MINISTRY OF EDUCATION
Te Tāhuhu o te Mātauranga

Regulatory Impact Statement

Student Support Package for Budget 2012

Agency Disclosure Statement

This Regulatory Impact Statement has been prepared by the Ministry of Education.

It provides an analysis of options to improve the value of the student support system to the Government through changes to the Student Loan Scheme and student allowances, while also ensuring that these schemes are contributing to tertiary education priorities.

Changes to the following have been analysed:

- broadening the definition of income for student loan repayment purposes
- increasing the repayment rate for New Zealand-based borrowers
- voluntary repayment bonus policy
- the parental income threshold for student allowances
- targeting student allowances to initial years of study and qualifications
- information-matching with Inland Revenue and the New Zealand Customs Service.

None of the options considered in this Regulatory Impact Statement are likely to have an impact on business costs, impair private property rights, or override common law principles.

Certain information in this document has been withheld under the following section of the Official Information Act 1982: [6] 9(2)(f)(iv) – to maintain the current constitutional conventions protecting the confidentiality of advice tendered by Ministers and officials.

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18 April 2012

Status quo – Student support system

The Government spends a significant amount of money each year to fund tertiary education. In 2010/11, the Government spent $2,279 million on tuition subsidies, $1,564 million on new student loan lending, and $624 million on student allowances. Tuition subsidies, student loans, and student allowances combined have represented between 6% and 7% of core Crown expenditure in each year between 1993/4 and 2010/11.

Government introduced broad-based student allowances in 1989 with the objective of increasing participation for those whose income was a barrier to accessing tertiary education. Allowances were introduced in an environment of low participation and in a time of zero, or very low, fees. They have an important role in lowering the total cost of tertiary education for students who face significant financial barriers to education, and for those students who may not recognise the future benefits of tertiary study.

Student Loan Scheme

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 the 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 participation affordable for Government. The Student Loan Scheme was introduced to ensure that finance was not a barrier to participation.

The Student Loan Scheme is a significant and growing asset on the Crown's accounts. 958,000 people have taken out a student loan since the Scheme began in 1992, borrowing a total of $15,486 million.

New Zealand-based borrowers generally have high repayment compliance. Systems make it easier for borrowers in New Zealand to repay – mostly via deductions from their earnings. Inland Revenue can more readily keep in contact with New Zealand-based borrowers. In addition, New Zealand-based borrowers face no interest charges, so, once they leave study, their loans cannot increase, as long as they do not incur penalties.

The most significant component of the cost of new lending to Government is the time value of money (the value of loans decreases over time as a result of inflation; and this cost is not off-set through an interest charge to borrowers). The other components, in order of significance, are: borrowers who do not meet their repayment obligations (primarily overseas-based borrowers); borrowers with low life-time earnings who do not have a repayment obligation; and death and bankruptcy.

Student allowances

Government expenditure on student allowances has increased significantly in recent years – from $385 million in 2007/2008 to $620 million in 2010/11 (a 62% increase). The number of students receiving an allowance has also increased, particularly since 2009, due to policy changes and the effects of the recession, including higher tertiary enrolments due to increased unemployment.

In addition, the design of student allowances has not been reviewed since student loans became more subsidised, with interest subsidies and interest-free loans. Allowances play an important role, as supplementary support to student loans, for two reasons:

- to assist people to enter tertiary education who have very little upfront cash or family resources, and who may not recognise the future benefits of tertiary study
- to provide additional support for students with higher financial needs, for example, those with dependants.

Problem definition and objectives

The tertiary environment has changed significantly since the early 1990s, when student loans and allowances were introduced. The fiscal environment requires effective use of constrained resources. The Government's focus for tertiary education has now moved from participation to completion of qualifications and the quality of those qualifications, including employment outcomes.

The objective of the proposals in this paper is to adjust the student support system to contain the Government's tertiary education expenditure and improve its performance by re-investing in priorities, while maintaining the interest-free policy on student loans.

The main policy levers available to the Government to achieve this are:

- to restrict access to the student support system (i.e. Student Loan Scheme and student allowances)
- to introduce new methods to encourage or require student loan repayments.

The proposals set out in this Regulatory Impact Statement (RIS) seek to:

- encourage greater contribution to tertiary education costs from students who can most afford to pay and who are more likely to receive higher levels of private return from their study
- ensure repayment obligations are determined on a fair and equitable basis for all borrowers who earn different types of income
- increase personal responsibility for debt repayment
- reduce unnecessary borrowing
- target student allowances to those with low incomes (or from low income families) and those in initial years of study.

