



## Office of Hon Steven Joyce

Minister for Economic Development  
Minister of Science and Innovation  
Minister for Tertiary Education, Skills and Employment  
Associate Minister of Finance

28 FEB 2013

Robert Dunn  
[fyi-request-749-275e127d@requests.fyi.org.nz](mailto:fyi-request-749-275e127d@requests.fyi.org.nz)

Dear Robert Dunn

Thank you for your email of 1 February 2013 requesting, under the Official Information Act 1982 (the Act):

*"1: Could you please provide anonymous raw data of students who at the time of the law change to disallow postgraduate study to receive the student allowance were currently enrolled in PhD programmes and receiving the student allowance. Preferably, this detail would include the information on how many years each student had claimed the allowance and when they first enrolled in the PhD program. If anonymous raw data is not available, please provide on the numbers of students studying PhDs who were utilizing the student allowance scheme at the date when the law was changed.*

*2: Could you please also provide the research or report that outlines the governments justification to remove student allowance assistance from students in the middle of a degree program instead of allowing them to finish the degree with assistance and only denying this support to newly started degrees. If this research was not done, please confirm that the government did not consider this group of people separately.*

*3: Could you please also provide the details on the models used to fund universities in New Zealand. What are the key performance indicators (KPIs) used to determine university teaching quality and funding. Specifically, I am interested in any KPIs related to enrolments, paper pass rate and degree completion rates. PBRF and Research KPIs are less important. Please also provide the numbers for these KPIs for universities in New Zealand from 2000-2012."*

I address your request in three parts as follows.

### **Part one**

I have interpreted the first part of your request as relating to 1 January 2013, the date when the policy changes to student allowance eligibility for postgraduate students came into effect (as these changes did not require a law change).

As at 1 January 2013, there were 347 students with a current Student Allowance for PhD study. The majority of these students commenced their PhD study in 2011 or 2012. The earliest started in 2008.

The following table shows PhD start dates and the total number of weeks each student has been in receipt of Student Allowance (including for any prior period of study) in bands of 50 weeks. The information has been presented in bands of weeks as this is more representative than stating the number of years a student has received Student Allowance. This is because a student would be counted as receiving Student Allowance even if they had only received one payment in a year. A study year is typically 40 weeks.

Weeks in receipt of Student Allowance	Year of PhD Commencement					Total
	2008	2009	2010	2011	2012	
0 - 50 Weeks				5	69	74
51 - 100 Weeks			2	27	38	67
101 - 150 Weeks		1	18	19	34	72
151 - 200 Weeks		6	8	14	23	51
201 - 250 Weeks	2	3	8	13	19	45
251 - 300 Weeks	1	1	7	14	2	25
301 - 350 Weeks		2	6	1	1	10
351 - 400 Weeks	1		2			3
<b>Total</b>	4	13	51	93	186	347

#### Part two

I have interpreted the second part of your request as referring to changes to remove eligibility for student allowances for postgraduate students (excluding bachelors with Honours). These changes were announced as part of Budget 2012.

The following enclosed documents have been identified as the key reports relevant to your request, outlining the policy rationale for and including the reasoning for the transitional arrangements used in relation to this change:

- *Student allowances: Directions for Budget 2012*
- *Student Allowances: Further advice on Budget 2012 options*
- *Student allowances: Removing eligibility for postgraduate students*

The policy rationale for removing student allowance access for postgraduate study is to refocus allowances on students' initial years of study. Those affected are still able to receive support through the living cost component of the Student Loan Scheme and some will be eligible for the Accommodation Supplement depending on their circumstances.

Some postgraduate students will continue to receive support in 2013. To be eligible for this grandparenting provision, students must have been studying at the time the policy was announced in 2012, have dependents, and be continuing to study the same post-graduate qualification this year. These criteria acknowledge that it is less likely that these students would have the flexibility to respond to the changes as quickly as students without dependents, and that they may experience a greater drop in financial support.

The documents provided contain material withheld under the Official Information Act. Information has been withheld under section 9(2)(f)(iv) – 'to maintain the constitutional conventions for the time being which protect ...the confidentiality of advice tendered by Ministers of the Crown and individuals'. These sections are marked as 2. Some information has been withheld under section 9(2)(h) – 'to maintain legal professional privilege'. These sections are marked as 8.

In addition to the papers enclosed, the relevant Cabinet paper seeking agreement to the changes also falls within the scope of your request. This part of the request is refused under section 18(d) of the Act as the information requested is available in the public domain. You can find the paper on the Treasury's website at:

<http://www.treasury.govt.nz/publications/informationreleases/budget/2012/pdfs/b12-2349976.pdf>

### **Part three**

I am refusing part three of your request relating to funding models for universities in New Zealand under sections 18(d) and 18(g) of the Act, as the information that you have requested is either publicly available, or not held, as follows.

The current funding model is outlined in the funding mechanism for the Student Achievement Component, which can be found on the Tertiary Education Commission (TEC) website. This contains information on performance-linked funding and key performance indicators:

<http://www.tec.govt.nz/Documents/Ministerial%20determinations/Funding-Determination-SAC-2013.pdf>. An overview of the Performance linked funding system is available here: <http://www.tec.govt.nz/Funding/Policies-and-processes/Performance-linked-funding/>

Universities are required to publish Annual Reports, which contain a section "Statement of Service Performance" (SSP) that reports on the KPIs that a university has agreed in its investment plan with the TEC.

I have not provided the specific time-series data (*KPIs for universities in New Zealand from 2000 – 2012*) that you have requested. The EPIs outlined in the funding model and the Plan-based investment system have existed in their current form for only a few years. As such, data prior to 2009 is refused under section 18(g) of the Act, as the information requested is not held. Data since 2009 can be accessed at the web address above. I have refused this part of your request under section 18(d) of the Act, as the information is publicly available.

Performance indicators used by universities in New Zealand prior to 2009 were non-standardised and different for each provider. For information about these, you may be able to specifically request information from each university.

Under sections 19 and 28(3) of the Act you have the right to ask the Ombudsman to review this decision.

Yours sincerely



Steven Joyce  
Minister for Tertiary Education, Skills and Employment

31 January 2012

## **Tertiary Education Report: Student allowances: Directions for Budget 2012**

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### **Executive summary**

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This paper provides advice on potential approaches to student allowance savings for Budget 2012. To achieve the priorities outlined in the Vote Tertiary Education Four-year Budget Plan, savings from student financial support of an estimated \$245 million over the four years need to be identified.

We consider that scope exists to improve the value for money of student allowances, especially given large increases in expenditure on allowances (62% since 2007/08), and that loans are now interest-free. International and New Zealand evidence on the relative impact of financial and non-financial barriers to tertiary education lends support to this view, although as the interest-free student loan scheme is both unique to New Zealand and recent, there is no absolutely conclusive evidence.

Student allowances, alongside student loans, provide for wide access to tertiary education and its labour market and wider social benefits. Allowances focus support on students from low income families; and full allowances, including the accommodation benefit, provide more per week to students than a loan. Allowances provide a grant to students, tailored to individual circumstances; for example a student with dependent children or a dependent partner will generally receive a higher level of support than a single student.

The design of student allowances has not been reviewed since student loans became more subsidised, with interest subsidies and interest-free loans, in effect introducing a 'grant' element into the loan scheme. We consider that 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 heavily discount the future benefits of qualifications.
- **To provide additional support for students with higher financial needs**, for example those with dependents.

We have identified two approaches in the short term to make savings and target resources towards need for financial assistance. The Ministry of Education recommends that further work on student allowances for Budget 2012 focus on options within one or both of these. The approaches are:

- **Focus allowances on initial years of study (*preferred*)** to begin to update policy settings for student allowances to reflect wide availability of subsidised student loans. We would undertake further analysis to advise on the impact of this change on priority groups, including beneficiaries.
- **Reduce parental income thresholds (*alternative or additional*)**: to make savings that return the focus of allowances towards students from needy backgrounds (the current maximum level of parental income for a full allowance, at \$55,027, is 30% higher than CPI-adjusted 1992 levels). This is

the approach which would involve the least change to current policy parameters.

Either approach to Budget 2012 would take steps to address the relatively high level of student allowance assistance, and to improve alignment between targeted allowances and widely-available loans. [2]

Either of the recommended options could be phased in over time. Impacts would focus on relatively less needy students, with a lesser impact on access for Māori and Pasifika learners and students from low income families moving into study. Within these options, it would be possible to tailor support specifically to priority groups including beneficiaries. We will consider these impacts as well as interactions between potential changes to allowances, to student loans, and upcoming welfare reforms, in future advice due in February.

[2]

Following your feedback, we will develop preferred directions into more detailed options for you to consider in mid-February. We will then draft a Cabinet paper with proposed student support Budget decisions for March 2012.

We recommend you consult the Minister for Social Development on this paper. We have consulted the Ministry of Social Development and the Treasury.

