



# Laybying our Future

The State of Student  
Hardship in New Zealand

**Max Lin**  
Child Poverty Action Group  
2016

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GROUP



# About Child Poverty Action Group

Child Poverty Action Group (CPAG) is an independent charity working to eliminate child poverty in New Zealand through research, education and advocacy. CPAG believes that New Zealand's high rate of child poverty is not the result of economic necessity, but is due to policy neglect and a flawed ideological emphasis on economic incentives. Through research, CPAG highlights the position of tens of thousands of New Zealand children, and promotes public policies that address the underlying causes of the poverty they live in.

If you would like to support CPAG's work, please visit our website: [www.cpag.org.nz](http://www.cpag.org.nz)

## Acknowledgments

The author would like to thank Dr Susan St John from CPAG for providing this opportunity to highlight the important issue of student hardship. Susan's work has been an inspiration and her guidance and resources have been invaluable. Special thanks also, to Dr Claire Dale, Dr Gerard Cotterell, and Julie Timmins who have commented on this draft.

This report is written for CPAG in an entirely voluntary capacity and does not necessarily reflect the opinions of CPAG or these individuals.

## About the Author

Max Lin is a Masters of Arts student at the University of Auckland in Politics and International Relations. He has recently graduated with a conjoint Bachelor of Laws and Bachelor of Arts (Honours) degree in Politics and International Relations.

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# Preface

CPAG welcomes this student report. While the primary focus of CPAG is disadvantaged children aged under 18, these very children are further disadvantaged in the tertiary sector when they grow older. Some students also have children and it is important to see how disadvantaged student groups can be by current policies. CPAG is particularly concerned with the treatment of student parents in the Working for Families programme.

It is important that the students themselves own the problem and think about policy solutions. We are therefore delighted that Max Lin has undertaken to write this for us and to start discussion within the university on this important matter.

Education at all levels is important for the future health of our families.

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# Introduction

Search the newspapers and you will see that students are increasingly living in financial distress. With headlines such as “Hundreds of Tertiary Students Facing Serious Hardship”,<sup>1</sup> “Cost of Student Debt: No Kids”,<sup>2</sup> and “Students in Auckland Battling Growing Budget Blowouts”,<sup>3</sup> the issue of student hardship is a social problem that can no longer be ignored.

In response to the 2016 Household Net Worth Statistics published by Statistics New Zealand, the New Zealand University Students Association said:

*“NZUSA believes that crippling young people with growing levels of educational debt is a sure fire way to cost the Government more in the long run. We know that 70% of students think their debt will affect their ability to buy a house, 36% think it will affect their decision to have children, and 95% believe their debt will impact on their ability to save for retirement.” – President Linsey Higgins 26th Jun 2016*<sup>4</sup>

Student hardship is a longstanding problem and cannot be blamed on a single political party or attributed to a single policy. Political parties are starting to acknowledge the difficulties students face,<sup>5</sup> although the seriousness and urgency of the issue warrants even greater focus on the political agenda.

This report draws on a range of resources which highlight the multiple hardships faced by tertiary students, including Statistics New Zealand, the Ministry of Education, Education Counts and New Zealand Union of Students’ Association (NZUSA), in particular the *Student Loan Scheme 2014/2015 Annual Report*, and NZUSA’s *Income and Expenditure Survey*. The goal is to raise the profile of the issues around student welfare, not to provide the definitive solutions to all the issues confronting tertiary students in New Zealand. For example, while the quality of tertiary education and international students are also important considerations, such issues are outside the scope of this report.

To give a human face to the issue of student hardship, a number of students were interviewed. The sad reality is that these stories are by no means ‘out of the norm’, as we can see from the statistics. Many students subsist on very little income for years, alone and disconnected from any pastoral support, and these stories are most likely to be the tip of the iceberg. There will be others who have simply dropped their studies due to such hardship and have consequentially fallen off the radar. There were also many students who were reluctant to share their stories because they have internalised the shame of living in poverty.

The purpose of the terms ‘student hardship’ and ‘student poverty’ is to provide a benchmark for consideration when it comes to public policy in New Zealand. Extreme poverty is measured against the international poverty line of \$1.90 a day.<sup>6</sup>

In a developed country like New Zealand, a more useful concept is relative poverty. For example,

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1 John Gibb, “Hundreds of Tertiary Students Facing Serious Hardship,” *New Zealand Herald* 2012.

2 Scott Yeoman, “Cost of Student Debt: No Kids,” *ibid.* 2015.

3 “Students in Auckland Battling Growing Budget Blowouts,” *New Zealand Herald* 2016.

4 *Ibid.*

5 Opposition parties have recently announced policies to address accessibility, such as the fee-free “three-year post-school tertiary education”. National has also recently allowed the 600 sole-parents studying full-time to access higher accommodation support. However, not enough emphasis and attention is devoted to the core issue of student hardship.

6 World Bank, “Faqs: Global Poverty Line Update,” World Bank, <http://www.worldbank.org/en/topic/poverty/brief/global-poverty-line-faq>.

income poverty rates are typically determined by counting the numbers who fall below 60% of the median income after housing costs and family size are taken into consideration.<sup>7</sup> In addition to relative income measures New Zealand statistics include hardship indexes that measure degrees of deprivation of material goods. For students, hardship is about being unable to afford basic and essential items such as accommodation, food, clothing and medical treatment.

This report is divided into six sections. The first section examines the principles and goals of tertiary education, which will serve as a useful benchmark for evaluating the sufficiency of student support. The second section outlines the current level of government support. The third section looks at alternative sources of income, such as employment and borrowing. The fourth section further examines the flow-on harms of substandard housing, deteriorating mental wellbeing, and poor academic performance. The fifth section briefly discusses the long-term effects of debt on students. The final section puts forward some recommendations for discussion.

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<sup>7</sup> Duncanson M Simpson J, Oben G, Wicken A, Pierson M., "Technical Report: Child Poverty Monitor 2015," (Dunedin: University of Otago, 2015).

# I Principles and Goals of Tertiary Education

Before student hardship is discussed, it is important to make the case for accessible tertiary education. 'Accessibility' involves financial support in the form of student loans and Student Allowances for those who meet the criteria. It also involves equity issues such as adequate secondary school preparation for academic success, and a culturally respectful tertiary environment. The issue of student debt is often cited as a deterrent, but perhaps a greater barrier to tertiary education is the immediate financial hardship while undertaking study.

There are legal and moral obligations to ensure that tertiary education is accessible and that students are not suffering undue hardship. The rising cost of tertiary education conflicts in both the short and long-term with the principles stated in the Education Act 1989. Section 181 of the Act outlines the duties of Councils and public tertiary education institutions as follows:

*(c) To encourage the greatest possible participation by the communities served by the institution so as to maximise the educational potential of all members of those communities with particular emphasis on those groups in those communities that are under-represented among the students of the institution.*

*(f) To ensure that proper standards of integrity, conduct, and concern for:*

*(i) The public interest; and*

*(ii) The wellbeing of students attending the institution are maintained.*

Rising fees and inadequate support to mitigate the increasing cost of living may also be inconsistent with the Government's own Tertiary Education Strategy.<sup>8</sup>

## Economic and social benefits

The creation and dissemination of knowledge is fundamental to universities' mission to promote learning, discovery, and engagement. Higher education is thus a public good because it delivers social and economic benefits to society. Economically, on average, tertiary graduates contribute significantly more to the tax base over their lifetime<sup>9</sup> than those who do not have a tertiary education. In the dynamic market conditions of the twenty-first century, technology and globalisation may act not only to increase competition, but to displace labour and disrupt traditional working practices on a massive scale. A skilled, versatile and well-educated workforce is better prepared to respond to these turbulent changes.

