in the Scheme value), compared with a positive shift of $62 million in 2016/17. Further information is set out in the recent report to the Ministers of Education and Revenue entitled Student Loan Scheme Forecast Valuation 2018 (METIS 1120886 refers).

20. The indicative change in value is mainly due to continuing positive macroeconomic trends and improvements to domestic and overseas borrower repayment assumptions. These positive shifts in value have been offset partially by continued poor outcomes for low earners.

21. The final valuation will be completed and audited in August and input into the Crown Accounts in October. The final valuation may see a shift in value from the forecast to reflect updated repayments and macroeconomic conditions.

Upcoming changes to reporting

22. A new accounting standard will be applied to the Scheme from 1 July 2018. The standard change will increase volatility in the value of the Scheme at each valuation. This is due to the requirement to use current discount rates for the entire loan book in calculating today’s value of forecast repayments. Previously, a discount rate was used and locked in for each year’s lending, with no change at each valuation.

23. From 2018/19, the valuation will:

- continue with the forecast and full revaluation once a year, including current scrutiny and governance processes, and provide the overall financial and performance information on the Scheme.
• provide updated discount rates three times a year to align with the Budget and Economic Fiscal Update, Half Yearly Economic and Fiscal Update, and end of year reporting requirements
• separate reporting on changes in value due to market discount rates and performance information on expected future repayments.

24. The approach will ensure that the Scheme is represented accurately and fairly on the Crown’s balance sheet and meets compliance requirements; while, still maintaining reliable, accurate, and transparent information about the performance and real cost of student loans.

Current work we are seeking your direction on

25. At the last Student Loan Ministers’ meeting, you asked officials for background information on the following:

26. 

27. 

28. 

Proactive release

29. We recommend proactively releasing this report. Prior to release we would need to consult with MSD and IR regarding any recommended redactions under the Official Information Act 1982. For example MoE recommend withholding the forecast valuation numbers and the work MoE and IR are seeking your direction on at this time under section 9(2)(f)(iv) of the Act.

Annexes

Annex one: Upcoming work relating to student loans
Annex two: Student loans and the media
Annex three: Scheme performance – applications and default
Annex four: Upcoming reports and Cabinet papers
# Annex one: Upcoming work related to student loans

<table>
<thead>
<tr>
<th>Work area</th>
<th>Deliverable</th>
<th>Timing</th>
<th>Lead agency</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Work commissioned by Ministers</strong></td>
<td></td>
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<td></td>
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<tr>
<td><strong>Budget work</strong></td>
<td>Ongoing support for Ministerial budget decisions (7 EFTS)</td>
<td>Decisions to be announced 17 May, support to deliver after May</td>
<td>MoE</td>
</tr>
</tbody>
</table>
Annex two: Students loans and the media

Media interest for quarter three included:

January

- Stuff reported on student loan borrowing from the 2017 Student Loan Scheme annual report. Key statistics they reported were that:
  - by June 2017, most tertiary graduates had loans of at least $10,000
  - overdue student loan debt was $1.2 billion
  - overseas-based borrowers owed 92% of the amount overdue
  - the forecast median repayment time for borrowers who left in 2015 was 8.3 years.

February

- Stuff reported that a strong labour market has driven a decrease in tertiary enrolment and uptake of student loans since 2010 (as told by the Ministry of Education). The Ministry said that in 2010 there were over 63,500 first-time borrowers but by 2016 this had dropped to about 44,500.

- Mike Houlihan, from Otago Daily Times, reported on research that showed an association between higher levels of (student loan) debt and preference for rural practice among medical and pharmacy students. This was published by the University of Auckland in the Journal of Primary Health Care. The research suggests that, on average, high levels of debt did not necessarily deter students from a rural career and that voluntary bonding schemes, offering financial incentives for doctors and nurses to move to the country or work in primary care were proving successful.

- Susan Edmunds, from Stuff, reported on Government data showing an increase in the number of overseas-based borrowers who made repayments against their loan. They said that 50,600 of them made repayments in the 2016/17 financial year, 3000 more than in the previous year. However, the combined amount repaid ($214.8 million) was slightly less than the year before ($216.1 million). It was suggested that the increase in number of borrowers making repayments could be attributed to:
  - the use of money transfer company OrbitRemit (which collected $8 million more in repayments in 2017 than in 2016)
  - more cooperation between Inland Revenue and the Australian Taxation Office to connect to Australian-based borrowers
  - news coverage of student loan debtors being arrested at the airport

- Both Radio New Zealand and the Otago Daily Times reported that the Government’s fees-free policy had increased administration costs but had little impact on enrolments (as told by Universities). Conversely, the University of Waikato said that enrolments from both school leavers and older students applying for the first time were up. However, the reports said it was too early to tell if this was due to the fees-free policy.

- The Bay of Plenty Times included a letter to the editor about perceived generational inequality resulting from some students having student loans with interest, some having interest-free loans and now some having access to their first year of tertiary education fees free.

- Mary-Margaret Slack, from The Wireless, reported on her experiences (and those of her friends) of renting in Auckland as a university student, in the wider context of student loan debt and the housing and rental crises. Their experiences provide anecdotal evidence of
students (in particular in Auckland and Wellington) struggling to find affordable rentals. Slack and her friends cite the $50 increase to student loans and allowances as help.

March

- Stuff ran an opinion piece by a financial advisor, author and money commentator on avoiding student debt, in particular student loan living costs. She highlighted the importance of part-time work, budgeting and careful consideration of matching qualifications with career paths for students, in order to keep their borrowing to a minimum.
Annex three: Scheme performance – applications and default

Loan applications

1. From July 2017 to March 2018, the Ministry of Social Development processed 184,844 student loan applications, 9,743 (5%) less than for the same period in 2016/17 and 9,538 (4.9%) below the Half Yearly Economic and Fiscal Update 2017 forecast prepared for the Ministry of Social Development by the Ministry of Education.