#### Recommended actions

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We recommend that the Minister for Tertiary Education, Skills and Employment:

- a. **note** that we have assessed potential directions against a range of criteria, and that our recommended directions balance effectiveness, savings, impact on different learner groups, and feasibility of implementation in the short and medium term
- b. **indicate** which of the following directions you wish developed into options for Budget 2012 to make savings and target resources towards need for financial assistance:

EITHER

- (i) **focus allowances on initial years of study (preferred)**: to begin to update policy settings for student allowances to reflect wide availability of subsidised student loans

AGREE / DISAGREE

AND/OR

- (ii) **reduce parental income thresholds (alternative or additional):** to make savings that return the focus of allowances towards students from needy backgrounds

AGREE / DISAGREE

- c. **indicate** if there are other directions you wish to pursue for Budget 2012

YES/NO

- d. [2]

- e. **forward** this report to the Minister for Social Development for her consideration
- f. **note** that we will report back to you in February 2012 with detailed options for the direction(s) you wish to pursue, including impacts and potential mitigations for priority groups, the benefit system and the loan scheme
- g. **note** that following consideration of further advice, a Cabinet paper on the 2012 student support Budget proposals will be developed for March 2012.

**Dr. Andrea Schöllmann**  
Group Manager, Tertiary Education  
Ministry of Education

NOTED / APPROVED

**Hon Steven Joyce**  
Minister for Tertiary Education, Skills and Employment

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## Tertiary Education Report: Student allowances: Directions for Budget 2012

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### Purpose of report

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- 1 This paper recommends you consider two potential directions for student allowances in Budget 2012 to make savings and begin targeting resources more to need for financial assistance. It also provides approaches that could be considered for longer-term policy work. It seeks your feedback on which directions you wish to see developed into options for Budget 2012.

### Background

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- 2 To improve tertiary education outcomes with no additional funding over the next three years, it is necessary to continue to reprioritise new expenditure from lower priority areas and ongoing efficiency gains, and seek to target expenditure more effectively within tertiary education to drive performance.
- 3 The draft Four-year Budget Plan, submitted to you on 27 January 2012 (METIS 645370), proposes saving a net total of \$245 million over four years from student support, for reprioritisation within tertiary education. A key choice for Ministers will be the relative focus on savings from student loans versus savings from allowances.
- 4 There is scope to tighten student loan policy settings further, to continue to improve the long-term affordability of the Scheme and achieve savings for reprioritisation. However, as you have already removed a significant amount of low value lending, the implications of further change for access to tertiary education will need to be carefully considered.
- 5 In contrast, student allowance policy settings have not been comprehensively reviewed since the introduction of the current allowances system in 1989. In particular, allowance settings have not altered to take account of the higher subsidies in interest-free student loans. Also, if a student is not eligible for an allowance, loans remain an option for most. Therefore there may be scope for improving the value for money of student allowances without significantly reducing access to tertiary education.
- 6 There have been significant increases in student allowance recipients and expenditure in recent years (METIS 622539 refers). In particular:
  - a Government expenditure on student allowances has increased from \$385 million in 2007/2008 to \$620 million in 2010/11: a 62% increase.
  - b Over 95,000 students received an allowance in 2010, up by 50% since 2004. Numbers are forecast to reduce slightly in out-years due to flattening numbers of school leavers and economic recovery.
  - c Allowances begin to abate at parental income of \$55,027, and are still available up to parental income of \$89,156. Thresholds are adjusted annually for CPI, but additional increases in the 2000s also expanded eligibility significantly: if CPI increases had continued, without policy change, the threshold would have been \$42,049 in 2011 dollars.
  - d The average annual allowance was \$5,500 in 2000/01 and is expected to rise to \$6,800 in 2011/12, then continue to grow with annual CPI adjustment.

- 7 Student allowances were introduced in an environment of low tertiary participation and low or no fees. Government introduced allowances with an objective to increase participation for those whose low family income was a barrier to participation. Low family incomes and debt aversion (reluctance to borrow to fund tertiary study) are commonly seen as barriers to tertiary education participation that necessitate allowances. However, international evidence suggests that low family income may not be the only, or even the main, barrier to tertiary education. This evidence is discussed in paragraphs 8 to 13 below.

#### Recent evidence on student finance

- 8 We have drawn on a range of recent research on student finance, locally and from the United Kingdom, Canada, Australia and other countries. There are limitations in this evidence, specifically from a New Zealand context. Little research has been undertaken on the impact of student allowances in New Zealand, particularly since the introduction of interest-free student loans or in the context of the recent recession. Research findings do not necessarily apply to the New Zealand context, because nearly all other international student loan schemes charge some form of interest, and not all are income contingent.
- 9 The existence and extent of debt aversion among potential students is debated in the international literature. A number of international researchers conclude that there is weak evidence for widespread debt aversion, and that there is not a strong link with socio-economic status. Recent behavioural research has also found that students' stated fear of debt does not correlate well with actual borrowing behaviour. Reluctance to borrow for tertiary education has also been linked with low numeracy and the perception of low returns from tertiary education. This suggests a need for better information for students and families.
- 10 The available New Zealand research suggests that debt has little impact on the attitudes of young people towards tertiary study and that socio-economic status, particularly financial circumstances, is not significant.<sup>1</sup> This research has largely been conducted with university students, and so may not reflect the attitudes of those studying at lower levels.
- 11 Student loan borrowing increased following the introduction of interest-free loans, suggesting that students are more comfortable using interest-free loans. For example, in 2010, 74% of eligible students borrowed from the Loan Scheme, compared with 61% in 2005, the year before interest-free loans were introduced. A recent Inland Revenue study found that for students with a loan, borrowing to fund tertiary education has become normalised.<sup>2</sup>
- 12 Ministry of Education research published in 2008 looked at the educational achievement of student support recipients who studied full-time during the years 1999-2001. The research found that full-time students who received either a student allowance or a student loan achieved better in tertiary education, controlling for other factors, than students who received no student support. There was very little difference in completion between students who received both loans and allowances (a relatively large group) and those who received

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<sup>1</sup> Zhang, J. and Kemp, S. (2009) *The relationships between student debt and motivation, happiness, and academic achievement*, New Zealand Journal of Psychology, 38(2), 24-39; Haultain, S., Kemp, S. and Chernyshenko, O.S. (2010) The structure of attitudes to student debt *Journal of Economic Psychology*, 31(3), 322-330; Kemp, S., Horwood, J. and Fergusson, D. (2006) Student loan debt in a New Zealand cohort study *New Zealand Journal of Educational Studies*, 41, 273-291.

<sup>2</sup> 'Attitudes of Student Loan Borrowers Living in New Zealand and Overseas research report' IRD 2011/154



loans only (also a large group), controlling for prior qualifications, ethnicity, and study type.<sup>3</sup> Socio-economic status was not included specifically, however prior qualifications, ethnicity, and study type provide proxies to some extent.

- 13 The international and New Zealand evidence above needs to be treated with some caution, but it suggests that given interest-free loans, allowances could be more tightly targeted to need, without significantly affecting overall tertiary participation and completion. This would free up resources to be reprioritised within the tertiary education system. Specific groups may be affected more significantly, including those identified as priority learners. These impacts are discussed below.

#### **Role of student allowances in Māori and Pasifika participation and achievement**

- 14 Currently young Māori and Pasifika people are much less likely to engage in the tertiary education system,<sup>4</sup> to complete qualifications and to progress to higher levels of study than the total population. Educational underachievement results in underutilisation of talent, lower productivity and wider social and economic costs. We will provide advice by 3 February on the effectiveness of wider tertiary policy settings in lifting system performance for Māori and Pasifika learners.

- 15 Student loans and allowances address financial barriers to study, primarily supporting access and participation objectives. Existing support from loans and allowances is likely to provide an important support for existing participation, especially for Māori and Pasifika from low-income families. However, our research indicates it is unlikely that further improvements in participation or achievement would result from increases in financial support. For example, student loan uptake by Māori and Pasifika is in proportion to enrolment by these groups in tertiary education. On average, Māori and Pasifika borrowers have lower loan balances, which are likely to be linked to studying short sub-degree courses. Some Māori or Pasifika learners may be reluctant to borrow for tertiary study, but the limited New Zealand evidence relating to ethnicity and reluctance to borrow for tertiary study does not suggest a strong systemic link.

- 16 We will provide advice on the potential impact of proposed student allowance directions on Māori and Pasifika in February, as part of advice on more detailed options.

- 17 Māori and Pasifika who do not achieve in tertiary education often also face more significant non-financial barriers to tertiary education, such as low prior attainment, and lack of family familiarity with tertiary education. Current funding settings provide only limited incentives for tertiary education organisations to select or support learners who may require targeted recruitment strategies, tailored learning environments, or additional academic or pastoral care. Our initial analysis is that improving these incentives is likely to provide greater overall improvements in outcomes for Māori and Pasifika learners than maintaining or increasing funding for student support.