They also seek to address the increasing cost of the Scheme to the Crown and the taxpayer, and thereby achieve a fairer distribution of benefits and costs between current and future taxpayers.

These options have been developed within an interest-free student loan policy environment. This is a significant constraint on the options available to contain Government expenditure and improve the performance of the Scheme. Key agencies involved with the Scheme – Inland Revenue, the Ministry of Social Development, and the Treasury – have been consulted on the proposals and this RIS.

Any modifications to the student support system need to take into account the intention of student loans and allowances, which are to remove financial barriers to accessing tertiary education. Any changes would also need to be considered in the context of the Government's goals for tertiary education; particularly participation and achievement for priority groups[1] as expressed in the Tertiary Education Strategy 2010-2015.

Specific mechanisms for restricting access to student support and increasing repayment methods, and options within each, are discussed below, and are summarised in a table in the conclusion section below.

Savings and costs included are for each independent initiative and do not take account of interdependencies. In contrast, the final savings and costs for Budget 2012 initiatives, included in the 2012 Student Support Cabinet Paper, do include interdependencies between initiatives. For this reason, the savings and costs for initiatives included in the final Budget Cabinet paper may differ from those contained in this Regulatory Impact Statement.

Regulatory impact analysis

Broadening the definition of income for student loan repayment purposes

Ensure repayment obligations are determined on a fair and equitable basis for all borrowers who earn different types of income

The Student Loan Scheme is an income-contingent scheme meaning that the amount that a borrower has to repay in any year is dependent on 'net income'. The current definition of income for student loan repayment purposes captures income that is taxed to the individual rather than to another entity. It includes income such as salary and wages, income-tested benefits, NZ superannuation, interest, dividends and IR3 income such as business profits. New Zealand-based borrowers must make student loan repayments if their taxable income exceeds $19,084 per tax year.

Option 1 – Status quo

The definition of income is important in terms of meeting the policy objective of ensuring a borrower's repayment obligation accurately reflects their ability to repay. It is inequitable and unfair that borrowers have different repayment obligations depending on whether that income is currently included as income for student loan repayment purposes. The definition of income is also important in terms of ensuring there is better consistency across all social policy initiatives to improve the integrity of the social assistance system.

As part of Budget 2011, as a first step to ensuring a borrower's repayment obligation reflects their ability to pay, the Government agreed that business and investment losses should be excluded from the calculation of "net income" for student loan repayment purposes. The Government also announced that further work would be done to broaden the definition of income used for student loan repayment purposes, to ensure a closer alignment with that used for Working for Families (WFF).

The definition of income used to determine a household's entitlement to WFF tax credits was recently broadened to include other forms of income not currently captured by the Income Tax Act definition of "net income".

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[1] Young people aged under 25, Māori students, Pasifika students.

To achieve a more comprehensive definition of income for WFF tax credits purposes, adjustments were made to the definition of "net income" to more closely reflect the income available to the family for day-to-day living expenses. In general, income available for day-to-day living expenses is also available for the repayment of a borrower's student loan.

For student loan repayment purposes, the definition of "net income" is very similar to that used for WFF tax credits. Net income is used as a reliable indicator of a borrower's ability to repay the student loan if employment or directly earned investment income are their main income source. However, for borrowers who derive other types of income, net income may not reflect their actual earnings or financial resources that are available to meet their student loan repayment obligations. For example:

- Income is not taxed in the hands of the borrower, rather it is taxed elsewhere. Two relevant examples are distributions from trusts and fringe benefits. The income of a trust may be taxed as trustee income and then distributed to a borrower tax-free and not included for student loan repayment purposes. The employer pays fringe benefit tax on fringe benefits received by employees which are also not included in employee's repayment obligation
- Income is explicitly exempt from taxation; for example, a salary from certain international organisations, such as the United Nations.

However, the policy rationale for including these income types is slightly different for student loan purposes. Rather than asking only whether the income meets the day-to-day living expenses test, the question becomes also whether the income is individual income and, as such, available to a borrower to meet their repayment obligations. In principle, only an individual's own income, not their partner's or children's, is relevant to determining student loan repayments.

Therefore, the definition of income used for each social assistance programme may be modified appropriately, as each programme has different objectives, and including some forms of income for one programme may not be good policy for another programme. For example, the parental income test for student allowances does not include passive income of children or child support.

Option 2 – Align the definition of income for student loan repayment purposes with that used for WFF

This option would mean that for student loan repayment purposes the following types of income would be included, consistent with that used for WFF:

- trustee income
- fringe benefits
- income of children
- portfolio investment entity (PIE) income
- income of non-resident spouses
- tax exempt salary and wages of people who work for international organisations
- deposits in the main income equalisation scheme
- other payments, that is, regular cash payments that are not caught under any of the other categories
- distributions from superannuation schemes
- distributions from retirement savings schemes.

