BACKGROUNDER 15: THE STUDENT LOANS SCHEME

Backgrounder No 15, August 1999

> *"A student loan scheme cannot be expected to maintain levels of participation by students from poor families in an environment of rising fees (unless there are compensating increases in student allowances). The University of Auckland and the Manukau Institute of Technology have observed reductions in enrolments by students from lower socio-economic groups."* **Warner, p 4**
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> ***The New Zealand Student Loans Scheme Analysis and Options for Reform*** **By Adam Warner. An independent study commissioned by the Student Assistance Task Force University of Auckland, July 1999, p4.**

Child Poverty Action joins with the University of Auckland, students, academics and other concerned members of the public who criticise the current policies for the support of students. A large debt accumulation when the student's family already have few, or no assets can be a major disincentive. Already we see enrolment by Maori students at Auckland University falling. They were 7.5 % of all students in 1996 but only 6.7% in 1998. This is particularly concerning as participation by Maori in tertiary education is already low. The loans scheme helps perpetrate the insidious widening of the income distribution and the poverty that affects so many families in New Zealand today.

The scheme is also detrimental, in terms of mental and physical wellbeing, to the many students who have borrowed and now have large debts to repay. In order to reduce their borrowing many students have elected to increase their part-time working hours to make ends meet as evidenced by the growth in numbers of part-time students. Longer hours earning extra income impacts on the quality of their university work. It also reduces the time students have to be involved in a wider university life, including voicing their political concerns. CPA received the following contribution from a member:

> *"...my son wrote his car off in an accident recently due to excessive tiredness from working nights and attending University in the day. We are just on the cut off point so cannot afford to do more than pay for texts and provide free board but he gets no allowance. His student loan because of his working is just under $10,000 and he has a job to go to at the end of his degree but he would not consider any post grad work and just wants to get to work as soon as possible and pay off his debts. He also has pretty poor grades because he puts minimum effort in as he has so much on. My daughter is working next year before she does anything because of the fees (this is a big issue) and she will be earning a lot less than my son who is fortunate to be in the computer area."*

Young women, who tend to end up in lower paid employment than men and may have broken periods away from the workforce when they have children are *particularly* disadvantaged by the loans system. A recent study from the Auckland University showed that in spite of better results being obtained by female students even in the first few years following graduation, male graduates were able to earn several thousand dollars per year more than their female counterparts.

> *"The student loans are affecting a range of incomes not just the very poor. In our household my son has his loan and I have mine -about $8,000. I also did not get family support as my scholarship was counted as income. What I find difficult also is I pay the 10% surcharge regardless of my very moderate income and my financial responsibility for my family."* **CPA member**

Moreover in many cases even the loans are not enough. The report for the University of Auckland (Warner) quoted above suggests single students who are renting in Auckland will find their weekly financial support through allowances and loans falls short of their total weekly expenses by between $93 and $105 a week. These extra costs do not include the problems of finding money for a bond or paying for any vehicle expenses.

While the government has proposed that 50% of all of a student's repayments would go to repaying principal, it will not be implemented until the year 2001 (well after the election). This government does not have a good track record in keeping its promises, especially where cash for students is at issue. Remember the coalition agreement where a universal cash allowance was to be paid to every student? The words were later twisted and reinterpreted to become something that now bears no resemblance to the original plan.

In the meantime, new polices already in place for 1999 have made the loan system more mean-spirited than before.

> *"A number of changes were made to New Zealand's student loan scheme in October 1998 and which came into effect 1 January 1999. Borrowing for fees is now only possible at the beginning of a course (and those fees are direct-credited to the relevant tertiary institution), living costs are now only apportioned at a maximum of $300 a fortnight, the maximum entitlement to borrow for course-related costs has been reduced from $1,000 to $500 (and moreover receipts must be posted in before any money is advanced), student association fees can no longer be borrowed, and the minimum size of voluntary repayments in the first year of borrowing has been reduced from $200 to $100."* **Warner, p 3.**

Cabinet papers state that these measures will "reduce the ability of borrowers to use student loan money for non-educational purposes." But it is perfectly sensible to use savings at the beginning of the year to pay fees and books and borrow later on for other purposes. The reduction for course costsmakes it very difficult for students to buy the correct texts and pay for other essential materials at time of the year when many large bills (e.g. bond money for flats) also require payment. Surely it was unnecessary to also require receipts for evidence of this cost? This tedious requirement adds another layer of administrative costs. It assumes as well that the students actually possess the money necessary to purchase the textbooks and can wait for reimbursment.