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<sup>3</sup> Ministry of Education (2008) *Educational Achievements of Student Support Recipients*. Note that the small group who received an allowance only (and did not borrow from the loan scheme) had a significantly higher likelihood of completion than students who received both loans and allowances, or loans only. However, this finding must be treated with caution, as the number of 'allowance only' recipients is very small, and these students are not necessarily representative (as they include students on academic scholarships who did not need to borrow). This is despite the research being conducted while allowances, but not loans, had a performance requirement.

<sup>4</sup> After adjustment for school attainment, Māori and Pasifika learners are still less likely to progress directly from school to higher-level tertiary education.

### **Interface between student loans and allowances**

- 18 Loans and allowances are designed to interact, with many students currently receiving both. Many allowance recipients borrow either fees or course-related costs. The abated allowance income threshold means that not all allowance recipients receive a full allowance, and under current policy settings they can top up to the loan living cost maximum of \$169.51 per week.
- 19 Around 85% of all 2010 allowance recipients also borrowed from the student loan scheme for fees, living costs or course-related costs, with 36% using the loan scheme to supplement their partial allowance. As a result of this, any reductions in allowance spending will increase loan spending, although with a lower cost to government as 55 cents in every dollar lent is eventually repaid. We intend to assume that allowance recipients will borrow loan living costs if their allowance is reduced or removed.
- 20 Unlike the flat rate received through the living cost component of the loan scheme, allowance recipients can receive more money per week based on individual circumstances. For example, an eligible single student aged under 24 and living away from home would be likely to receive \$167.83 per week, a single person with children would receive \$288.47 per week, and most who live away from home also receive an accommodation benefit of up to \$40 per week. Allowance rates are indexed to inflation and adjusted each April.

### **Interface with welfare system**

- 21 Student allowances have been designed to interface with the benefit system as well as with student loans. The current system aims to avoid any disincentives for people to move into study from benefit, and also aims to avoid creating disincentives for young people leaving school with low or no qualifications to go on to benefit. The main way this is done is to align the maximum rates of student allowances with the maximum relevant benefit rates. It is not possible to receive a benefit and an allowance at the same time. Despite the rates being aligned, detailed settings such as abatement and differences in accommodation and other supplementary support (which are more generous on benefit than on student allowance) can provide a disincentive for some, particularly sole parents, to leave a benefit and move into the student support system.
- 22 The Welfare Working Group (WWG) recommended a long-term investment-based approach to improving outcomes from welfare benefits and services. An investment approach will require changes to the way beneficiaries are supported to study and is likely to identify a group of beneficiaries for whom higher-level tertiary study (level 4 or above) is the best way to achieve better outcomes and reduce their long-term liability. Cabinet has directed MSD to develop a proposal for a number of bursaries to provide extra support with the costs of entering higher-level tertiary study. [2]

- 23 A significant minority of people move from a benefit to an allowance each year. In 2007, 3,148 people moved from a benefit to an allowance or partial allowance

(5.5% of all allowance recipients); in 2010 7,644 people moved (8%).<sup>6</sup> For some young people leaving school, the choice of whether to enter tertiary education may be influenced by the availability of an allowance. Reducing student allowance access could increase the proportion of this group who move onto a benefit.

- 24 Any changes to student allowances need to be understood in the broader context of the potential impact on the benefit system and the welfare reform work. Once we understand the directions you wish to pursue regarding allowances, we will provide you with advice regarding the scale of impact on the benefit system.

### Proposed policy approach to allowances

- 25 Student allowances, alongside student loans, provide for wide access to tertiary education and its labour market and wider social benefits. Specifically, these forms of student support encourage students and their families to be able to invest in tertiary education with confidence about the future costs and benefits. In order for the level of support to be sustained over time, it is important that the cost to taxpayers is also predictable, manageable and seen as reasonable.
- 26 Policy changes that increased access to allowances and levels of subsidy for both loans and allowances increased the cost of student support for taxpayers through the 2000s. These also blurred the boundaries between grants and loans, by significantly increasing the subsidy on student loans, now 45 cents in the dollar.
- 27 Allowances have an important role in assisting students to meet their living costs, to supplement more widely-available student loans. We believe this role is:
- a To assist people to enter tertiary education who have very little upfront cash or family resources, and who heavily discount the future benefits of qualifications. The student loan scheme fills this role for many students, but it is unlikely on its own to overcome upfront costs for those with fewest resources. In particular, allowances lower the total cost of tertiary education more explicitly than loans.
  - b To provide additional support for students with higher financial needs, for example those with dependents. Allowances allow for support that is tailored to individual circumstances, currently aligned with benefit levels.
- 28 We have considered the following criteria in assessing potential directions:
- a Effectiveness in targeting need: tertiary education participation and achievement.
  - b Level of savings achieved.
  - c Impact:
    - i. on access for priority groups: Māori and Pasifika, students from low socio-economic backgrounds, people moving from benefit to study, and students with dependents
    - ii. improving alignment with loans, shifting to see allowances as supplementary support to loans: also whether the approach would provide a platform for changes in future Budgets

<sup>6</sup> Transfers from UB-Hardship Student to student allowance are excluded. A transfer is defined in this indicative measure as having been in receipt of a benefit 30 or fewer days prior to commencing student allowance.

- iii. interaction with possible welfare reform and current benefit settings (although any approach could preserve current entitlements for people leaving benefit to study).
- d Implementation timeframes, complexity and cost: whether the approach can be developed well enough in time for Budget 2012.

## Directions for Budget 2012

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29 We recommend you consider two potential directions for student allowances in Budget 2012 in line with the role for allowances we proposed above.

30 The table below assesses these directions. Except for tighter income targeting, all directions would require amendments to the Student Allowances Regulations.

31 Both of the proposed directions are relatively simple to implement in the short term and would retain a degree of policy stability relative to current policy settings. We propose further analysis to advise on the impact of your selected directions on priority groups (including Māori and Pasifika students, young people, beneficiaries, and students with dependents) and on transitions into and through study. Within these options, it would be possible to specifically tailor support to beneficiaries.

32 As with options for changes to student loans, a potential trade-off exists between the speed at which changes to allowances can be implemented, and the effectiveness at addressing core problems. [2]

33 **Focus allowances on initial years of study (recommended).** This would begin to update allowance policy settings to reflect the wide availability of student loans. We recommend you target allowances to the initial years of study

[2] rather than support a student throughout the duration of their study. Students would borrow from the loan scheme for further living costs support up to the 7 EFTS limit on loan borrowing. This approach is supported by evidence that suggests that a student's first year in tertiary education is the most important for ensuring their success.<sup>7</sup>

34 [2] and would likely remove provisions for Long Programmes, which are mainly postgraduate qualifications, in some cases of over 350 weeks.<sup>8</sup>

[2]

<sup>7</sup> Jacques van der Meer, Auslina Clark and Chikako van Koten *Establishing Baseline Data: using International Data to Learn More About Completion Factors at One New Zealand University*. Journal of Institutional Research, 2008. Jacques van der Meer *I don't even know what her name is: Considering the challenge of interaction during the first year*. Studies in Learning, Evaluation Innovation and Development, 2009.

<sup>8</sup> For example, the Master of Dental Surgery or Doctor of Philosophy (PhD) qualifications.

35 Targeting allowances to initial years of study would be a significant policy change for allowances and would therefore carry some risk. This approach would have low operational complexity and cost, depending on the approach to transitions, to foundation education and to students with dependents.

36 **Reduce parental income thresholds (alternative or additional).** This would return the focus of student allowances to students from needy backgrounds, reversing changes in the mid-2000s that extended support to students from middle-income families. It would reflect that student loans are widely available, but would not signal a shift in focus for allowances as clearly as the recommended approach. Consequently it would likely have less impact and carry lower risks.

37 Having assessed the potential directions against the criteria in the table below our overall assessment is that the recommended options provide the best balance in the short term between effectiveness, savings, impact on different learner groups, and feasibility of implementation.

[2]

38 [2]

39 [2]

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Table 1: Overview of directions for student allowances

Direction	How?	Effectiveness of targeting in increasing tertiary participation and achievement	Savings	Impact: access, alignment, fit with possible welfare and loan changes	Implementation complexity and cost
Recommended for Budget 2012					
Focus allowance support on initial years of study	[2] Include removing the Long Programme exemption and/or post-graduate support. [2]	Medium. Some deadweight cost if current broad income thresholds retained.	Medium	Medium. Could particularly affect students doing longer courses/degrees/postgraduate study. Based on allowance recipients between 2004 and 2011, the current average length of allowance receipt is 54 weeks (two years). Consider a transition period.	Medium
Tighter income targeting	Reduce income thresholds. For example target to low income e.g. bottom 25-40%, or reduce to CPI-adjusted original levels (current levels are 30% above these).	Low-Medium. Reported income is not necessarily a good proxy for need. Evidence shows other factors are also significant for tertiary education participation and completion.	Low-high	Low-high depending on degree of threshold reduction. Approximately 50% of allowance recipients are parentally income tested. <sup>9</sup>	Low
[2]	[2]	[2]	[2]	[2]	[2]
[2]	[2]	[2]	[2]	[2]	[2]

<sup>9</sup> All figures based on 2009 allowance recipients.