To determine the types of income to be included for WFF purposes, the key question was whether the income was available for the day-to-day living expenses of the *family*.

As described above in the 'problem definition' section, the question in respect of student loans is not about whether the income is available for the day-to-day living expenses of the family, but rather whether the income is individual income available to meet repayment obligations.

Although the benefit of this option is that the definition of income for different social assistance programmes would be consistent, it would not meet the policy objective of ensuring that only individual income is available. For example, including a wide ranging "other payments" rule, which includes such things as regular cash gifts, would invariably capture payments made to a family. If one member of the family had a student loan, it would be difficult to determine what portion of that payment should be included as income in order to determine the individual's repayment obligation. For this income type, the benefits of including the income are outweighed by the compliance costs as discussed in option 3.

Option 3 – Broadly align the definition of income for student loan repayment purposes with that used for WFF, with modifications

This option would broaden the definition of income for student loan repayment purposes to the following types of income:

- attributed company income
- attributed trust income
- major fringe benefits received by shareholder-employees in closely held companies
- unlocked portfolio investment entity income
- tax-exempt salary and wages and certain overseas pensions
- main income equalisation scheme deposits
- 50% of non-taxable private pensions and annuities
- distributions from a retirement savings scheme when the person has retired early
- distributions from trusts, not being beneficiary income, where the recipient is not the settlor
- distributions from superannuation schemes that relate to contributions made by a person's employer within the last two years, when the person has not retired (excluding KiwiSaver and locked-in superannuation schemes).

All these forms of income are used for WFF purposes, and also meet the policy rationale for including for student loan repayment purposes. That is, the income is individual income and available to meet a borrower's repayment obligation. Therefore, these types of income should be included in the definition of income.

However, the following types of income would be excluded:

- 'other payments'
- passive income of dependent children
- income of non-resident spouses.

'Other payments'

Other payments include gifts, soft loans from family members and trusts. These payments are not subject to income tax in the hands of the individuals receiving them and are currently not included as income for student loan repayment purposes.

It was considered appropriate to introduce an 'other payments' rule for WFF purposes to capture cash payments intended to supplement the *family's* income. For WFF purposes, the rule is directed at enhancing the integrity of the WFF social assistance programme. However, it can be a difficult rule to administer and interpret, and introduces an arbitrary boundary between different types of payments. For example, it may be difficult to determine whether the payment is paid to the *family* and is, therefore, household income, or benefits an individual and therefore could be apportioned to be included in an individual's student loan repayment obligation, particularly if one member of the family has a loan and the other members do not.

However, for student loan repayment purposes borrowers must include trust income they may receive that is not beneficiary income (already captured) and where they are not the settlor (captured under attributed trust income). This is a type of "other payment". Trust income is a key source of income for some people. Including all potential sources of income from trusts is consistent with the policy objective of ensuring a borrower's repayment obligation reflects their ability to pay.

Passive income of dependent children

Borrowers who are also parents may allocate income directly to their children through family trusts and companies or place their investment directly under their children's names. Including the child's passive income would require attributing a portion of the income to the parent with the loan. This would require an arbitrary decision as to the appropriate amount to be apportioned. Alternatively, all the income could be attributed to the parent; however, this would be a harsh outcome, particularly when the child's savings are legitimate and not made for the purposes of reducing loan repayments. Attributing all the income to the parent would have the effect of shifting the basis of the assessment to include household income. In principle, only individual income is relevant for determining a student loan repayment obligation.

Proposal	Part of problem addressed	Options	Preferred option	Policy savings, operating costs[2]	Borrowers affected, Impact on affected borrowers of option being progressed
Broadening the definition of income for student loan repayment purposes	Ensure repayment obligations are determined on a fair and equitable basis for all borrowers who earn different types of income Increasing personal responsibility for debt repayment	Option 1 – Status quo Option 2 – Align the definition of income for student loan repayment purposes with that used for WFF Option 3 – Broadly align the definition of income for student loan repayment purposes with that used for WFF, with modifications	Broadly align the definition of income for student loan repayment purposes with that used for WFF, with modifications	Option 2 – [financial implications are not known, as only Option 3 progressed] Option 3 – Savings: $7.453m (over 5 years) $0.600 million on-going annual savings Costs: $0.300m 2013/14, $0.200m 2014/15	All options – approx 1,000[3] borrowers may have a new obligation or increased obligation

Increasing the repayment rate for New Zealand-based borrowers

Greater contribution to tertiary education costs from students who can most afford to pay

Option 1 – Status quo

New Zealand-based borrowers have a repayment obligation of 10 cents for every dollar of income over the repayment threshold, which is currently set at $19,084. The current 10 cent rate has not changed since the beginning of the scheme, despite the introduction of the interest-free policy which has resulted in decreased voluntary student loan repayments.