However, tertiary education should not be viewed solely through an economic lens. There are certain goods in society which we value, such as fairness, pursuit of intellectual knowledge, and an active and informed democracy. Tertiary graduates have been shown to be more engaged and involved

8 The 2010-2015 Tertiary Education Strategy explicitly mentions the goal of building a "knowledge-based society" and "ensuring maximum educational opportunity for all New Zealanders". Equity and social development are another key focus as the strategy aims also to "strengthen Maori and Pasifika development" and the "connections between tertiary education and communities we serve". The more recent 2014-2019 Tertiary Education Strategy appears to have shifted towards an emphasis on earnings potential.

9 Rand Corporation, "How Taxpayers Benefit When Students Attain Higher Levels of Education," (Rand Corporation, 2009).

in our democracy, and are more likely to vote and volunteer in community organisations.<sup>10</sup> Tertiary educators play an important role as the “critic and conscience of society”.<sup>11</sup> Researchers in academic institutions create an environment where knowledge can be pursued as an intrinsic good that is ideally insulated from market and political influence.

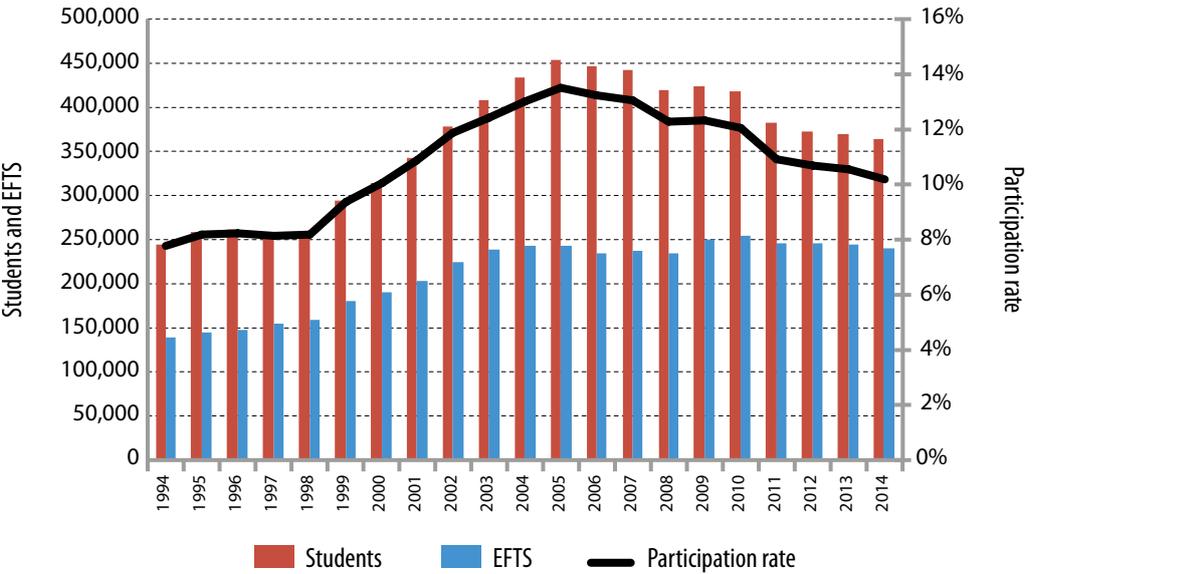
An expensive tertiary education is likely to discourage individuals from pursuing socially beneficial and/or essential occupations when their importance may not be reflected adequately in salary levels. These professions include teachers, nurses, carers and social workers. The recent emphasis by the Government on earnings potential, while it provides more information to students, risks dissuading individuals from taking up these socially beneficial but inadequately remunerated occupations.

For professional qualifications such as medicine, high student debt is likely to act as a disincentive to pursuing specialisations that pay less but are socially desirable, such as general practice or paediatrics.

Students must focus on their ability to complete their degrees while being mindful of the financial return once they enter the workforce. Higher qualifications require more years of study to complete, incurring more student debt, creating additional opportunity costs, and consequently discouraging many individuals from pursuing further study.

The figure below captures the decreasing participation in tertiary education since the peak in 2005. While equivalent full time students (EFTS) have remained fairly stable, actual numbers of tertiary students have decreased steadily. This report suggests that decrease can be largely explained by diminished accessibility of tertiary education, including the annual increase in tertiary fees, the decreasing accessibility of student allowances, the cumulative effect of these changes on the individual students, and the flattening demand for many of the professions supported by university education.

**Figure 1. Participation by domestic students in tertiary education<sup>12</sup>**



10 Simon Marginson, “Higher Education and Public Good,” *Higher Education Quarterly* 65, no. 4 (2011).  
 11 See section 162(4)(v) of the Education Act 1989 as one of the requirements of tertiary institutions.  
 12 These diagrams are sourced from Education Count’s Student Loan Scheme 2014/2015 Annual report.

It is important to move away from the mentality that tertiary education is a commodity that is consumed for private benefit of the individual, and to consider social factors such as fairness and community value, as well as economic benefits. Just as secondary education plays an important role in producing a numerate and literate population, tertiary education plays a significant role in civil society. New Zealand has a long tradition of accessible, fee-free and mandatory secondary education.<sup>13</sup> Tertiary education is now essential for many 21st century occupations so that there is a case for it being more widely accessible.

Given the real and necessary contributions to the public good, state support of tertiary education cannot be classified as “middle-class welfare” accessible and beneficial only for certain segments of society. This approach could make such a claim self-fulfilling: as tertiary education becomes more inaccessible, only wealthier students can engage in tertiary education and in narrow fields. This creates the appearance that student support is not required and masks the reality that students from poorer families are being excluded from higher education.

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13 In 1944, as part of the post-Depression era Labour Government's social reforms, secondary education was made free and compulsory up to the age of 15. In 1989, the school leaving age was raised from 15 to 16 years. See Susan Butterworth, “The Department of Education, 1877–1989: A Guide to Its Development,” (Wellington: Ministry of Education, 1993).

## II Student support

This section provides the background on the existing level of student support received by students in New Zealand. It also outlines some of the major changes in the history of tertiary education provision, and describes how some students and young people are actually managing today.

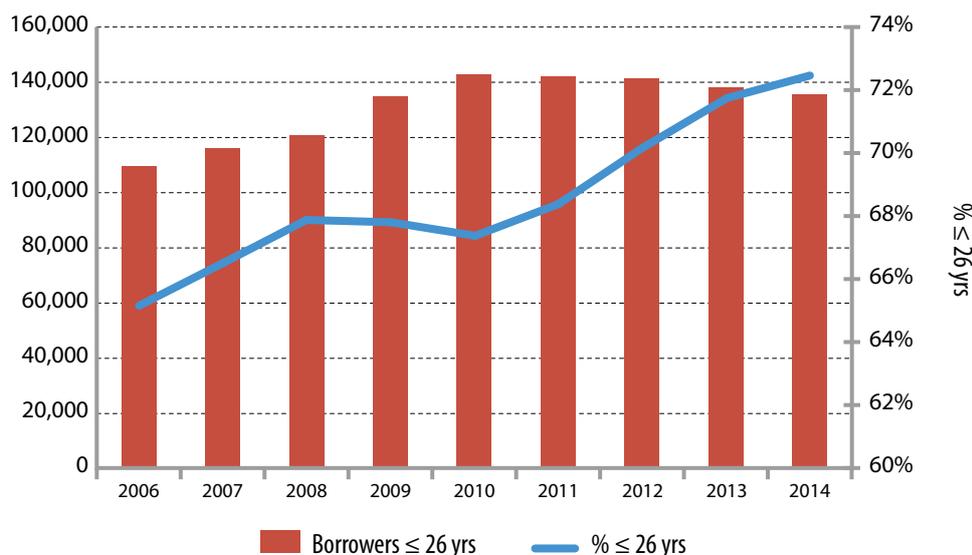
### Student allowance and loan scheme

The student allowance and student loan schemes are the main sources of government support for tertiary students in New Zealand.