[2]	[2]	[2]	[2]	[2]	[2]
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### Discounted directions

- 40 We have also considered, but do not recommend the following directions:
- a Devolving allowance budgets to tertiary providers. There are a number of risks associated with this direction such as weakening students' influence as consumers, lack of transparency for students, accountability and administrative complexity and the potential for students in similar situations to receive different treatment between providers.
  - b Retaining the current eligibility but cutting the dollar amount per week. This approach would generate few savings as students would most likely borrow the difference from the Loan Scheme. A large number of students receiving a small amount of support would mean expenditure would be spread thinly and therefore be relatively ineffective.

### Consultation

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- 41 We have consulted the Ministry of Social Development and the Treasury on this advice and reflected their comments in the paper. The recommendations are the view of the Ministry of Education.
- 42 We recommend you consult with the Minister for Social Development as any changes to allowances will impact on the interface with the benefit system and StudyLink's operations.

### Next steps

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- 43 Following your feedback on this paper, we will develop potential options from the directions you are interested in, and provide further advice in February. This advice will include impacts on priority groups (including Māori, Pasifika, lower socio-economic groups) beneficiaries and students with dependents) and the effects of interactions with loans and welfare support.
- 44 Decisions on that further advice will inform a draft Cabinet paper on the 2012 Student Support Budget proposals for consideration in March 2012.



*This document has been released under the Official Information Act 1982 (the Act). Some information has been withheld under section 9(2)(f)(iv) – to maintain the constitutional conventions for the time being which protect ...the confidentiality of advice tendered by Ministers of the Crown and individuals. These sections are marked as 2. Some information has been withheld under section 9(2)(h) – to maintain legal professional privilege. These sections are marked as 8. You have the right under sections 19 and 28(3) of the Act to ask an Ombudsman to review this decision.*

9 March 2012

## Tertiary Education Report: Student Allowances: Further advice on Budget 2012 options

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### Executive summary

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This report provides further policy advice on student allowances, and seeks confirmation of the options you wish to include in Budget 2012.

Targeting allowances to [2] initial qualifications

[2]

We seek agreement that postgraduate study covers postgraduate certificates and diplomas, masters degrees and doctorates. Due to variation between providers, we recommend that all honours degrees be considered as undergraduate study and therefore eligible for student allowances.

[2] for postgraduate study, most students would be able to borrow living costs through the student loan scheme. However, the maximum weekly living costs which can be borrowed (\$169.51) are lower than the combined student allowance for an 18-24 year old (away from home) plus accommodation benefit (net total of \$212.87). For students with dependants the difference is significantly larger. For example, a single 20 year old with two children living in Auckland would receive a maximum allowance entitlement of \$348.47 per week.

Due to the widespread availability of student loans, we do not consider transitional arrangements to be necessary, except for students with dependants, who may not have as much flexibility to adjust and would experience a greater drop in income. We recommend grandparenting eligibility for students with dependants for up to one year, to 31 December 2013. [2]

A number of exemptions to the 200 week limit currently exist. We recommend narrowing the special circumstances exemption to exclude student allowance policy changes, and removing other exemptions, including Long Programmes.

Under current policy settings students who have exceeded the 200 week limit are likely to be eligible for the accommodation supplement available to anyone on a low income.

[2] excluding postgraduate study would increase the number of students eligible for the supplement. This would significantly reduce savings. Students would also then receive more support through the accommodation supplement plus student loan living costs than through a student allowance.

Ministers may therefore wish to consider limiting accommodation supplement eligibility for students. This could potentially be done through the Social Security Act Amendment Bill currently before the House, although preliminary advice is that it may be out of scope. If you wish to consider this we will provide further advice.

#### *Reducing the parental income threshold for 18-24 year olds*

You have requested further advice on options for reducing the parental income threshold, to return the focus of allowances to lower income families. This would reflect Government's expectation that those who will benefit economically from tertiary education and can afford to meet a greater proportion of costs should do so.

On 27 February 2012, Cabinet agreed to maintain the parental income threshold at its current rate without a CPI adjustment. We seek confirmation that you wish to defer any further CPI adjustment until 1 April 2016.

We have considered two options to focus allowances on lower income families:

- a. Reduce the parental income threshold to the April 2005 level, adjusted for CPI, to give a threshold of \$41,340 for a full allowance. This is the Ministry of Education's preferred option because it targets allowances most closely to low income families, and avoids the perverse incentives associated with high abatement rates. The threshold is comparable to the thresholds for Working for Families, and Community Services Cards.
- b. Retain the current threshold of \$55,027, but increase the abatement rate from 27.93% to 39.11% (gross), so that the upper cut-off points reduce. The number of full allowance recipients would not change, but fewer students from higher income families would receive a partial allowance.

Option a) would produce net savings of approximately \$66 million over four years. 22,000 students would receive a reduced student allowance. 4,000 would lose their current partial allowance, and would also lose eligibility for the accommodation benefit (up to \$40 per week) and for Unemployment Benefit Student Hardship during summer vacation.

The changes proposed would not have a significant negative impact on beneficiaries. Beneficiary families' income would fall below the proposed parental income threshold, and beneficiaries tend to study low-level courses of less than 120 weeks duration. As part of welfare reforms, the Ministry of Social Development is leading the development of a bursary for beneficiaries to study at level 4 and above, and

#### *Implementation and next steps*

StudyLink has estimated one-off implementation costs at approximately \$0.7 million, with ongoing costs between \$0.100 and \$0.400 million per year. Providing the transition provisions are confined to those outlined in this paper and the student support package remains along the lines you indicated to tertiary officials on 6 March 2012, StudyLink considers these options could be implemented from 2013.

**Recommended actions**

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We recommend that the Minister for Tertiary Education, Skills and Employment:

- a. **note** this report provides you with further policy advice and seeks confirmation of the student allowance options you wish to be included in your Budget 2012 package

**Targeting allowances to initial years of study and initial qualifications**

- b. **note** that we recommend focussing allowances on initial years of study to signal a policy shift towards supporting higher need students to gain their first tertiary qualification

[2]

- c. [2]

[2]	[2]
[2]	[2]
[2]	[2]

- d. [2]

*Postgraduate study*

- e. **agree** to remove student allowance eligibility for all level 8 and above postgraduate certificates and diplomas, Masters degrees and doctorates

AGREE / DISAGREE

- f. **agree** that, in order to minimise operational complexity due to variation within and between providers, all bachelor degrees with honours retain eligibility for student allowances

AGREE / DISAGREE

*Transition arrangements and students with dependents*

- g. **note** that we recommend a transition arrangement for allowance recipients with a dependent spouse or children, as these students are less likely to have the flexibility to

respond to the changes as quickly as other students and will experience a greater drop in support, so a small short-term reduction in savings is justified to assist this group

- h. **agree** only to grandparent allowance recipients who, as at announcement date, receive a dependants allowance, continue to be eligible for that allowance in 2013 and continue to study the same qualification, until 31 December 2013, or until they have used up their 200 week limit, whichever comes first

AGREE / DISAGREE

- i. **[8]**

*Exemptions*

- j. **agree** to remove the Long Programme exemption that allows students who are studying mainly postgraduate qualifications to exceed the 200 week limit to complete their study

AGREE / DISAGREE

- k. **note** that we will provide further advice on timing for implementation to avoid gaming following announcement
- l. **note** that a special circumstances exemption allows students to exceed 200 weeks when special circumstances outside a student's control exist, which is likely to mean that all students who were affected by the 200 week reduction would be eligible for a special circumstances exemption
- m. **agree** to narrow the definition of the special circumstances exemption in Regulation 20 (7) of the Student Allowance Regulations 1998 as it relates to tertiary study, to exclude student allowance policy changes

AGREE / DISAGREE

- n. **note** exemptions to extend the 200 week tertiary limit are inconsistent with the proposed new focus of allowances on initial years of study and those who most need additional support, but also exist for
  - (i) any particular case or class of case
  - (ii) courses in the national interest (currently teaching qualifications)
- o. **agree** to remove the exemptions in n (i) to (ii) from the Student Allowance Regulations 1998, effective from 1 January 2013

AGREE / DISAGREE

- p. **agree** that students who have applied for an exemption prior to Budget Day 2012 retain that exemption for the period approved