Option 2 – Increase the repayment rate for New Zealand borrowers

This option would increase the repayment rate to either:

- 11%
- 12%.

Increasing the repayment rate for New Zealand-based borrowers would reduce the cost of lending for the Government and increase the borrower contribution for those

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[2] The financial implications of broadening the definition of income are more uncertain than other student loan costings because of the uncertainties about the level and nature of increased repayments. This is because the costing comprised a small part of potential revenue as the other types of income are not taxable in the hands of the individual and therefore are not declared on the individual's tax return. Therefore the full extent of additional revenue that is likely to accrue cannot be estimated

[3] This figure is difficult to estimate as these types of income are either not taxed in the hands of the individual or not taxed at all. This makes it hard to attribute a specific amount of income to a borrower and in turn forecast the revenue implications.

with the ability to pay (i.e. those earning over the income threshold). It recognises the ability of individual borrowers to repay their loan within their means and should not place unreasonable burdens on individual borrowers (due to income-contingency and availability of hardship provisions).

It will also decrease the repayment time for borrowers, allowing them to be free of student loan debt in a shorter time. The median repayment time for those who left study in 2006 and remained in New Zealand was 5.2 years. An increase to 11 cents would reduce the median repayment time for all borrowers by 0.4 years.

Effective Marginal Tax Rate (EMTR)[4]

Either of these options is likely to increase effective marginal tax rates for many borrowers, particularly those who receive WFF. Although the impact is marginal, it will increase existing high EMTRs. At the current repayment rate, a borrower who does not receive WFF and who earns an annual income of $48,000 has around 40% of any additional income deducted. EMTRs will increase slightly under both options (1-2% of any additional dollar of income earned by these borrowers). The impact of these EMTRs could result in borrowers being unwilling to undertake extra work or to seek promotions or pay increases. However, this impact is likely to be marginal.

The EMTRs that apply to borrowers who receive WFF can already reach levels of over 100%. This is due to the interaction of student loan repayments with the Minimum Family tax credit.[5] EMTRs will increase slightly under both options (1-2% of any additional dollar of income earned by these borrowers). Changes to student loan repayment rates will therefore exacerbate the situation in that they increase existing high rates.

These options would only affect borrowers who remain in New Zealand who are above the repayment threshold and are already making repayments.

Option 3 – Increase the repayment rate for New Zealand-based student loan borrowers with an annual income of $70,000 and above to 15 cents in the dollar

The proposal to target borrowers in the higher income brackets recognises the ability of individual borrowers to repay their loan within their means and should not place unreasonable burdens on individual borrowers. This initiative is expected to have a relatively low impact, as our analysis shows that few borrowers reach the top tax rate before they repay their loans, and these people repay quickly.

A small number of new graduates will be included in the group of borrowers earning $70,000 and above. The latest survey of graduate income conducted by the NZ Vice-Chancellors' Committee shows that the 75th percentile graduate salary for domestic commerce and health students was over $70,000.

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[4] An EMTR is the marginal tax rate that a taxpayer pays on any additional dollar of income, when the effect of other social policies such as Working for Families, student loan repayments and the ACC Earner Levy are taken into account.

[5] This credit is a component of Working for Families designed to ensure that families with children receive a minimum annual income of $20,800. Refer to http://www.ird.govt.nz/wff-tax-credits/entitlement/what-is-wfftc/min-ftc/.

Proposal	Part of problem addressed	Options	Preferred option	Policy savings, operating costs	Borrowers affected, Impact on affected borrowers of option being progressed
Increasing the repayment rate for New Zealand-based borrowers	Address the increasing cost of the Scheme to the Crown and the taxpayer	Option 1 – Status quo Option 2 – Increase the repayment rate for New Zealand-based borrowers to a. 11 cents in the dollar b. 12 cents in the dollar Option 3 -– Increase the repayment rate for New Zealand-based student loan borrowers with an annual income of $70,000 and above to 15 cents in the dollar	12 cents	Option 2 – Savings: a.$230.045m (over 5 years) b.$438.300m (over 5 years) No costs Option 3 – [did not progress to this level of analysis]	Option 2 – on average 440,000 borrowers per year would have a higher repayment obligation

Changes to the voluntary repayment bonus policy

Reduce unnecessary borrowing

The voluntary repayment bonus, introduced in 2010, aims to encourage borrowers to make extra payments in order to repay their loans earlier. The voluntary repayment bonus is a 10% bonus borrowers can receive for making voluntary repayments that total $500 or more in a tax year (1 April to 31 March).