When the Labour Government introduced university tuition fees for all students in 1989, the average annual fee was \$129. In 1990, under Labour's user-pays policy, fees were increased to a flat \$1,250 per year. In 1991 the newly elected National Government allowed universities to set their own fees and then introduced the student loan scheme in 1992. The interest rate was 7% effective from day one of the loan, while students were still studying. In 1999, the Labour Government removed the interest charge during study, and set a minimum level of earned income above which the loan would be repaid – an effective tax of 10%. In 2005 the Labour Government abolished the 7% interest on student loans, and capped tuition fee increases at 5% per year.

In 2010, National limited student loans to a maximum of seven years of full-time study in one student's lifetime. The maximum loan for living costs in 2016 is \$176.86 a week, paid directly to the students' bank account. Students enrolled at a tertiary institute are able to sign up for an interest-free student loan for course fees, administered by Inland Revenue (IRD) which pays the fees directly to the tertiary institution. Loans are also possible for course costs. In 2015, access to living allowances and course related costs was restricted for part-time students, and for students over 55 years of age. Figure 2 below shows an upwards trend in the percentage of student borrowers who are under 26.

**Figure 2. Trends in the Age Profile of Borrowers**



All components of student loans must be repaid, but interest is only payable if the student moves overseas. Repayments must be made on the loan, even if still studying, if the student earns more than \$19,084 a year (or \$367 a week) before tax. Over this threshold, repayments are 12 cents per dollar earned.<sup>14</sup>

Currently, some students are eligible for a Student Allowance to pay for day-to-day living costs. This is \$210.13 per week in 2016 for a single applicant. However only one-third of full-time, full year, New Zealand students currently have access to allowances.<sup>15</sup> The Student Allowance scheme introduced in 1989 is means tested: only students with proven financial constraints are eligible. Some may be eligible for a part allowance based on the income of their parents. To qualify, the threshold of combined parental income is \$84,163.86 gross if the student lives at home while studying, or \$91,448.30 gross if living away from home. To put this into perspective, the combined income of two recent graduates – by no means considered ‘well-off’ – are already likely to meet this threshold.<sup>16</sup> The frozen parental income threshold has meant that there was around 25% decrease since 2010 in the number of students eligible for Student Allowances (See Figure. 3).

Depending on the region, a student may receive up to \$60.00 per week in an Accommodation Benefit, however the Accommodation Supplement for an unemployed person not studying can be up to \$145. Even with the maximum Accommodation Benefit, some students on a Student Allowance can be left with very little for food, transport, bills while expected to study full-time.

The situation is even worse for students who do not qualify for Student Allowance. Such students may be able to borrow for living costs. As noted, the amount that can be borrowed for student living costs is only \$176.86 per week and they cannot access the Accommodation Supplement.<sup>17</sup>

Furthermore, student support has remained stagnant in real terms. In 2015, there was a general consumer price index (CPI) increase of only 0.51%.<sup>18</sup> In 2016 the Government announced a zero living costs adjustment.<sup>19</sup> While this was attributed to low general inflation, rent which is by far the largest cost for students, has continued to rise significantly. Indeed, CPI is not an accurate reflection of the cost of living for a student, as accommodation and textbook costs have risen significantly and considerably faster than general inflation.<sup>20</sup>

The Student Allowance and the maximum amount borrowable for student living costs do not even cover the average weekly rent of a student sharing a three-bedroom flat which has increased to \$218 in Auckland.<sup>21</sup> Figure 3 shows the decline in students accessing support from 2010.<sup>22</sup>

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14 If unable to pay anything towards the amount due, IRD may accept an instalment arrangement, but will charge late payment interest at the reduced rate on unpaid amounts of \$334 or more, for each month of the instalment arrangement. For any months where the instalment amount is not paid, IRD charge late payment interest at the full rate. See *ibid*.

15 Ministry of Education, “Student Loan Scheme Annual Report 2015,” (Ministry of Education, 2015).

16 “New Zealand Income Survey – Information Releases,” (Wellington: Statistics New Zealand, 2015).

17 See *Work and Income*, “Accommodation Supplement – Qualifications,” Ministry of Social Development, <http://www.workandincome.govt.nz/map/income-support/extra-help/accommodation-supplement/qualifications.html>.

18 StudyLink, “Annual General Adjustment Increases from 1 April 2015”.

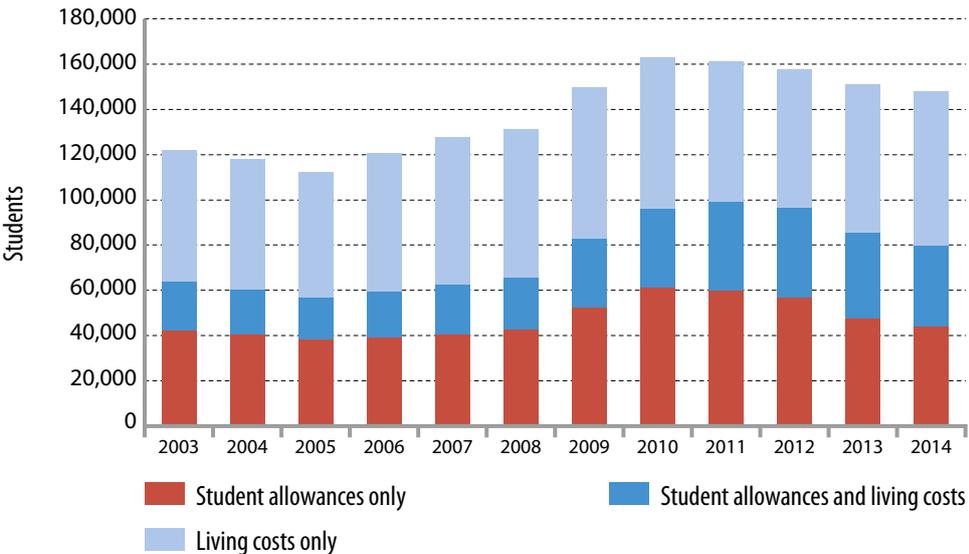
19 OneNewsNow, “Steven Joyce Quashes Hopes of Increased Student Loan Living Costs Payments,” 2016.

20 Kingkade, “College Textbook Prices Increasing Faster Than Tuition and Inflation.”

21 See According to MBIE’s Housing Data, this does not even cover the average weekly rent of a student living in a three-bedroom flat which has increased to \$218 in 2014.

22 Ministry of Education, “Student Loan Scheme Annual Report 2015.”

**Figure 3. Living cost support for students – students borrowing living costs and receiving student allowances**



**Source:** Ministry of Social Development and Ministry of Education

These weekly living amounts whether from the Student Allowance or a student living costs loan are woefully inadequate. For many students, the assumption that their parents can and will support them is unfounded.

### Course-related costs

Students are able to borrow \$1,000 each year for course-related costs but the amount has remained frozen at this level since its introduction in 1992. The inflation adjusted value of course-related costs in 1992 would be \$1,601 in 2015.<sup>23</sup> The cost of textbooks, which are essential items for students, has risen 864% in 30 years, a greater increase than new home prices in Auckland.<sup>24</sup> The reasons for the increase are numerous, but students have little choice but to pay up, or risk their grades.

Nowadays tertiary educators use email and cloud-based systems to communicate and teach their students, and students’ assignments are required to be word-processed or to utilise software programmes. This means items once considered a ‘luxury’ such as laptops and computer software have become essential costs for students.

It is estimated that the total cost of textbooks and supplies can now total \$1,800 per year, adding 10% to 20% to the cost of a tertiary qualification.<sup>25</sup> Students have the options of additional borrowing (though it may be unavailable and if available, high cost), foregoing essential living expenses or items prescribed for their study, or working additional hours which can ultimately compromise their mental wellbeing and the quality of their education.