AGREE / DISAGREE

*Accommodation Supplement impacts*

- q. **note** that we will provide further advice on flow on costs for the Accommodation Supplement, and options for managing those costs, but that our current understanding is:
- (i) under proposed student allowance settings, students who **[2]** undertake postgraduate study would be eligible for the Accommodation Supplement
  - (ii) eligible students would receive a higher level of support through the Accommodation Supplement plus student loan living costs than through the student allowance
  - (iii) increased Accommodation Supplement costs may reduce savings by up to \$30 million per year
  - (iv) the Social Security Act determines Accommodation Supplement eligibility, and an amendment is before the House on a related issue

**Parental income threshold**

- r. **note** that since 2004, the parental income threshold has been adjusted for CPI
- s. **note** that as well as the CPI adjustment, Budget 2004 increased the parental income threshold by 20%, then Budgets 2006 to 2008 provided three further 10% increases resulting in the parental income threshold now being 30% higher than it would have been through CPI adjustment alone
- t. **note** that on 27 February 2012 Cabinet confirmed the Cabinet Business Committee's decision to maintain the student allowance parental income threshold at its current rate without CPI adjustment (CAB Min (12) 6/1)
- u. **agree** that this decision should apply to the full forecast period, until 1 April 2016

AGREE / DISAGREE

- v. **note** that there are two broad approaches to reducing the level of parental income which determines student allowance eligibility for 18-24 year olds:
  - (i) Reduce the \$55,027 threshold, which will also reduce the upper cut-off points. This is the Ministry of Education's preferred option because it targets allowances most closely to low income families, and avoids the perverse incentives associated with high abatement rates
  - (ii) Retain the current threshold of \$55,027 for a full allowance, but increase the abatement rate so that the upper cut-off points reduce. The number of full allowance recipients would not change, but fewer students from higher income families would receive a partial allowance
- w. **indicate** if you wish to pursue either of the following parental income changes for student allowances for Budget 2012

(i) reduce the parental income threshold to the 1 April 2005 level, adjusted for CPI (ie threshold of \$41,340) <i>Ministry of Education preferred option</i>	YES/NO
--	--------

(ii) retain the current threshold, but increase the gross abatement rate from 27.93% to 39.11%	YES/NO
--	--------

- x. **agree** that no transitional provisions apply to students affected by any changes to the parental income threshold or abatement rates, except where the change takes effect partway through an approved period of study of up to 52 weeks, that commenced prior to 1 January 2013

AGREE / DISAGREE

**Implementation and next steps**

- y. **note** that as our next steps we will provide further advise on:

- (i) New Zealand Bill of Rights implications
- (ii) timing for implementing announcement [2] to avoid gaming following
- (iii) implementation costs once you have confirmed your student support package

- z. **forward** this to your colleagues the Minister for Social Development and the Minister of Revenue, for their information

AGREE / DISAGREE

**Dr. Andrea Schöllmann**  
 Group Manager, Tertiary Education  
 Ministry of Education

NOTED / APPROVED

**Hon Steven Joyce**  
 Minister for Tertiary Education, Skills and Employment

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## Tertiary Education Report: Student Allowances: Further advice on Budget 2012 options

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### Purpose of report

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1. This report provides you with further policy advice on student allowance options for Budget 2012.
2. It also seeks confirmation of the options you wish to be included in your Budget 2012 package.

### Background

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3. To improve tertiary education outcomes with no additional new funding over the next three years, we need to continue to reprioritise expenditure from lower priority areas and to target expenditure more effectively within tertiary education to drive performance.
4. For Budget 2012, savings of over \$200 million over four years are needed from student support for reprioritisation within tertiary education.
5. Due to significant increases in student allowance recipients and expenditure in recent years, scope exists to improve the value for money of student allowances and refocus allowance support on those students who need it most. This will achieve considerable savings for reprioritisation.
6. In response to previous advice (METIS 649834, 650609 and 637354 refer), you indicated you wish to consider the following:
  - [2]
  - Removing the entitlement for post-graduate students to access an allowance.
  - Further changes to the parental income threshold to signal a shift towards targeting allowance funding to those students who need it most.
7. In our previous advice we noted that there were a number of further policy issues that would need to be worked through. This paper provides advice on those issues and seeks your agreement on the options you wish to be included in your Budget 2012 package.
8. We have discussed the operational implications with StudyLink. Indicative administration costs are included in this paper.

### Focussing allowances on initial years of study

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9. The current lifetime limit for 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 approximately 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.

10. Focusing allowances on the initial years of study rather than throughout study would begin to update allowance policy settings to reflect the wide availability of student loans. Students would borrow from the loan scheme for further living costs support, up to the 7 EFTS limit on loan borrowing. This approach is supported by evidence that suggests that a student's first year in tertiary education is the most important for ensuring their success.<sup>1</sup>

11. [2]

Removing eligibility for postgraduate study might also be seen as contrary to improving New Zealand's knowledge economy. However, these changes aim to direct allowance support to those students who need it most, and to acknowledge the higher private returns from post graduate study.

12. We have considered the average duration of student allowance receipt from 2004 to 2011. There is a significant long tail: while the 80th percentile for all recipients is 86 weeks, the 100th percentile is 334 weeks.<sup>2</sup>

Table 1: Average weeks of student allowance receipt by study characteristics, 2004-2011, by percentile

	25th	50th	75th	80th	90th	100th
All recipients	23	39	76	86	117	334
Degree-level study and above	38	67	107	113	141	331
Sub-degree level study	17	33	44	53	79	334

13. [2]

<sup>1</sup> Jacques van der Meer, Austina Clark and Chikako van Koten *Establishing Baseline Data: using International Data to Learn More About Completion Factors at One New Zealand University*. Journal of Institutional Research, 2008. Jacques van der Meer *I don't even know what her name is: Considering the challenge of interaction during the first year*. Studies in Learning, Evaluation Innovation and Development, 2009.

<sup>2</sup> This includes a small number of secondary school recipients (adult students). Budget 2010 limited the duration of student allowances for secondary school students to 92 weeks in response to misuse by a small number of students and providers.



14. [2]

Savings allow for student loan flow on costs and represent the net impact on the operating balance. Savings do not allow for increased Accommodation Supplement costs of up to \$30m per year, discussed in paragraphs 22 to 28 below.

[2]

[2]	[2]	[2]
[2]	[2]	[2]
[2]	[2]	[2]
[2]	[2]	[2]

15. [2]

16. [2]

17. [2]

18. [2]

19. Ministry of Education research published in 2008 found very little difference in completion between students who received both loans and allowances and those who received only

loans, controlling for prior qualifications, ethnicity, and study type.<sup>3</sup> We therefore consider that the impact of the proposed student allowance changes on qualification completion is likely to be low.

20. [2]

21. Due to the widespread availability of interest free student loans, we recommend no transitional arrangements for this option, with the exception of allowance recipients with dependents. These students will be more disadvantaged by this change as they are less likely to have the flexibility to respond to the changes as quickly as other students and would face a larger decrease in income. We therefore recommend a transitional provision for these students only. We have provided further advice in paragraphs 33 to 37 below.

### Accommodation Supplement eligibility and flow on costs

#### Current policy

22. The Accommodation Supplement is available to low income people to assist with accommodation costs. Student allowance recipients are not eligible for the Accommodation Supplement, but may be eligible for the accommodation benefit instead. The accommodation benefit is paid at a lower rate than the accommodation supplement. If a student's parental or personal income means that they are ineligible for a student allowance then they are not eligible for an accommodation supplement. Part-time students are not eligible for a student allowance (or student loan living costs), but may be eligible for the accommodation supplement.

#### Issue

23. [2]

Postgraduate students would also be eligible for the accommodation supplement if student allowance eligibility is removed for postgraduate study. This raises two issues:

- the flow on costs for the accommodation supplement would significantly reduce student allowance savings
- given the policy intent of focusing student support on initial qualifications, whether Ministers consider that the higher level of support which these students would receive is appropriate.

24. Currently an 18-24-year-old living away from home can receive a student allowance of up to \$167.83 per week depending on parental income, plus accommodation benefit of \$40, totalling \$207.83. Once that student [2] was undertaking postgraduate study, depending on their individual circumstances they would be eligible for an accommodation supplement of between \$45 and \$145 per week.<sup>4</sup> This is in addition to student loan living costs of \$169.51, totalling between \$214.51 and

<sup>3</sup> Ministry of Education (2008) *Educational Achievements of Student Support Recipients*.

<sup>4</sup> To get the maximum Accommodation Supplement of \$145 per week a student would need to be living in Central Auckland or the North Shore, and paying rent of over \$257 a week.

\$314.51. They may therefore receive a higher level of assistance after using up their student allowance eligibility.

25. The current policy would continue to treat people the same across welfare policies, but may not be consistent with your intention that the student loan scheme be the predominant means of living support for students [2] for postgraduate study.
26. The difference between the accommodation benefit and accommodation supplement is greatest for sole parents with two or more children, where the accommodation benefit is \$60 and the maximum accommodation supplement is up to \$225 per week. The Ministries of Social Development and Education are working on a targeted bursary to support sole parents into higher level study, as part of wider welfare reforms.