The policy aims to encourage borrowers to make extra repayments to repay their loans more quickly, particularly for New Zealand-based borrowers who have interest-free loans. The longer borrowers take to repay their loans, the more expensive the borrowing is to the Crown. A second objective is to lower the cost to the Government of the Student Loan Scheme.

Only borrowers who are up-to-date with their loan repayments and have an opening loan balance of $550 or more at the start of the tax year are eligible to receive the bonus. Repayments made to StudyLink do not qualify for this bonus. The policy was designed this way to ensure that borrowers did not borrow for more than they needed in anticipation of a bonus and to minimise implementation costs.

As part of system changes supporting the Student Loan Scheme Act 2011, from April 2012, StudyLink will no longer hold any portion of a borrower's loan balance. Instead, these balances will be passed on to Inland Revenue in near real time.

Option 1 – Status quo

Currently, only repayments made to Inland Revenue are eligible for the voluntary repayment bonus. Although StudyLink can also accept repayments, repayments made to StudyLink are not eligible for the bonus.

At present, a borrower's loan balance is held by StudyLink for the year of study and then transferred to Inland Revenue in the following February or March. Borrowers cannot currently claim the bonus in their first year of study as they will not have the required opening balance of $550 or more. The implementation of a near real-time transfer of loan balances between StudyLink and Inland Revenue from April 2012 means that all current borrowers will have a balance of $550 or more by 1 April and, therefore, qualify for the bonus. This would undermine the original policy intent that borrowers could not receive a bonus while studying and provides students with an incentive to borrow more than they need.

Option 2 – Not allowing borrowers to receive a bonus in the same tax year as they draw down the loan

This option would prevent borrowers from receiving a bonus in the same year they drew down their loan, beginning 1 April 2013. Analysis of payment and loan transfers suggests that some borrowers may be borrowing more than they need, in expectation of a bonus.

It is possible that students seeking to "game" the system could borrow and quickly repay their loan, effectively receiving a discount on their borrowing. In 2010 and 2011, there was a cohort of borrowers whose total borrowing equalled their repayments for the year. Evidence shows that approximately 2,600 borrowers in 2011 benefitted from an estimated total of $1.8 million in bonuses on loans which they may not need to have borrowed.

Option 3 – Include voluntary repayments made to StudyLink in the bonus calculation

Since the voluntary repayment bonus was introduced in 2010, there is a cohort of borrowers who have continued to make voluntary repayments to StudyLink, despite these payments not being eligible for the bonus. From the 2010 calendar year, there were 10,656 voluntary repayments made through StudyLink with a total value of $4.1 million. Including these payments in the calculation of the bonus, either through directing all payments to Inland Revenue or making legislative changes to include payments made to StudyLink, would increase the amount of bonuses paid by approximately $0.4 million per annum.

This would undermine the original policy intent that borrowers could not receive a bonus while studying, and provides students with an incentive to borrow more than they need.

This option would safeguard borrowers against the risk of repaying the "wrong" agency and remove the administrative cost and complexity of involving both agencies in maintaining a repayment service.

Option 4 – Repeal the voluntary repayment bonus

This option would repeal the voluntary repayment policy from 1 April 2013.

There are uncertainties about the impact of the voluntary repayment bonus as we do not have a robust time series of voluntary repayments and available data does not yet show a steady state for the policy. However, the level of savings from the voluntary repayment bonus is lower than originally estimated, and the bonus may not be providing good value to the Government. In particular:

- *the bonus benefits any borrower who repays in the final 3.4 years of their loan term* as opposed to 1.5 years in the original estimates. Based on median New Zealand-based repayment times, this means that repayments in the final half of the loan term are a cost to the Government
- *most people making voluntary payments appear to have loans that are low cost* to the Government (for example, those with larger incomes in relation to their loan debt)
- *many borrowers appear to be making voluntary repayments to fully repay their student loan* (this benefits them, and costs the Government). These repayments also tend to be much larger than those made part way through the loan repayment period
- take-up by borrowers overseas is relatively higher than expected
- a small number of borrowers are repaying student loans in the same year they borrow to receive a bonus ($1.8m in bonuses in 2011)
- the bonus is resource-intensive to administer.