Default

Overseas-based borrowers

2. Compliance of overseas-based borrowers is broken down into three categories:

i. Compliant and paying – All overseas-based borrowers in this segment are meeting their obligations, including repayments, or meeting part of the repayment obligation but have existing default, even if that default is under instalment arrangement. A defaulter will come into this segment if they have made a repayment in the last six months and includes those who are under an instalment arrangement.

ii. No payment – All overseas-based borrowers in this segment have been in contact with Inland Revenue in the last six months but have not yet made payments towards their default. This segment also includes overseas-based borrowers for whom Inland Revenue do not hold current or valid contact information.

iii. Payment not yet due – The overseas-based borrowers in this segment have payments that are due at a future date. This group includes overseas-based borrowers who are on a one year repayment holiday.

Legal cases in New Zealand

3. Legal action is reserved for the most non-compliant of borrowers. Borrowers increasingly choose to work with the department rather than see the legal process through to enforcement. s 9(2)(a) OIA

Overseas-based borrower legal cases

4. While some borrowers clear their default once legal action commences, new cases are initiated at the same time. Therefore the overall figure may not change, however the make-up of borrowers changes often. Legal activity overseas can take a number of months to reach closure.

Australia
Outcomes of note:
•
• s 9(2)(a) OIA

United Kingdom
Outcomes of note:
• s 9(2)(a) OIA
<table>
<thead>
<tr>
<th>No</th>
<th>Date</th>
<th>Type</th>
<th>Sent</th>
<th>Matched</th>
<th>Not Matched</th>
<th>Baycorp</th>
<th>% Match</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Nov-16</td>
<td>Bulk</td>
<td>91,701</td>
<td>60,273</td>
<td>31,428</td>
<td>5,000</td>
<td>66</td>
</tr>
<tr>
<td>2</td>
<td>May-17</td>
<td>Bulk</td>
<td>93,330</td>
<td>60,524</td>
<td>32,494</td>
<td>10,000</td>
<td>65</td>
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<tr>
<td>3</td>
<td>Sep-17</td>
<td>Regular</td>
<td>1,470</td>
<td>674</td>
<td>796</td>
<td></td>
<td>46</td>
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<tr>
<td>4</td>
<td>Dec-17</td>
<td>Regular</td>
<td>3,000</td>
<td>1,455</td>
<td>1,545</td>
<td></td>
<td>49</td>
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</tbody>
</table>
Annex four: Upcoming reports and Cabinet papers

<table>
<thead>
<tr>
<th>Title</th>
<th>Description</th>
<th>Report to Ministers</th>
<th>Lead</th>
<th>Consultation</th>
<th>Minister</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>s 9(2)(f)(iv) OIA Student Loan Scheme: forecast valuation 2018</td>
<td>Provides the results of the forecast valuation of the Student Loan Scheme as at 30 June 2018 and discusses upcoming changes to reporting requirements.</td>
<td>26 April</td>
<td>MoE</td>
<td>IR, Treasury</td>
<td>Minister of Revenue Minister of Social Development</td>
<td>Complete</td>
</tr>
<tr>
<td>Request for approval of expenditure for the 2018/2019 student awareness programme</td>
<td>Seeks approval from the appropriation Ministers to use baseline funding in Vote: Social Development for the annual call to action campaign, encouraging new and returning students to apply for their next year’s student finances by 16 December.</td>
<td>July</td>
<td>MSD</td>
<td></td>
<td>Minister of Social Development Minister of Revenue (to forward to the Minister of Education)</td>
<td>In progress</td>
</tr>
</tbody>
</table>
### Ministerial requests

<table>
<thead>
<tr>
<th>Request</th>
<th>Date received</th>
<th>Agency</th>
<th>Status</th>
<th>Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information on the student loan repayment threshold</td>
<td>Last Ministers meeting 30 January</td>
<td>MoE</td>
<td>Completed</td>
<td>METIS 1114612</td>
</tr>
<tr>
<td>- Student loan repayments (input for MoE ministerial) [SD]</td>
<td>12 March</td>
<td>MoE/MSD</td>
<td>Complete: MoE Advised 20 March.</td>
<td></td>
</tr>
<tr>
<td>- re individual students’ Student Loan concerns [SD]</td>
<td>16 March</td>
<td>MSD</td>
<td>Response sent 26 March</td>
<td></td>
</tr>
<tr>
<td>- Consideration of interest-free for borrowers in the Pacific</td>
<td>23 March</td>
<td>IR/MFAT</td>
<td>Drafted</td>
<td></td>
</tr>
<tr>
<td>Meeting with Cook Islands Prime Minister, Hon Henry Puna, and his ministerial colleagues on student loan issues</td>
<td>27 March</td>
<td>MoE</td>
<td>Completed</td>
<td>METIS 1116950</td>
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### Official Information Act requests

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<thead>
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<th>Status</th>
<th>Report</th>
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</thead>
<tbody>
<tr>
<td>s 9(2)(a) OIA - has requested a copy of the 'Cabinet minutes which detail the restriction for students studying for less than 32 weeks and less than 0.25 EFTS'</td>
<td>7 March</td>
<td>MoE</td>
<td>Ongoing</td>
<td>METIS 1111983</td>
</tr>
<tr>
<td>s 9(2)(a) OIA</td>
<td>5 April</td>
<td>IR</td>
<td>Discovery</td>
<td>18OIA191</td>
</tr>
</tbody>
</table>