#### *Impact on Budget 2012 proposals*

27. Indicative modelling suggests increased costs for the accommodation supplement of up to \$30 million per year [2]

28. As an alternative, Ministers might consider limiting accommodation supplement eligibility for students, so that students do not receive a boost in their income when their allowance eligibility ends. This would require legislative amendment to the Social Security Act 1964. This could potentially be done through the Social Security Act Amendment Bill currently before the House, although preliminary advice is that it may be out of scope. We would need to provide further advice on options for making legislative change, implications and risks.

#### **Definition of postgraduate**

29. We consider that 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.
30. We have defined postgraduate as all study at levels 8 and above, except bachelors with honours. This includes postgraduate certificates and diplomas, masters and doctorates. None of these qualifications would be eligible for allowance support. Bachelors degrees are level 7 and would therefore be eligible for allowance support, as would graduate diplomas (for example a graduate diploma in teaching, following a bachelors degree).
31. Bachelors degrees with honours vary between providers and fields of study. While some honours degrees require enrolment in an additional year of study, others involve extra assignments during the undergraduate degree, or are awarded on the basis of grades during the undergraduate degree. For some longer degree programmes, everyone who completes receives a degree with honours.
32. To minimise operational complexity, we propose that all bachelors degrees with honours also be considered to be undergraduate study, and therefore be eligible for allowance support. We seek your agreement to this. In many cases students will have already studied for 120 weeks and may therefore have used up their lifetime allowance limit.

## Dependants

33. Approximately 11% of students (11,000) have dependants. Of these 11,000 students, 65% have a dependent partner only and no dependent children.

[2]

These students would be able to borrow living costs from the loan scheme, however at a lower rate than their student allowance. For example, a student with a dependent partner, living in Auckland, would be eligible for a maximum allowance of \$375.66 per week (including accommodation benefit), but would only be allowed to borrow a maximum of \$169.51 per week. The student would currently also be eligible for an Accommodation Supplement of \$160, but as discussed above you may wish to reconsider students' eligibility for the Accommodation Supplement.

34. To mitigate the impact on allowance recipients with dependants, we recommend implementing a grandparenting exemption for up to one year for these students only.

35. We recommend that, as at announcement date, students who receive a dependants allowance, continue to be eligible for that allowance in 2013 and continue to study the same qualification, be grandparented until 31 December 2013.

36. [2]

37. We have also considered a number of other options as an alternative to grandparenting to mitigate the impact on allowance recipients with dependants. However, we consider the operational complexity is too great, particularly if you wish to implement changes from 2013, and therefore do not recommend them:

- Providing a 'top up' allowance to the living costs component of the loan scheme.
- Allowing this group to borrow more from the loan scheme to the level of their allowance. This would set a precedent for other borrowers.

## Exemptions

38. The Student Allowance Regulations 1998 (the Regulations) provide for a number of exemptions to the usual student allowance eligibility. This includes discretion to extend study beyond the 200 week limit. This discretion can be exercised by StudyLink where there are 'special circumstances' in a particular case.

39. 'Special circumstances' in the Regulations are not defined. These therefore must be related to the particular circumstances of the student, but are not limited to any particular reason. Reasons for exercising the discretion can include: sickness, bereavement or some event happening outside of the student's control (for example, a provider changes the delivery of the course, or a science student loses their entire experiment due to equipment malfunction).

40. In 2011, StudyLink approved approximately 530 extensions (approximately half a percent of all allowance recipients) out of approximately 700 applications. Of these approved

extensions, 60% were granted under the long programme exemption, 20% for national interest, 17% for special circumstances, and 3% for equivalent long programmes.<sup>5</sup>

41. As currently drafted, this wide discretion provided by the term 'special circumstances' could raise issues following the reduction of the 200 week limit. Currently, all students who were affected by the change would likely be eligible for a special circumstances exemption, as the reduction in their allowance would be outside of their control. This would go against the intention of the policy change and would reduce or delay the savings.
42. We recommend narrowing this exemption so that it does not include student allowance policy changes.
43. The Secretary for Education also has discretion to determine that it would be in the national interest for a student to undertake a programme of study to retrain for employment. This discretion allows StudyLink to approve payment beyond the 200 week limit. Currently, only teacher training courses are approved for this purpose.
44. The Secretary for Education also has discretion to approve an extension 'in any particular case or class of case'. This is currently used by the Ministry of Education for programmes of study that are equivalent to a Long Programme, however the discretion is not limited to this type of situation. Approximately six of these exemptions are approved per year.
45. We recommend that the exemptions for Long Programmes, any particular case or class of case, and national interest, be removed. We consider this is reasonable because these students can access the loan scheme. The voluntary bonding scheme also assists with student loan repayments for teachers, health professionals and veterinarians who work in New Zealand and meet specific criteria.
46. For all types of exemptions, where a student has applied for the exception prior to announcement on Budget Day 2012, the student would retain the exception for the period approved. This is because an exemption approved for an individual student for a specific period under specific circumstances is in the nature of a binding contract.

[2]

47. [2]

[2]

#### Amending the parental income threshold

48. In 2011, approximately 55,400 students aged 18-24 received allowances based on parental income (56 percent of all student allowance recipients). Reducing the parental income level at which 18-24 year olds are eligible for a student allowance would return

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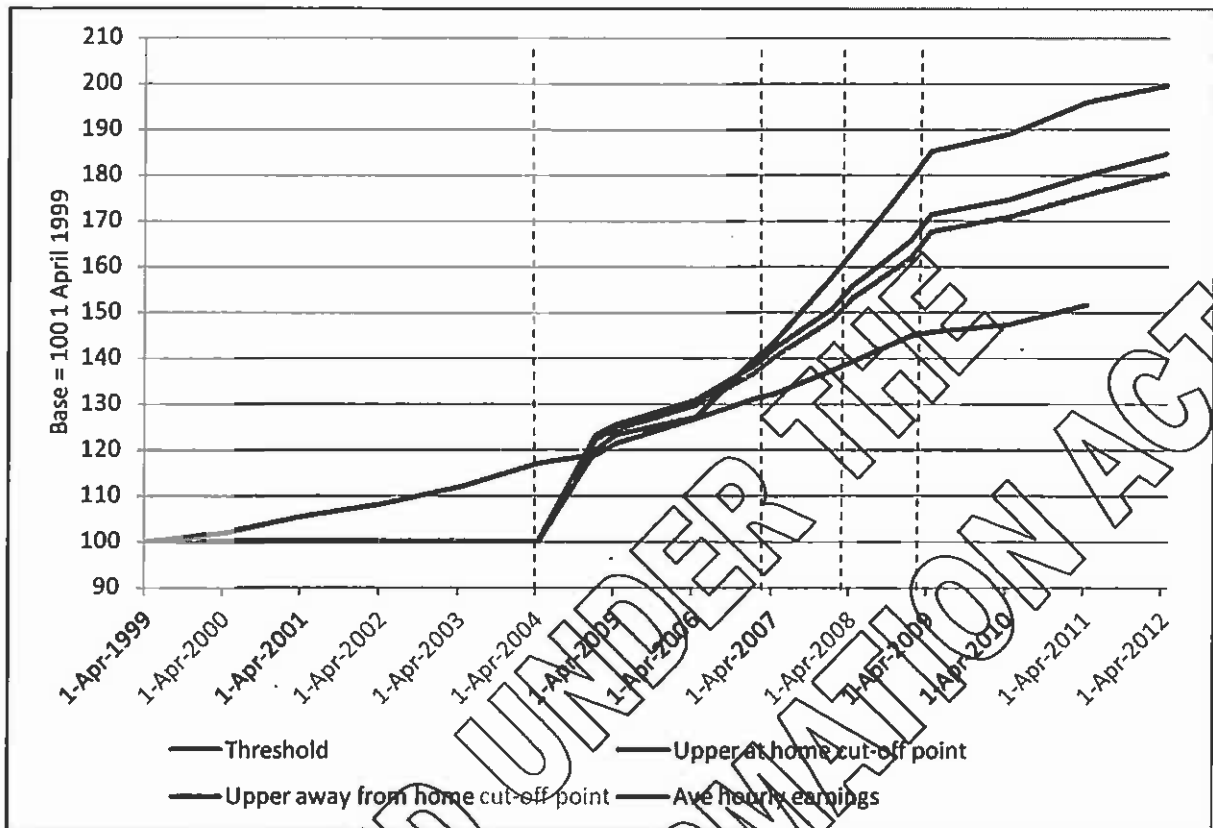
<sup>5</sup> Equivalent long programmes are similar to long programmes, but not formally recognised.

the focus of allowances to students from needy backgrounds, reversing changes in the mid-2000s which extended support to students from middle-income families. The change would reflect the wide availability of interest free student loans and Government's expectation that those who will benefit economically from tertiary education and can afford to meet a greater proportion of the costs should do so.