Changing the voluntary repayment bonus may risk sending signals that are inconsistent with the Government's other initiatives to encourage faster repayments. These risks could be partly mitigated by restating the secondary objective of the bonus, which is to reduce the costs of the scheme to the Government, and also emphasising that there are now better options available to achieve this goal.

Proposal	Part of problem addressed	Options	Preferred option	Policy savings, operating costs	Borrowers affected Impact on affected borrowers of option being progressed
Changes to voluntary repayment bonus	Greater contribution to tertiary education costs from students who can most afford to pay	Option 1 – Status quo Option 2 – Not allowing borrowers to receive a bonus in the same tax year as they draw down the loan Option 3 – Include voluntary repayments made to StudyLink in the bonus calculation Option 4 – Repeal the voluntary repayment bonus	Repeal the voluntary repayment bonus	Option 2 – Savings: \$1.6m-\$1.8m (per year) would no longer be paid out to borrowers who made voluntary repayments in a tax year where they also drew down on their loan Option 3 – Costs: Up to an additional \$0.4m per annum would be paid out in bonuses Option 4 – Savings: \$18.3m from 2012/13 No costs	Option 2 – approx 2,600 borrowers in 2011 who made a voluntary repayment in the same year they drew down their loan would no longer be eligible for the bonus Option 3 – approx 10,000 students who voluntarily made repayments to StudyLink in 2010 would now receive the bonus Option 4 –Approx 31,000 borrowers would no longer receive a bonus beginning 2013

Targeting student allowances to initial years of study and initial qualifications

-Require a greater contribution to tertiary education costs from students who can most afford to pay;
-Target student allowances to those in initial years of study.

Option 1 – Status quo

The current lifetime limit on receipt of a student allowance is 200 weeks, with extended provision for Long Programmes (programmes of study typically culminating in postgraduate study, which exceed 200 weeks). Degree-level study for two semesters (not including summer school) is typically 40 weeks per year. However, the average duration of allowance receipt per year for all recipients is lower, at approximately 27.5 weeks. This reflects the shorter duration of sub-degree study.

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[6]

Option 4 – Remove student allowance eligibility for postgraduate study and Long Programmes

This option would remove student allowance eligibility for all level 8 and above postgraduate certificates and diplomas, masters degrees, and doctorates; as well as removing student allowance eligibility for Long Programmes and courses of national interest exemptions. Due to variation between providers, all honours degrees should remain eligible for student allowances.

Postgraduate eligibility

This option would further focus allowances on initial years of study, rather than throughout study, [6]

It is not unreasonable to expect postgraduate students to borrow to fund their study, so that allowance support can be focussed on those students who are entering tertiary education for the first time. This also reflects the higher private benefit gained from postgraduate study. Postgraduate students would also be eligible for the Accommodation Supplement if student allowance eligibility is removed for postgraduate study.

Removing postgraduate eligibility alone would affect approximately 5,050 students in the first year. Most students who became ineligible for a student allowance as a result of these options would be able to borrow for these costs from the Student Loan Scheme.

Under the proposed student allowance settings, students who undertake postgraduate study may be eligible for the Accommodation Supplement depending on their individual circumstances. In many cases, these eligible students would receive a higher level of support through the Accommodation Supplement plus student loan living costs than through the student allowance and these increased Accommodation Supplement costs may reduce savings by up to $6.7 million per year.

Long Programme eligibility

Long Programmes are predominantly a series of qualifications, which are approved for extended student allowance receipt, in some cases of over 350 weeks. Examples include Bachelor of Business Studies, Bachelor of Architecture, Master of Architecture, and PhD programmes.

Long Programme student allowance recipients make up less than 1% of all recipients. These programmes of study typically have high economic returns and students must have demonstrated academic ability to progress.

Removing both post-graduate study and Long Programme eligibility would affect approximately 5,100 students in the first year. Many students enrolled for a Long Programme are also post-graduate students, creating a strong interdependency between the two groups. Most students who became ineligible for a student allowance as a result of these options would be able to borrow for these costs from the Scheme.

Students who had a Long Programme exemption approved prior to 1 January 2013 would retain that exemption. We also propose removing the courses of national interest exemption and the 200 week limit. A number of exemptions exist to the 200 week limit for allowances, Long Programmes, special circumstances, any particular case or class of case (programmes similar to Long Programmes), and courses in the national interest (currently teaching qualifications). These exemptions are inconsistent with the proposed new focus of allowances on initial years of study.