### Students with Children

Sole parents on either a benefit or Student Allowance cannot receive the full Working for Families payments for their children. This means they are denied the In Work Tax Credit of \$72.50 per week, and if there is a new-born, the Parental Tax Credit of \$2200. The Training Incentive Allowance is

<sup>23</sup> “Reserve Bank Calculator,” Reserve Bank New Zealand, <http://www.rbnz.govt.nz/monetary-policy/inflation-calculator>.  
<sup>24</sup> Kingkade, “College Textbook Prices Increasing Faster Than Tuition and Inflation.”  
<sup>25</sup> Ibid.

no longer available to sole parents. Recent changes mean that they may get the Accommodation Supplement which is generally higher than the Accommodation Benefit if they have a child and qualify for Student Allowance. However, while these changes are a welcome improvement, most student families are still likely to be in significant financial distress.

The economic benefits to both the individual and society have been discussed above, yet having sole charge of a young child or children is a barrier to education, work and other activities. This reality is not systematically recognised across policy settings.<sup>26</sup> The 20 hours government-funded early childhood education and care (ECE) is not necessarily a good fit with sole parents and access to study, and does not cover the full cost of childcare. It is increasingly difficult for a sole parent to attend tertiary institutions as they do not have sufficient time to enrol in full-time study and do not have the resources to take on more debt. This prevents the parent and the child from benefiting from the potential life-changing effects of higher education.

**Case Study 1.** *“The first thing I’d like to say is that being a student isn’t all bad. I’m doing my Master’s degree now because I feel that I’ve come into my element through study. However, I have experienced concerning things during my studies that I believe are important to address in the future.*

*“2014 was a particularly important year in my journey through undergraduate study. It was my third and final year of my BA. I was living in a room with no insulation, no sunlight and three external walls. I was a long way from family and the pressure of working to fund my full time study meant that my connections with friends, old and new, were weak at best. I threw myself head first into my majors in Development Studies and International Relations. I was also working for an NGO in an unpaid internship because I had been told over and over during the previous years that ‘the only way to make your degree employable is to get experience.’ Sage advice, but during this time my roof developed multiple leaks, which my landlord tried to keep under control but simply couldn’t due to the age and design of the building. I also went through ‘normal’ ups and downs of life such as being laid off from one job and ending a relationship.*

*“I was unable to juggle all these elements at once and fell into a cycle of anxiety and depression, which in turn led to my doctor advising me to take a month off from my studies in the middle of the semester. I moved to a better but less affordable house and, by giving up my Student Allowance, I was able to access more funds from StudyLink in the form of a larger loan and an Accommodation Supplement. The university services were also fantastic in handling my case. However, the issue I’m trying to highlight in this account of my student experience is that student support is an ambulance at the bottom of the cliff, and support from the Government only came if I was willing to substantially increase my student debt. I’ve heard people say ‘but you chose the student life’, as if that is an acceptable trade-off. I firmly believe that it is not.”*

– Y, 22 (*Masters of Public Policy*)

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26 Máire Dwyer, “Sole Parents in Poverty It’s Time to Update the Policy Paradigm,” *Policy Quarterly* 11, no. 1 (2015).

## Postgraduate Support

Postgraduate research is an important part of academia and the business world. Access to postgraduate study is important not only because individuals generally earn more, but because higher learning benefits society. Many professions require postgraduate qualifications which enhance employment opportunities and research capability. However, in 2008 the Government cut eligibility to allowances to a large number of postgraduate students. Eligibility was also removed for other areas – those studying courses of longer than 5 years (previously eligible if the course was of national significance) and new permanent residents. Another 1800 additional students each year are also ineligible through the freezing of the parental income thresholds.<sup>27</sup> Such measures further restrict access to higher education. This suggests both that students are receiving insufficient amounts to cover their living expenses, and that fewer students are entitled to government support.

**Case Study 2.** *“As a student at the University of Auckland I am relatively lucky; I attend University in my city of origin and have the luxury of living at home with generous parents, meaning I don’t face any pressures surrounding rent or housing. At the same time though I recognise that many of my peers and classmates have to work to survive, which pays for their rent. They also have to change their work schedule to match their timetable which changes by the semester and sometimes have to skip class altogether. For me work is something which unfortunately interferes with my studies and as such I have the choice not to seek it, but for my friends it is a necessity that stems from insufficient financial support.”*

**– Z, 22 (Bachelor of Laws and Bachelor of Arts in Politics and International Relations)**

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<sup>27</sup> Ministry of Education, “Student Loan Scheme Annual Report 2015.”

# III Financing Everyday costs

## Working while studying

Students studying full-time need to be enrolled in papers equivalent to 40 hours per week, with additional hours during exam periods. The empirical evidence shows that when students have to engage in paid employment for over 15 hours per week, academic performance is compromised.<sup>28</sup> It is possible for students to earn \$210.88 gross a week before their student allowance is deducted at one dollar for each dollar they earn above this threshold. This means their net income will be capped at approximately \$390 per week. Students who are ineligible for the Student Allowance need to work unreasonably long hours to reach the same level of income.

Some students may find it difficult to work while studying full-time due to disability, child-rearing commitments, or the nature of their degree – such as nursing and education that requires students to take unpaid placements throughout the year as part of their training. Furthermore, part-time employment may be unstable nor unavailable. An NZUSA survey in 2010 showed that 65% of students are in regular paid work, down from 90% in 2007 before the recession.<sup>29</sup> This adds to the possibility that in the future, increasingly, only students from wealthier families will be able to access tertiary education.

**Case Study 3.** *“I found there to be two problems I faced when I came to university – the change in habit required to cope with university and financial strain. The Student Allowance is not sufficient to pay for living costs in Auckland. The \$240 allowance broadly covers rent and most of the grocery bill, but even if one is as prudent as possible – internet, phone, electricity, bus and the occasional meal needs to be paid for. It also means that nothing can go wrong. I always keep to a tight budget, but it only took one unforeseen event (a car accident) that put me into serious poverty. I have to finish my degree and for years I have had to share a tiny room with a roommate in a similar situation (for different reasons) to bring down rental costs. We would alternate between sleeping on the bed and the floor. I don’t see how students can survive without supplementing their allowance with some sort of other income or having to borrow excessively.*

*“Secondly, I was unprepared for the lack of structure and parental supervision which I am used to. I also found university an unfamiliar place filled with new people in a new city. The lack of culture or community at university for students who didn’t attend ‘halls’, made is somewhat an alien and unwelcoming place and added to the loneliness and stress of studying.”*

**– A, 24 (Bachelor of Engineering)**

<sup>28</sup> Rory McCourt, “Income and Expenditure Survey 2014,” (Wellington: New Zealand Union of Students’ Association, 2014).

<sup>29</sup> Ibid.

Contrary to the mantra that work is 'good' for students, part-time work during full-time study has been less about complementing one's education and therefore desirable, and more about being an absolute necessity in order to survive. The irregularity of part-time work can also add to the stress of tertiary study, and may contribute to lower uptake of tertiary education or completion rates, which results in a wasted investment by the individual and society.<sup>30</sup>

Another significant problem facing students is the availability of permanent full-time work over the "summer" period between December and February. Without studying full-time, students do not receive the Student Allowance or living costs during this period. The only support available is Unemployment Benefit – Student Hardship, which is very difficult to qualify for.<sup>31</sup> At minimum, these students need to be eligible for the Student Allowance, which already precludes a significant proportion of students. Not all students are able to find short-term work during this period. It is also difficult to find accommodation that permits students to rent for nine months (assuming that they can return home). Furthermore, the system assumes that students can magically find a job that aligns perfectly with the end and start day of their studies and work. This creates significant uncertainty and distress for many students who have indicated that they really struggle during this 'transition' period. Thus, students may be incentivised to take up arbitrary courses during summer school to access student support, which is neither in the Government's nor the student's best interests. Some feel they literally have no option but to drop their studies altogether.