49. On 27 February 2012, Cabinet confirmed the Cabinet Business Committee's decision to maintain the student allowance parental income threshold at its current rate without CPI adjustment (CAB Min (12) 6/1).
50. We seek confirmation that you wish to maintain the threshold without CPI adjustment until 1 April 2016, as the Cabinet Business Committee minute does not specify a time period.
51. You have also requested advice on further changes to the parental income threshold and cut-off points, which is provided below. The threshold refers to the income limit for receiving a full allowance (\$55,027 from 1 April 2011). Above that limit eligible recipients receive a partial allowance, up to the cut-off points of \$82,950 for a student living at home, and \$89,936 for a student living away from home. Students receiving a partial allowance can top up the allowance by borrowing living costs, up to a combined maximum of \$169.51 weekly.
52. The graph below demonstrates the increase in the student allowance parental income threshold and cut-off points since 1999, comparative to wage growth. The major increases to the threshold are indicated by dashed lines:
  - 1 April 2004 – 20% increase.
  - 1 January 2007 – 10% increase.
  - 1 January 2008 – 10% increase.
  - 1 January 2009 – 10% increase.

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Figure 1: Average earnings growth relative to parental income threshold growth<sup>6</sup>



Source: Quarterly Employment Survey and Ministry of Education

53. The threshold and cut-off points have increased well ahead of wage growth. For example, the upper (at home) cut-off point has increased by 80% on 2004 levels. Increases have also exceeded inflation. In 1992 the parental income threshold was \$26,832, or \$42,049 in 2011 dollars. This compares to the threshold now of \$55,027.
54. There are two broad approaches to reducing eligibility for parental income tested allowances, which will have different impacts on students from high and middle income backgrounds. The two approaches are:
- Reduce the \$55,027 threshold, which will also reduce the upper cut-off points. This would reduce the number of students receiving a full allowance as well as the number of students receiving a partial allowance. This is the Ministry of Education's preferred option because it targets allowances most closely to low income families, and avoids the perverse incentives associated with high abatement rates.
  - Retain the current threshold of \$55,027 for a full allowance, but increase the abatement rate so that the upper cut-off points reduce. The number of full allowance recipients would not change, but fewer students from higher income families would receive a partial allowance.

<sup>6</sup> The dollar value used for the 1 April 1999 measure is \$17.28 and for 1 April 2011 is \$26.21.

55. We have considered two specific options:

- **Threshold reduction:** return the threshold to the level of 1 April 2005, adjusted for CPI to 1 April 2011. The threshold would be \$41,340. We have selected 1 April 2005 as a base point, as allowances were adjusted at this point to reflect average earnings growth, after a five-year period of no adjustment. Beyond 1 April 2005 increases to allowance levels began to exceed average earnings growth, as shown in figure 1 above.
- **Increase in abatement:** increase the abatement rate for parental income over the threshold from the current 27.93% to 39.11% (gross)<sup>7</sup>. For every \$10 of income over the threshold, the student's allowance rate would be reduced by \$3.91, compared to \$2.79 currently.

56. For these options the table below indicates the resulting threshold and cut-off points, projected savings (allowing for student loan flow on costs) and the number of student allowance recipients affected. These numbers are independent of savings calculated for removing eligibility for postgraduate students, and reducing the lifetime limit to 120 weeks. Implementing threshold changes in combination with these other changes would reduce the savings shown below somewhat, but we do not expect the impact to be large. Savings are calculated for 2013, on the basis that implementation in 2013 is feasible if the current package of initiatives proceeds (see paragraph 77 below).<sup>8</sup>

Table 2: Projected impact of options to reduce parental income threshold or abatement rates<sup>9</sup>

Option	Parental income threshold and cut-off points	Total net savings over 4 years (\$m)	Annual net savings (\$m)	Recipients who would no longer receive any allowance**  (as % of all parental-income tested recipients)	Recipients who would receive a reduced allowance**  (as % of all parental-income tested recipients)
1. Threshold reduction to level of 1 April 2005, adjusted for CPI	Threshold: \$41,340 Upper at home: \$69,381 Upper away from home: \$76,867	\$66.5	\$20.3	3930  7.1%	21,967  39.7%
2. Increase in gross abatement rate from 27.93% to 39.11%	Threshold: \$55,028 Upper at home: \$75,329 Upper away from home: \$80,404	\$22.1	\$6.8	2290  4.1%	13,284  24.0%

\*Once fully implemented. \*\*In first year of implementation.

57. Under both options, a small group of students from higher income families who currently receive a partial allowance would no longer receive any allowance. These students would be able to borrow living costs through the student loan scheme up to the weekly

<sup>7</sup> This corresponds to an increase in the net abatement rate from 25.0% to 35.0%.

<sup>8</sup> Savings are calculated from 1 April 2013. Savings for study starting after 1 January 2013 would be slightly higher.

<sup>9</sup> Options 1 and 2 could be combined, however we do not recommend this.



maximum of \$169.51. Many are likely to already be borrowing to top up their allowance. However, they will lose eligibility for the accommodation benefit, (up to \$40 per week on top of an allowance and borrowed living costs).<sup>10</sup>

58. A student in this position would need to make up the \$40 per week shortfall from part-time work, family support, or reducing costs. These students may also lose eligibility for Unemployment Benefit Student Hardship during summer vacation as this is limited to students who receive an allowance or meet a hardship test (income and assets).<sup>11</sup> These students would not be eligible for the Accommodation Supplement.

59. A larger group of students (18-40% of recipients) would move from a full allowance to a partial allowance, or from a partial allowance to a lower rate of partial allowance. These students will be able to top up their allowance by borrowing, and would retain eligibility for the accommodation benefit as well. The remaining recipients (53% for option 1, 72% for option 2) would continue to receive the full allowance plus relevant accommodation benefit.

60. Median annual household income for the June 2011 quarter for a couple with two dependent children was \$83,408 (including all sources of income).<sup>12</sup> For a single parent with one or more dependent children, median annual household income was \$30,888.

61. Table 3 below shows the level of student allowance an 18-24 year old living away from home would receive under the three options for a range of parental income levels. The student would also be eligible for up to \$40 a week Accommodation Benefit (additional to the student allowance): this is not included in the table.<sup>13</sup> Shaded cells indicate no change from the current level of full allowance received.

Table 3: Projected impact of options to reduce parental income threshold or abatement rates, by parental income

Weekly gross student allowance received, living away from home, parental-income tested	Status quo	Option 1: threshold reduction to 2005 adjusted for CPI (\$41,340)	Option 2: retain threshold of \$55,025, gross abatement rate of 39.11%
On median household income for couple with two dependent children (\$83,408)	\$38.40	No allowance	No allowance
On parental income of \$70,000	\$110.42	\$36.89	\$78.25
On parental income of \$50,000	\$190.84	\$144.33	\$190.84

<sup>10</sup> Accommodation Benefit varies by region to reflect differences in average rental rates, up to a maximum of \$40 per week for 18-24-year-olds and \$60 per week for sole parents. It is paid to any student in receipt of a student allowance, whether full or partial, and is not applied pro-rata.

<sup>11</sup> Flow-on savings from Accommodation Benefit and unemployment Benefit Student hardship are included.

<sup>12</sup> New Zealand Income Survey: June 2011 quarter.

<sup>13</sup> Assumes no other siblings aged 18-24, and parents living together.

<b>On parental income of \$45,000</b>	\$190.84	\$171.18	\$190.84
<b>On median household income for single parent with one or more dependent children (\$30,888)</b>	\$190.84	\$190.84	\$190.84

## Discussion

62. We recommend adjusting the threshold (option 1) rather than increasing abatement rates, for two reasons:

- a. adjusting the threshold targets allowances more closely to students from low income families
- b. high abatement rates create disincentives for parents to earn additional income and may increase tax planning by self-employed parents.

### Targeting

63. Reducing the parental income threshold to the 1 April 2005 rate adjusted for CPI would produce a threshold of \$41,340 i.e. students with parental income up to that level would receive a full student allowance. The proposed threshold of \$41,340 would compare to the threshold of \$36,354 for Working for Families, \$46,769 for a Community Services Card for a family of 2 and \$48,000 for the 19.54 cents personal income tax rate.

64. This approach could increase the likelihood of a high effective marginal tax rate where multiple assistance measures align.

65. Under the proposed threshold, we estimate that the bottom 15-20% by income of two-parent families with dependant children would be eligible for a full student allowance, compared to 30-35% currently. The bottom 75-80% of one parent families with dependent children would be eligible, compared to 85-90% currently. Overall approximately 25-35% of families with dependent children would be eligible for a full allowance, compared to 40-50% currently. A higher proportion would receive a partial allowance. All estimates are based on 2006 Census data, which is the most recent data available for household income by household type.