Proposal	Part of problem addressed	Options	Preferred option	Policy savings, operating costs	Borrowers affected Impact on affected borrowers of option being progressed
Targeting student allowances	Reduce unnecessary borrowing Require greater contribution to costs of tertiary study Target allowances to those with low-incomes	Option 1 – Status quo [6] Option 4 – Remove student allowance eligibility for postgraduate study and Long Programmes	Remove long programme exemptions, and eligibility for postgraduates	[6] Option 4 – Savings: $26.82m Costs: Administrative costs of $1.151m [over 4 years]	[6] Option 4 – approx 5100 students in the first year of implementation

Changes to the student allowance parental income threshold

-Target student allowances to those with low incomes (or from low income families);
-Require a greater contribution to tertiary education costs from students who can most afford to pay

Student allowance eligibility, for students under 24 years of age and without dependants, is determined in part by parental annual income.

The threshold refers to the income limit for receiving a full allowance ($55,027.96 from 1 April 2011). Above that limit, eligible recipients receive a partial allowance, until allowances have fully abated at ‘cut-off points’. The cut-off points are currently:

- $83,449 per annum, the cut-off point for a student living at home
- $90,554 per annum, the cut-off point for a student living away from home.

In 2011, approximately 55,400 students aged 18-24 received allowances based on parental income (56% of all student allowance recipients). [6]

Option 1 – Status quo

This option would maintain the current parental income threshold and Annual General Adjustment process. The Ministry of Social Development manages an annual process for inflation adjustment to rates and thresholds of benefits, social assistance, and student support. Some benefit rates, and student allowance rates, are required by law to be adjusted. Student allowance thresholds and student loan living costs are adjusted based on Cabinet decisions and conventions.

Option 2 – Cease CPI adjustments to the parental income threshold

This option would maintain the current parental income threshold at $55,027 for the next four years until 31 March 2015. It would be unlikely to have any widespread impact on access to tertiary education, as it would only moderately affect students from families with incomes between $55,000 and $90,000.

Although it would achieve some savings, it would not go far towards achieving the scale of change needed for allowances to refocus them on students in greatest need. It is also likely to be too small to achieve any shift in outcomes.

Cabinet decided not to adjust the student allowance parental income threshold through the 2012 Annual General Adjustment. If the 2012 adjustment had proceeded, it would have increased student allowance payments for approximately 14,500 students who currently receive partial student allowances (including around 600 who would have received a full allowance as a result of the change) and approximately 100 students who currently receive no student allowance. It would not have affected around 80,000 students who receive a full allowance now.

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[6]

Proposal	**Part of problem addressed**	**Options**	**Preferred option**	**Policy savings,[6] operating costs**	**Borrowers affected, Impact on affected borrowers of option being progressed**
The parental income threshold for student allowances	Greater contribution to tertiary education costs from students who can most afford to pay Target allowances to those with low-incomes	Option 1 – Status quo Option 2 – Cease CPI adjustments to the parental income threshold [6]	[6] Cease CPI adjustments to the parental income threshold	Option 2 – Savings: $13.104 (over 5 years) [6]	Option 1 – Increased student allowance payments for approximately 14,500 recipients Option 2 – This would impact approximately 450 students in 2016 who would have been eligible for a partial allowance, and would no longer receive any allowance [6]

[6] All savings are from each option in isolation and do not take account of interdependencies. All savings are for 4 years, after tax, excluding flow-on impacts for student loans, Unemployment Benefit Student Hardship, and Accommodation Supplement.

Information-matching agreement with Inland Revenue and the New Zealand Customs Service

Increase personal responsibility for debt repayment

Option 1 – Status quo

Since the end of October 2010, Inland Revenue has undertaken work in Australia, and more recently the United Kingdom, based on commercial debt recovery practices to follow up on defaulting overseas-based borrowers. In the course of this work, Inland Revenue has found that the main impediment to collecting debt from overseas-based borrowers is a lack of contact details. This new information match will provide another source of up to date contact details for borrowers who have likely fallen out of touch with Inland Revenue.

Option 2 – New information match between Inland Revenue and Customs for borrowers in serious default.

This option proposes an information matching agreement between Inland Revenue and the New Zealand Customs Service that would identify borrowers in serious default when they enter the country. Information from the borrower's arrival card would then be used by Inland Revenue to initiate contact with the borrower. A similar information matching agreement identifying parents in serious default of their child support liabilities is already in place.

The projected results of the new match, based on the historic results of the existing child support match and analysis of overseas-based borrower movements, is 591 borrowers in the first year of implementation. The average amount of student loan default for overseas based borrowers is $6,667.10 making the total estimated default held by the 591 borrowers Inland Revenue expects to be able to contact per year approximately $3.9 million.