## Other Borrowing

Due to insufficient income and support provided by family, government, or available work, students have accumulated other forms of debt in addition to their student loan. Around 90% of students surveyed in 2014 indicated that they have some sort of debt, such as overdraft, personal loan, credit card, debt to their families, and other debt in addition to their student loan.<sup>32</sup> Approximately 28% of students surveyed had expensive credit card debt, up from 18% in 2010. The average level of credit card debt had increased from \$500 in 2010 to \$1,771 in 2014.<sup>33</sup>

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30 Those students who withdraw prior to completing their degree carry the double burden of failing to achieve their goal plus a student loan debt that has to be repaid.

31 StudyLink, "Student Benefits," Ministry of Social Development, <http://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/statistical-report/statistical-report-2008/students/student-benefits.html>.

32 McCourt, "Income and Expenditure Survey 2014."; *ibid.*

33 *Ibid.*

# IV Laybying our health

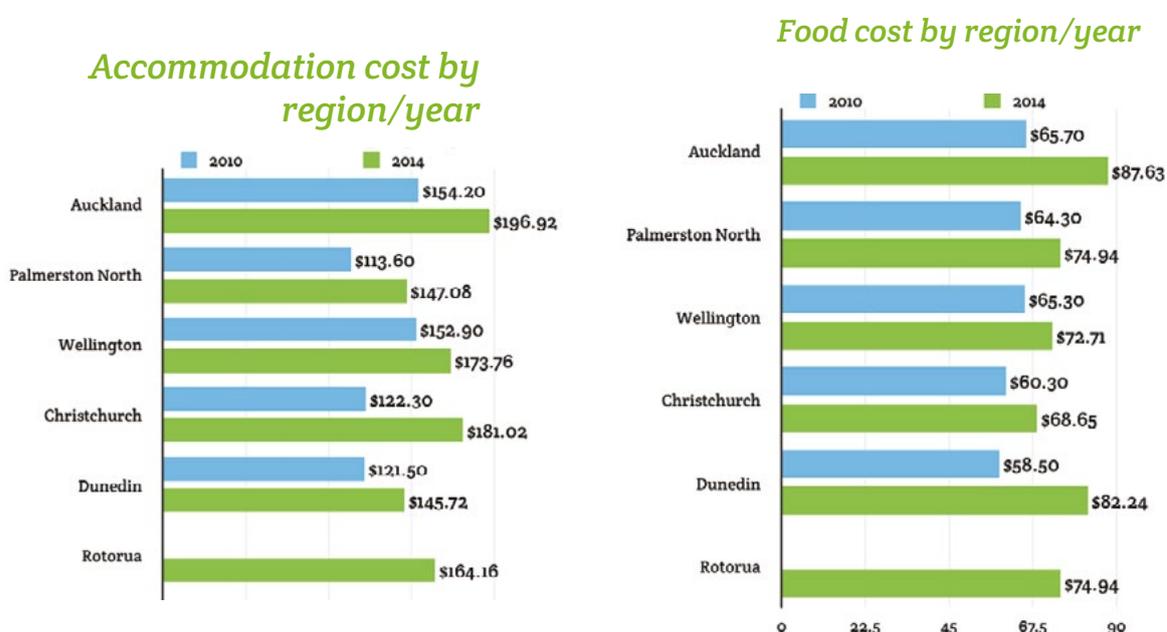
## Student poverty

If we look at New Zealand's indicators for measuring poverty, most students live below New Zealand's relative 60% poverty line. While some may not experience hardship because of family and other private support, many experience food insecurity, and are unable to afford many necessities without the help of external support. Indeed, a number of students are surviving by accessing charities.<sup>34</sup> Even students from relatively well-off families may not have family support, and these 'wealthy' students are often both income-poor during their studies and in considerable hardship.

In 2012, the Graduate Longitudinal Study, funded by Universities New Zealand, surveyed 8,700 students. Students were asked to "please think about how you feel about your current financial situation" and to indicate whether they could afford accommodation, food, clothing, leisure and other financial commitments.<sup>35</sup> Over half of the students were unable to afford at least one essential item, and one in six final year students were living in significant financial distress, defined as being unable to afford basic accommodation, food and housing.<sup>36</sup>

This finding is supported by other research. There has been increased demand for hardship assistance and food grants both within AUSA and around New Zealand. NZUSA conducted a survey of the 17 student organisations and found that demand for food parcels increased by 124% in a five-year period between 2008 and 2012.<sup>37</sup> The real demand is likely to be higher, as some student organisations have also had to expand the size of their welfare budgets to accommodate those with families and children.

**Figure 4. Accommodation and Food Costs by Region<sup>38</sup>**



Source: MBIE Housing Data, NZUSA Income and Expenditure Survey

34 Ibid.

35 Karen Tustin et al., "Extended Baseline Report: Graduate Longitudinal Study New Zealand," (Graduate Longitudinal Study, 2012).

36 Ibid.

37 McCourt, "Income and Expenditure Survey 2014."

38 This diagram is sourced from the Income and Expenditure Survey 2014.

Figure 4 shows the increase in accommodation and food costs between 2010 and 2014 by region. Given the low amounts of the Student Allowance and borrowable weekly living costs, even if students are able to work or receive some regular support from elsewhere, their budgets are extremely tight and unforeseen adverse events can greatly affect their wellbeing. Such events could be anything from paying library fines, experiencing personal or family illness, sizeable power bills or minor traffic infringements.

Some students are coping and some with adequate family support may even thrive, but this creates the false impression that all students are managing. Other students are less visible, not at the student cafés or not attending class because they cannot afford something as small as the cost of travel. Student hardship may not only affect current students, others may have suspended their studies and others discouraged from taking up tertiary education altogether.

## Mental health

Even when nothing goes wrong, little room is left for a student to enable them to socialise during their studies, either due to financial constraints or work commitments. This isolation faced by students can create severe strain on their mental health.

**Case Study 4.** *“Being a student is very difficult, particularly in Auckland. I receive \$320 per week from Study Link, \$225 of is spent on rent, consuming a total of 70% of my income, well above the 30% “rule of thumb” spend on rent advised by financial planners. A further \$30 per week is saved towards my bills. Leaving me with \$65 for food and a bus pass. I do work part-time, but this income is consumed by credit card bills, spent on essential or emergency purchases, such as a laptop for study and dentist bills. Financially, I feel constantly behind. I have not been able to save a single dollar, despite constant re-adjustments to my budget. In the course of my 18-month Master’s programme I have had to move into a cheaper house and sell my car. I am living from week to week, hoping that I don’t get sick to avoid medical bills, and guilty when I receive a reminder from the dentist about an overdue check-up.*

*Being a student is also emotionally tough; I have missed social events with friends, simply because I cannot afford an average \$20 meal and a \$10 glass of wine out in town, as this would consume over half of my remaining food budget for the week. Often I have to choose between spending money on my research or on food. I have also been worried about my job prospects post-graduation, as the labour market in New Zealand seems highly competitive. My flatmate has been unemployed for over three months since handing in his Master’s thesis. This makes me question the purpose of my studies and adds further doubt that I will be able to financially prosper despite my efforts to attain a high level of education.”*

**- I, 27 (Masters of Public Policy)**

As reported in the surveys quoted above, the hardship faced by students is real. Between 2009 and 2014, the eight universities in New Zealand experienced a 24% increase in the demand for counselling

services.<sup>39</sup> At Victoria University alone, the demand jumped an astounding 44.7%, and at the University of Auckland the number of sessions actually increased fourfold from 1,215 in 2009 to 6,039 in 2014.<sup>40</sup> This is despite a cap on a number of counselling sessions which students can access, which suggests that the real demand for these services by some particularly hard hit students may be higher.