CPA endorses the conclusions of Adam Warner's Auckland University report which deplored the changes for 1999:

> *"A number of changes were made to New Zealand's student loan scheme in 1998, and which affect the 1999 intake of students. It has been reasoned throughout the report that many of these changes are not only detrimental to students, but also costly to society as a whole. The requirement that living expenses be estimated in advance, are lost if not borrowed immediately, and are only paid out fortnightly, has the potential to increase overall student borrowing while at the same time reduce the financial autonomy of students with a consequential decrease in access to education".*
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> **Warner, p105**

By 2001 student loans, regarded as assets in the Crown's balance sheet, are projected to be 4.3 billion dollars, about the size of Telecom when it was sold. It is hard to escape the view that this asset has been created by highly manipulativeaccounting under the guise of transparency and responsibility.

The aim of the exercise seems to be to disguise part of government spending and obscure the actual level of taxes. The reason seems to be a media-fed politically-fostered obsession with the virtues of low taxes, low net debt, and low government expenditure. Think about how the student loan asset has been achieved. To a large extent the government has reduced spending on education thus pushing up the budget surplus, then lent that surplus back to students at a high interest rate. Students then spend it on education. Nothing much real has happened but this sleight of hand allows the government spending figure to be lower. Costs are shifted to students, not reduced for society as a whole.

On the balance sheet, net worth of the Crown rises and net public debt falls giving the illusion of achieving improved fiscal responsibility. Net debt is gross debt minus cash-like assets. Believe it or not, loans to students are netted off against gross debt along with cash as if they are secure, matching financial assets. Later on the loans with interest are repaid with a compulsory 10% surcharge on income over $14,700. As the surcharge is not counted as a tax, the scheme allows taxes to look lower as well. Over the same period as students have become indebted to the tune of $4 billion, tax cuts to well-off New Zealanders in total have far exceeded this figure. It can be argued that we are witnessing a massive redistribution from young poor students to the middle-aged and older wealthy age group.

The student's loan accumulates while the student is studying and borrowing at the current rate of interest which is 7% for the year ended March 2000. Not only is this above current mortgage rates, but there is also a $50 administration fee:

> *"It is found that increases in interest rates adversely affect those on lower incomes more than those on higher incomes. Those on lower incomes already face longer repayment periods and higher total interest costs. Any increase in the interest rate disproportionately increases repayment times for low-income earners."* **Warner, p 26**

Child Poverty Action acknowledges that it is very difficult to make changes to the loans scheme that would now be equitable, but the longer it is left in place the worse the problems will get. All up, the 1999 changes are petty and cumbersome but significantly have the most impact on the least advantaged students. The changes mooted for 2001 will improve the speed of repayment of loans and reduce the total interest paid by many students. But in part some of this advantage comes from a higher repayment rate of 15% on incomes over $50,000. But as Warner notes *"If for some reason tertiary fees were reduced significantly, the proposals might become unnecessary"* (p 106).

Child Poverty Action believes there is no inevitability about the loans scheme. It is a distributional choice. The claim we are too poor to fund tertiary study in a different way does not hold up. Under the loans scheme, New Zealand ends up devoting resources to education and foregoing other things by shifting the burden to students in an unfair and usurious way.

It is important that fees are *significantly* reduced, and the interest rate for loans reduced substantially. As well, a more adequate system for the living costs support of students needs to be found. This backgrounder is not able to discuss in length the unfairness of the student allowance scheme for those under 25, but the parental income test is too harsh and arbitrary in its application and results in only about one third of students qualifying for any of the allowance. Students may not access the accommodation supplement, and only receive additional help with accommodation costs (albeit minor), if on an allowance.

What is to be done? CPA believes that the costs must now be shifted back, from the young to those of us who were much more fortunate when we were students. In a sane world, that process is called progressive tax. We urge our members to read the full report on students loans: ***The New Zealand Student Loans Scheme Analysis and Options for Reform*** **By Adam Warner. An independent study commissioned by the Student Assistance Task Force University of Auckland.**

Click here[1] to download a zipped up revised and updated PDF of the document as at 15 December 1999.

[1] http://cpag.org.nz/backgrounders/Final_Student_Loan_Dissertation.zip