Proposal	Part of problem addressed	Options	Preferred option	Policy savings, operating costs	Borrowers affected Impact on affected borrowers of option being progressed
Using Customs to track student loans borrowers	Would help identify borrowers in serious default when they enter the country Increase personal responsibility for debt repayment	Option 1 – Status quo Option 2 – New information match between Inland Revenue and Customs for borrowers in serious default	New information match between Inland Revenue and Customs for borrowers in serious default	Option 2 – Costs: $1.42m (over 5 years)[8]	Option 2 – 591 borrowers in first year

[8] Inland Revenue can self-fund these operating costs.

Consultation

Government agencies involved with consultation on this Regulatory Impact Statement included Inland Revenue, Ministry of Social Development, and the Treasury. Time constraints limited the time available for consultation.

Conclusion and recommendations

The recommended outcomes of the options analysis for each proposal are as follows:

Broadening the definition of income for student loan repayment purposes

Beginning 1 April 2014, the new definition of income for student loan repayment purposes will include:

- attributed company income
- attributed trust income
- major fringe benefits received by shareholder-employees in closely held companies
- unlocked portfolio investment entity income
- tax-exempt salary and wages and certain overseas pensions
- main income equalisation scheme deposits
- 50% of non-taxable private pensions and annuities
- distributions from a retirement savings scheme when the person has retired early
- distributions from trusts, not being beneficiary income, where the recipient is not the settlor
- distributions from superannuation schemes that relate to contributions made by a person's employer within the last two years, when the person has not retired (excluding KiwiSaver and locked-in superannuation schemes).

Increasing the repayment rate for New Zealand-based borrowers.

- Increase the repayment rate for New Zealand-based borrowers to 12 cents in the dollar.

Voluntary repayment bonus policy

- Repeal the voluntary repayment bonus.

The parental income threshold for student allowances

- Cease CPI adjustments to the parental income threshold.
- [6]

Targeting student allowances to initial years of study and qualifications

- [6]
- Remove student allowance eligibility for postgraduate study and Long Programme exemptions.

Information-matching with Inland Revenue and the New Zealand Customs Service

- A new information match between Inland Revenue and Customs for borrowers in serious default.

Implementation

Broadening the definition of income for student loan repayment purposes

Legislative amendment is required to broaden the definition of income. This would be included in a Student Loan Scheme amendment bill. The earliest implementation date would be 1 April 2014 for the 2014/15 income year. The proposal to include WFF tax credits would have significant system impacts.

Voluntary repayment bonus policy and increasing the repayment rate for New Zealand-based borrowers

Inland Revenue is able to implement any changes to the voluntary repayment bonus and repayment obligation for New Zealand-based borrowers at no additional administrative cost from 1 April 2013 as part of the system changes resulting from the Student Loan Scheme Act 2011.

Changes to the voluntary repayment bonus and the repayment rate would require an amendment to the Student Loan Scheme Act 2011. This change could be included in a Student Loan Scheme amendment bill. Changes to the bonus policy would take effect from 1 April 2013.

Student allowances

Changes to student allowances, [6]

would require a change to the Student Allowance Regulations 1998. This will be carried out by the Ministry of Social Development during 2012.

Information-matching with Inland Revenue and the New Zealand Customs Service

This new match could be administered using the systems and processes that are already in place for the existing child support information matching agreement.

The data match between the New Zealand Customs Service and Inland Revenue requires an amendment to the Tax Administration Act 1994, the Customs and Excise Act 1996, and the Privacy Act 1993.

An information matching provision also requires completion of an Information Matching Privacy Impact Assessment in order to enable the Privacy Commissioner to assess the proposed provision prior to Cabinet legislative approval. A Memorandum of Understanding between Inland Revenue and Customs would also be required.

The required amendments could be included in a Student Loan Scheme amendment bill. The new information match could be in place soon after enactment, with the exact implementation date to be determined with Customs.

Monitoring, evaluation and review

The four agencies involved with the Student Loan Scheme (Inland Revenue, the Ministry of Social Development, the Ministry of Education, and the Treasury) will monitor and review proposals in respect of the Student Loan Scheme.

The Scheme Governance Group will monitor the overall performance of the Scheme changes, including through the Student Loan Performance Framework and report to Ministers on outcomes. The framework indicators are reported regularly to the Minister for Tertiary Education, Skills and Employment and the Minister of Revenue.

The Ministries of Education and Social Development will monitor and review the student allowance proposals and report to the Minister for Tertiary Education, Skills and Employment and the Minister for Social Development.