**Case Study 5.** *“As a student I would describe one particular year in life as poverty. In the beginning I shared a flat with four other people, where we were evicted with a few days’ notice. I brought my case to the tenancy tribunal and won a few thousand dollars pay out. The stress and panic in the meantime screwed my academic life up. I then went to sharing an apartment with six people in a two-bedroom flat in the CBD. Two people shared a bedroom each while two of us slept in the living room for \$155 a week all paid up. Student living costs barely covered weekly expenses but from week to week you saw your bank balance bleed your savings from three months summer work. I tried applying for the Student Allowance but then hit a wall when it came to the question that you had to prove that you couldn’t live with your parents and that they needed a statement from them, knowing full well my parents would insist there was nothing wrong when I really couldn’t live with them. For the most part support systems exist and are adequate to a degree, but when something unexpected happens in life with a close friend taking their life and other dramas, it was probably inadequate. I don’t know if that necessarily means if the answer is to ramp up student support or that it is a sign to take a break from university and work for a bit and do it part time (which was what I ended up doing which was so much more pleasant and stress free), but it is definitely a struggle to do everything at once.”*

– M, 25 (Bachelor of Engineering)

## Student housing

As discussed above, the average student’s rent in a three-bedroom apartment in Auckland was \$218 in 2014 and with increased pressure in the housing market is expected to rise in 2016 (See Figure 4). Even for students who receive the maximum Student Allowance and Accommodation Benefit, this barely covers the rent. Unless they receive additional financial support, students are exposed to risks of failure or mental illness. Students have been forced into desperate living situations, such as sharing a room (as described in Case Study 5), or resorting to unconventional methods to ensure their rent can be paid.<sup>41</sup>

To make this point absolutely clear, living in a catered ‘Hall of Residence’ provided by the University of Auckland costs around than \$350 per week,<sup>42</sup> in addition to paying residential service fees and ‘acceptance fees’ for securing a place. While students are not required to live in university residences,

39 McCourt, “Income and Expenditure Survey 2014.”

40 Ibid.

41 Olivia Carville, “Sex-for-Rent Deals on Rise for Desperate Tenants,” *New Zealand Herald* 2016.

42 Such as O’Rorke Hall (\$702 for a single in 2016 and expected to rise). *2017 Halls of Residence Guide (E-Book)*, (Auckland: University of Auckland, 2016).

these are good benchmarks for the cost of living. Moreover, they are typical for universities around the world, as students often live away from their cities and home for the first time, and are important to forming their support networks – this is reflected by the university’s own focus on expanding these student residences. Even the ‘Living in Auckland’ guide by the University of Auckland estimates the absolute necessities will cost \$346-406,<sup>43</sup> which does not even include transport, medical costs, and regular expenses such as haircuts let alone textbooks or the occasional entertainment expense. These figures are around \$200 more than the weekly government contribution just for the essentials.

There is also a shortage of suitable accommodation for students, creating desperate housing situations. The New Zealand Herald has reported that in some cases early in the year there will be tens if not hundreds of students viewing and applying to secure the same accommodation.<sup>44</sup> The stress of having to search for accommodation in a highly competitive rental market at peak times during the year contributes to mental strain and means students often have to accept substandard housing. There are anecdotal cases of students accepting short-term private arrangements that provide little security which impacts negatively on their success in tertiary study, and their health status.

**Case Study 6.** *Moving up to attend university from Wellington, there were two real choices for housing. Either move into a hall of residence or try find a flat somewhere. Given what would be involved in moving into a flat – acquiring furniture (that I would somehow have to move around without a car), attending viewings in a city I didn’t even know the bus routes in, on top of trying to navigate the new world of university, it became clear moving into a Hall of Residence was really the only option. This came with one key problem however. The cost of living in these halls in 2012 totalled around \$340 per week. Despite being lucky enough to receive parental support, this, combined with the income from my student loan only totalled \$310 per week. Not only would I have to immediately find some way to cover the \$30 shortfall per week, I was at a loss how I could ever buy clothes, see a doctor or meet up with a friend for coffee. I ended up having to do two things to cover the cost of accommodation for the year. The first was to underpay the amount I was meant to each week. Because of the deposit paid in advance at the start of the year, there would be a month of free rent at the end of the second semester. I paid about \$300 each week, knowing I would have to make the rest up at the end of the year. The second was to take out money from my course-related costs every time I couldn’t meet the \$300 alone. Despite the articles I have seen published in the NZ Herald, most students I know use their course -related costs for essential living items. I think I purchased just one text-book (Biology) in my first year. Whilst I managed to pay the resulting debt to my hall at the end of the year, receiving constant notices for money that you can’t pay certainly doesn’t ease the ‘first-year experience’.*

**– B, 23 (Bachelor of Science (Honours)/Bachelor of Laws)**

43 *Living in Auckland, a Students Guide (E-Book)*, (Auckland: University of Auckland, 2016).

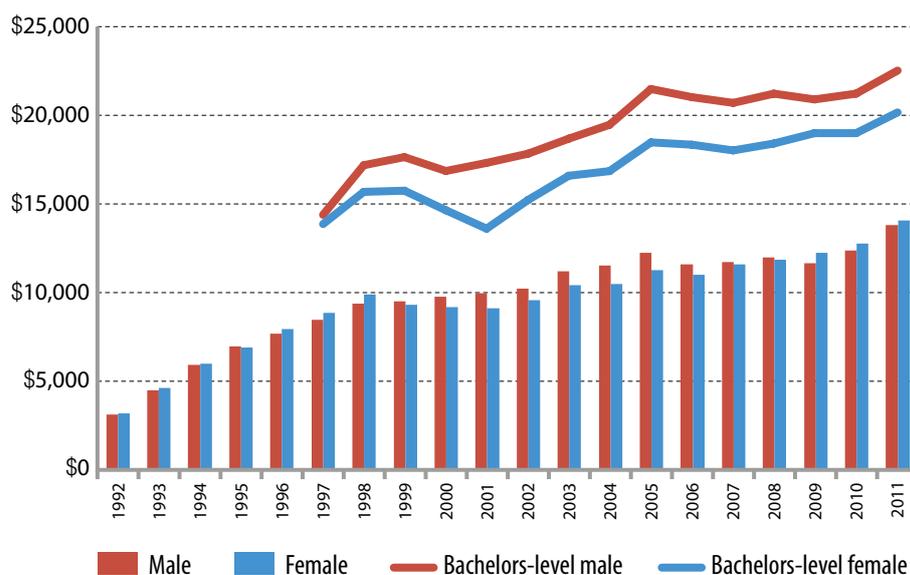
44 Anne Gibson, “Renting in Auckland: Landlords Put Squeeze on Tenants,” *New Zealand Herald* 2015.

# V Student Debt

Both the short and long-term costs of tertiary education continue to rise for students.<sup>45</sup> The previous sections have outlined the immediate hardship faced by students during their studies. This section will focus on the costs of tertiary debt. Since the introduction of fees in 1989 and the Student Loan scheme in 1992, tertiary education has become increasingly expensive.<sup>46</sup> The total amount borrowed by students was \$14.837 billion at 30 June 2015.<sup>47</sup> Of concern is that while tertiary enrolments have decreased over this time, the proportion of students who have borrowed has increased in recent years.<sup>48</sup> The average amount borrowed per student has also increased to \$24,405 (2014), up an astounding 57% since 2010 (Figure 5. shows the median student loan balance).<sup>49</sup> This alarming rise has been driven both by rising fees and decreased eligibility for allowances.

Many tertiary students feel they are paying more for less and those who do choose to study are facing greater costs that ultimately affect them and society long after they graduate. The financial problems for the Government and society in terms of having to write down a significant portion of this loan, and socioeconomic inequality, are macroeconomic problems beyond the scope of this report.

**Figure 5. Median loan balances for leavers by gender – all borrowers and those who studied at bachelors level**



**Source:** Statistics New Zealand, Integrated dataset and IDI.

**Note:** 2011 is the latest leaving cohort available

Figure 5 shows the *median* loan balance of each gender upon ‘leaving’ study. Even after adjusting for inflation, the amount has increased each year by 6 percent for men and 17.7% for women. This graph also by no means provide the full picture. The decline in postgraduate enrolments in particular will have a flattening effect, and the median loan balance may be skewed by a larger number of individuals discouraged from study or taking more affordable courses that are potentially shorter and

45 Ministry of Education, “Student Loan Scheme Annual Report 2015.”

46 Ibid.

47 Ibid.

48 Ibid.

49 McCourt, “Income and Expenditure Survey 2014.”

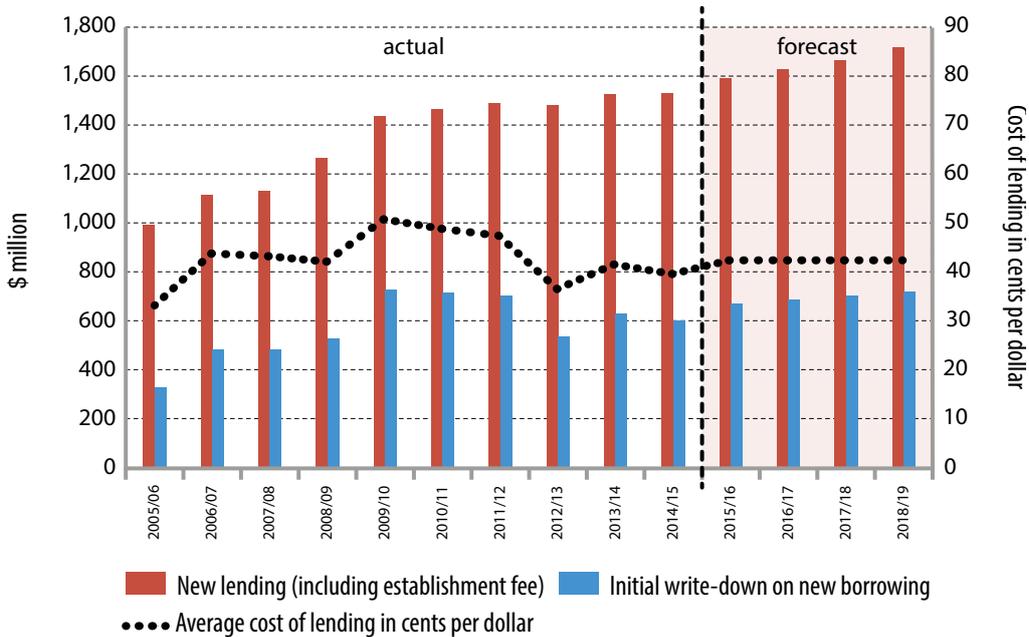
of lower quality. Furthermore, the leaving balance is different to the nominal balance, which continues to rise as the number of participants in the scheme increases. Nonetheless, this graph indicates the continued increase of student debt.

## Interest-free student loans

Interest-free Student Loans are popular, but it could be argued that they have allowed the state to push more debt onto students. It is good that interest is not compounding the debt, and this makes the total amounts owed more tolerable. However, this fails to address the core issue of rising fees. This is much the same as happens with housing when interest rates fall people feel they can borrow more. In this case the Government can compel fee increases and make student borrowing ever more necessary.

Student loans may appear 'good' on the Government's balance sheet as an asset, however, the full sum may never be repaid and the Government has to write off a substantial portion. One in fourteen students will never repay their loan (See Figure 6 on the write-down and value of the loans). Currently the median length of time to repay a \$50,000 student loan is 13.4 years.<sup>50</sup> Interest-free Student Loans also privilege the wealthy, as those who are able to afford education are able to pay for their children's tertiary education while taking out the loan to accrue interest and repay at the slowest rate possible.<sup>51</sup>

**Figure 6. Lending and initial write-down on this lending, actual and forecast**



Source: Ministry of Education

## Repayment Threshold

The repayment threshold for student loans in New Zealand is low by international comparisons, yet the required rate of repayment is high. The repayment threshold in New Zealand has been frozen at \$19,084 since 2012 – with a repayment rate of 12%. In contrast to this, the repayment threshold in

50 Ibid.

51 See Richard Meadows, "Repay Your Loan as Slowly as Possible," *Stuff* 2013.

the United Kingdom is £17,335 and only 9% of their earnings.<sup>52</sup> In Australia, the repayment threshold is AUS \$54,126 with a progressive repayment scheme, 4% rising to a maximum of 8%.<sup>53</sup>

The low repayment threshold and high repayment rate in New Zealand means that graduates are left with very little to live on. Their effective marginal tax rate may include contributions to KiwiSaver and abatement of other social provisions such as Working for Families (WFF) when there are children. For example; an extra dollar may be taxed at 17.5%, loss of WFF of 22.5%, KiwiSaver of 3% (not a true tax, but affects the disposable income of the individual), and repayment of student loan of 12%. An extra dollar of income may leave only 45 cents, and less if there are other factors like child support payments. This can leave individuals with very little extra net income to support themselves and their families and compensate them for their work effort.

Some reports have also shown that this low threshold for student loan repayment coupled with the relatively lower earnings potential in New Zealand can disincentivise individuals to seek part-time work, or incentivise individuals to seek jobs overseas.<sup>54</sup> The result is the Government loses both tax revenues and society loses the investment they have made in the education of the individual.

## Repayment times and equity concerns

Student debt is also a major concern for equity reasons. Women are on average more likely to enter professions that are paid less (such as teaching and caring industries) and in addition to the gender pay gap of 11.8% (2015),<sup>55</sup> they are likely to take longer to repay their student loans. In 2014 as a consequence of interest free loans this gap had narrowed and reduced to 7.1 years for men and 7.4 years for women, but is set to rise under current policies.<sup>56</sup>

There is also a 'domino effect' on society. Student debt affects a student's likelihood of having children. A survey in 2010 showed that 36% of respondents with debt felt their loan would impact their decision and ability to eventually raise a child.<sup>57</sup> Similarly, 70% said it would impact on their ability to purchase a house, with only 8% saying it would have no impact.<sup>58</sup> Therefore, there is an intergenerational component to student debt.

This paper has already highlighted the role of education as an 'equaliser' and the pressure on that role from the increasing cost of tertiary education. For women, attempts to engage in further education are compromised by the gendered issues involved in repayment of student loans. As Susan St John pointed out in a recent article titled *Women second class students in the neoliberal world*, "...the model of student loans is a male model. It is predicated on the notion of a full-time degree, followed immediately by a well-paid job with rapid promotion and repayment of the loan within a short time horizon."<sup>59</sup> It is known that the repayment time for men was 14 years versus 28 years for women before interest-free loans.<sup>60</sup> This inequity was partly explained by the involvement of more women

52 GOV.UK, "Repaying Your Student Loan," GOV.UK, <https://www.gov.uk/repaying-your-student-loan/overview>.

53 StudyAssist, "Loan Repayment," Australian Government, <http://studyassist.gov.au/sites/studyassist/payingbackmyloan/loan-repayment/pages/loan-repayment>.

54 K O'Connell, "Doctors and Debt – the Effect of Student Debt on New Zealand's Doctors," (Wellington: New Zealand Union of Students' Associations, New Zealand Medical Students' Association and New Zealand Medical Association., 2005).

55 See Statistics New Zealand, "Measuring the Gender Pay Gap," (Wellington: Statistics New Zealand, 2016).

56 Ministry of Education, "Student Loan Scheme Annual Report 2015."

57 McCourt, "Income and Expenditure Survey 2014."

58 Ibid.

59 Susan St John, "Women Second Class Students in the Neoliberal World," *The Daily Blog* 2015.

60 McCourt, "Income and Expenditure Survey 2014."

in lower paid work, but as St John notes, the present model of student loans, makes no provision for women to take time out to have children and to provide care for their children and other family members. The 'opportunity cost' of being society's default carers is simply ignored.

Women who find themselves with the responsibility of parenting alone and relying on social security payments, are particularly punished by the requirements of repayment of student loans. Repayment begins at the low income of just over \$19,000 and for sole parents on a benefit, the smallest amount of part-time work will activate such payments putting many women into a vicious poverty trap. The contradictions in social policy are glaring in the case of women, particularly those with children, and tertiary education. On the one hand, social policy is designed around 'paid work' and education is

**Case Study 7.** *“Unlike many students I went to university not with the intention to take a professional degree, but just to get educated – hence I enrolled in a BA. Across my time at university arts subjects have suffered accelerated losses in funding (and hence quality). The attitude of both the Government, middle class and middle-aged New Zealanders, is that arts degrees are a second-option – for the lazy and the stupid, for those too impractical to do a ‘proper’ professional major. This has two obvious impacts. Firstly, it means that those students taking the BA are increasingly embarrassed (‘would you like fries with that’ and other such jokes). And secondly, we end up being peer-pressured into other study pathways.*

*I and at least four other friends, who began university with the now outdated intention of becoming better read and better educated, enrolled in law and commerce degrees (thus suffering with the expected boredom and inertia that follows). The reality is that the ‘student experience’ is being dismantled across the country. Students are expected to be proto-professionals well before they complete their education. Involving themselves in often totally meaningless extra-curricular activities on top of already over-committed work and study schedules merely to boost one’s CV value. This not only reduces the quality of one’s study, and the opportunity to enjoy the supposed intellectual community on campus, but results in serious career anxiety for many students. Thus without even delving into the very real financial stresses we face as students, the arts experience alone is a bleak one. In an increasingly professionally-obsessed and parochial New Zealand, pursuing education for its own sake is less and less possible.”*

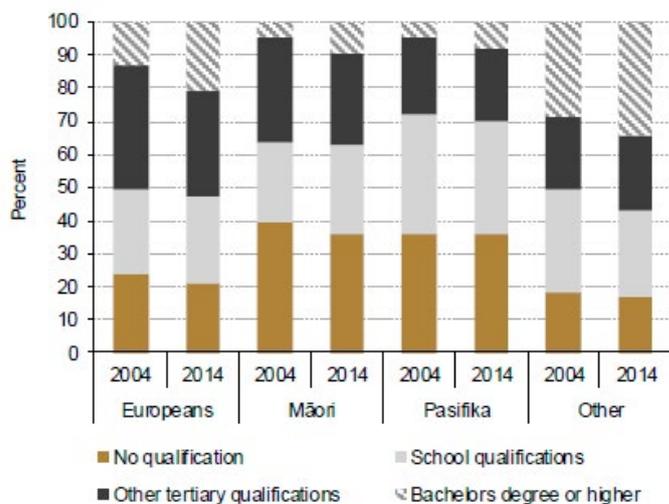
– J, 23 (*Bachelor of Arts(Honours) in History*)

seen as a passport to well-paid work; on the other hand, the punitive repayment policies make it extremely difficult for women to engage in such education which could lead to better paid work.

Comparing 2004 with 2014, the proportions of Māori and Pasifika peoples holding a bachelors or higher qualification have increased steadily. The proportion for Māori was 4.3% in 2004 and 9.8% in 2014. For Pasifika the proportion was 4.7% in 2004 and 7.9% in 2014. The comparable figure for Europeans was 13% in 2004 and 21% in 2014 (see Figure 7)<sup>61</sup>.

61 Tertiary Sector Performance Analysis, “Profile & Trends 2014: Tertiary Education Outcomes and Qualification Completions,” (Wellington: Ministry of Education, 2015).

**Figure 7. Population aged 15 years and over by highest qualification and ethnic group<sup>62</sup>**



There are two primary issues here. The first is that secondary schools do not appear to be preparing Māori and Pasifika students adequately for tertiary education. The second issue is, in 2014 the median hourly earnings of people with a bachelor's or higher qualification were 67% higher than for people without a qualification.<sup>63</sup> By limiting the access of Māori and Pasifika students to tertiary education, the current system is perpetuating the systemic poverty of these population groups.

62 Ibid, Figure 2.4.

63 Ibid, p. 10.

## VI Conclusion and Recommendations

As this report has highlighted, the immediate hardship of students during their studies is very real. The more long-term problem of student debt then impacts upon students after they have graduated. The problems facing tertiary students and tertiary education today are clearly multi-causal and cannot be solved by targeting tertiary education in isolation. For example, the cost of housing generally and labour market failures requires direct government action. While the policy recommendations outlined below are likely to be seen as Band-Aids to a bigger problem, these recommendations are practicable and provide a starting point for having a wider conversation.

### **Recommendation 1 – Unfreeze the parental income threshold and increase the eligibility and amount of Student Allowance:**

Student Allowance eligibility has been decreasing and the parental income threshold is bureaucratic and unreflective of the actual support students receive. Student incomes are inadequate and should be increased. Students are often faced with unforeseen expenses, therefore access to hardship grants (such as food grants and emergency grants) should also be improved.

### **Recommendation 2 – At the very least, increase the maximum amount that can be borrowed for living costs and allow students to borrow up to the combined level of Student Allowances and the Accommodation Supplement:**

In the short-term, students are faced with financial hardship. At the very least, even if students have to borrow, the loan should be enough to ensure they can finish their degrees without undue hardship.

### **Recommendation 3 – Make income support available for all students during the summer period from December to February:**

The unreliable and competitive labour market means that most students will have no income support for three months as they do not receive Student Allowance or living costs during this period, with only a few that would be eligible for Unemployment Benefit – Student Hardship. This is coupled with the uncertainty for accommodation and searching for jobs. Not all students can line up their jobs perfectly with the end of their studies or move back home. StudyLink and/or Work and Income support should be available to all students during this period.

### **Recommendation 4 – Increase the student loan repayment threshold and adopt a progressive system more similar to Australia’s system:**

This will incentivise students to stay and work in New Zealand, as well as preserve the incentive to work, especially for individuals who may work part-time as carers after they graduate.

### **Recommendation 5 – Significantly increase the course-related costs loan cap which has been frozen since 1993:**

The cost of education has risen significantly beyond fees. The level allowed to be claimed for course-related costs needs to be adjusted so students can actually access essential books and technology to receive the maximum benefit from the Government’s investment in their education.

### **Recommendation 6 – Increase subsidies for students living in high-rent areas (over two-thirds of their income):**

This will not resolve the high cost of rental housing that continues to increase. However, in the short-term this will ensure students have enough left for food and travel.

### **Recommendation 7 – Increase funding for tertiary education so that the cost is not transferred onto students and consider the partial write-off of student debt:**

Tertiary education requires adequate funding so that the cost of tertiary education is not transferred onto the student either in the form of higher fees or underfunding of essential services such as counselling and food banks. The partial write-off of student debt is important for equity but also macroeconomic reasons. This can be done in a variety of ways, such as a dollar-for-dollar write-off upon repayment for individuals who work in more remote areas of the country.

### **Recommendation 8 – Evaluate the trade-off between a no interest rate policy and bringing back interest on student loans together with adequately funding universities and student support:**

Interest-free student loans do not resolve the core issue of the Government being able to push more debt onto students. If it is a genuine trade-off between higher interest on debt in the long-term versus short-term support to ensure students can complete their degrees, the latter should be prioritised. However, reintroduction of interest requires that serious consideration should be given to the impacts on the horizontal equity concerns between gender, the length of degrees and the pay of different professions.

### **Recommendation 9 – Increase supplementary benefits for students with additional needs, such as dependent children and disabilities:**

Sole parents in tertiary education and those with disabilities are not adequately supported. The In Work Tax Credit and the Parental Tax Credit should be automatically given to student parents, and additional support for ongoing health related costs should be guaranteed.

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