### Impact of high abatement rates

66. The current gross abatement rate (i.e. before tax) of 27.9% for parental income compares to an abatement rate of 21.25% for Working for Families<sup>14</sup> and 30% for Domestic Purposes Beneficiaries.<sup>15</sup> Increasing abatement rates increases the effective marginal tax rates (EMTRs) faced by parents of student allowance recipients on any additional dollar of income, taking into account the effect of other social policies such as Working for Families, and the ACC Earner Levy.

<sup>14</sup> From 1 April 2012

<sup>15</sup> On income between \$100 and \$200 gross a week

67. Option 2 would increase the gross abatement rate to 39.1%. This higher abatement rate and associated EMTRs risk discouraging parents of student allowance recipients from earning additional income above the threshold. This risk increases where parents are also receiving other social assistance which abates with additional income, in particular Working for Families if there are also children under 18 at home.
68. Higher abatement rates may also increase tax planning by parents who are self-employed, to maximise the student allowance a child can receive.

#### *Transitional provisions*

69. We do not recommend any transitional provisions, as students' eligibility is already reassessed for each application period, and may change depending on changes in family circumstances.<sup>16</sup>

#### Impact on beneficiaries and the welfare system

70. We consider changes to focus allowances on initial years of study, and on those who most need the support, will have a small negative impact on beneficiaries and the welfare system as a whole.
71. Any changes to the parental income threshold or abatement rates will continue to capture beneficiary families, whose incomes will fall well under the threshold. Beneficiary families will therefore not be negatively affected by any changes to focus allowance support more closely to need.
72. [2]
73. As part of the welfare reform work, Ministers have asked the Ministry of Social Development to develop a bursary for beneficiary students to study at level 4 and above. This bursary would focus on people for whom this study is the best way to reduce their likelihood of staying on benefit. The interaction of the proposed bursaries with the student support system and flow on costs for tertiary education will be carefully considered as proposals are developed. The Ministry of Education is working with MSD on this proposal.
74. [2]
75. We will work with the Ministry of Social Development to provide you with further advice on these issues this year, with a view to providing options for Budget 2013 should you wish.

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<sup>16</sup> The only exception would be where the implementation date falls part way through a student's approved allowance period of up to 52 weeks, in which case the new eligibility rules would apply from the next application.

## Implementation and next steps

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76. [2]

77. Providing the transition provisions are confined to those outlined in this paper and the student support package remains along the lines you indicated to tertiary officials on 6 March 2012, StudyLink considers these options could be implemented from 2013.

78. As our next steps we will provide further advice on:

- a. New Zealand Bill of Rights implications
- b. timing for removing the Long Programme exemption, to avoid gaming following announcement
- c. implementation costs once you have confirmed your student support package.

79. We recommend that you forward this paper to your colleagues the Minister for Social Development and the Minister of Revenue for their information.

RELEASED UNDER THE OFFICIAL INFORMATION ACT

11 April 2012

## **Tertiary Education Report: Student allowances: Removing eligibility for postgraduate students**

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### **Executive summary**

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Student allowances aim to address the financial barriers to study for low-income groups. Expenditure on allowances has increased significantly in recent years, and allowances have not been reviewed since the introduction of interest-free student loans.

We have previously recommended

removing eligibility for postgraduate study (MEFIS 652520 and 650609 refer) to target allowances to initial years of study. You requested further information on removing eligibility for postgraduate students.

Providing allowance support for undergraduate study only would be a first step towards refocusing allowances on those students who most need additional support and updating allowance policy settings to reflect the wide availability of student loans. We consider that 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, and studying a first qualification. This also reflects the higher private benefit gained from postgraduate study.

There is some overlap between undergraduate and postgraduate courses. Bachelors degrees with honours vary between providers and fields of study. While some honours degrees require enrolment in an additional year of study, others involve extra assignments during the undergraduate degree, or are awarded on the basis of grades during the undergraduate degree. For some longer degree programmes, everyone who completes receives a degree with honours. To ensure consistency, we propose that all bachelors degrees with honours also be considered to be undergraduate study, and therefore be eligible for allowance support. We seek your agreement to this.

A number of exemptions exist to the 200 week limit for allowances, for Long Programmes (programmes of study typically culminating in postgraduate study, which exceed 200 weeks), 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. We recommend removing these exemptions.

Removing allowance eligibility for postgraduate students would disproportionately affect students with dependents, as these students receive a higher level of allowance support. To mitigate the impact on allowance recipients with dependants, we recommend implementing a grandparenting exemption for up to one year for these students only.

Removing eligibility for post-graduate students, removing the current exemptions, and freezing the parental income threshold (previously agreed by Cabinet) will save approximately \$130 million in operating costs over five years, and will have a corresponding debt impact of approximately \$148 million.

We seek an indication from you regarding whether you wish this initiative to be included in your Budget 2012 package.

## Recommended actions

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We recommend that the Minister for Tertiary Education, Skills and Employment:

- a. **note** that this report provides you with further policy advice on removing student allowance eligibility for postgraduate qualifications
- b. **agree** to remove student allowance eligibility for all level 8 and above postgraduate certificates and diplomas, Masters degrees and doctorates from 1 January 2013 and to include this in your Budget 2012 package

AGREE / DISAGREE

- c. **agree** that, due to variation within and between providers, all bachelor degrees with honours retain eligibility for student allowances

AGREE / DISAGREE

- d. **note** that the a Long Programme exemption exists for mainly postgraduate study in excess of the 200 week limit
- e. **agree** to remove the Long Programme exemption, from 1 January 2013

AGREE / DISAGREE

- f. **note** other exemptions are inconsistent with the proposed new focus of allowances on initial years of study and those who most need additional support, but also exist for:
  - (i) any particular case or class of case
  - (ii) courses in the national interest (currently teaching qualifications)
- g. **agree** to remove the exemptions in f (i) to (ii) from the Student Allowance Regulations 1998, effective from 1 January 2013

AGREE / DISAGREE

- h. **agree** that, for any exemption approved prior to 1 January 2013, a student will retain that exemption for the period approved

AGREE / DISAGREE

- i. **note** that we recommend a transition arrangement for allowance recipients with a dependent spouse or children, as these students are less likely to have the flexibility to respond to the changes as quickly as other students and will experience a greater drop in support

- j. **agree** to grandparent allowance recipients who have a partner, spouse or supported child, or are undertaking post-graduate study, and have an allowance approved in 2012, and are continuing to study the same qualification, until 31 December 2013, or until they have received 200 weeks of student allowance, whichever comes first.

AGREE / DISAGREE

**Dr. Andrea Schöllmann**  
Acting Deputy Secretary  
Tertiary, International and System Performance  
Ministry of Education

NOTED / APPROVED

**Hon Steven Joyce**  
Minister for Tertiary Education, Skills and Employment

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## Tertiary Education Report: Student allowances: Removing eligibility for postgraduate students

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### Purpose of report

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1. This report provides you with further policy advice on removing student allowance eligibility for postgraduate students and seeks your agreement to include this initiative in your Budget 2012 Cabinet paper.

### Background

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2. The student support system is designed to reduce financial barriers to participation in tertiary education.
3. 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.
4. 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 heavily discount the future benefits of qualifications.
  - To provide additional support for students with higher financial needs, for example those with dependents.
5. Student allowances aim to address the financial barriers to study for low-income groups. These barriers may be direct or indirect (for example, the opportunity cost of time in study). Allowances assist people to enter tertiary education who have very little upfront cash or family resources, and who heavily discount the future benefits of qualifications.
6. The current lifetime limit for student allowances is 200 weeks, with extensions available for Long Programmes (programmes of study typically culminating in postgraduate study, which exceed 200 weeks), any particular case or class of case, and courses in the national interest (currently teaching qualifications).
7. We have previously recommended [2] removing eligibility for postgraduate study (METIS 652520 and 650609 refer) to target allowances to initial years of study. You requested further information on removing eligibility for postgraduate students.

### Removing student allowance eligibility for postgraduate students

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8. There is a substantial body of evidence that shows that those with higher levels of education are more likely to participate in the labour market, face lower risks of



unemployment, have greater access to further training and receive higher earnings on average.

9. Among young domestic graduates last enrolled in tertiary education in 2003, median annual earnings three years after completing their studies were 16% higher for those with a master's degree compared with those with a bachelor's degree, and 46% percent higher for those with a doctorate —more than twice the national median income<sup>1</sup>.
10. We consider that 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, and studying a first qualification. This also reflects the higher private benefit gained from postgraduate study.
11. Providing allowance support for undergraduate study only would be a first step towards refocusing allowances on those students who most need additional support and updating allowance policy settings to reflect the wide availability of student loans.
12. Our previous advice highlighted evidence that a student's first year in tertiary education is the most important for ensuring their success<sup>2</sup> (MEFIS 652520 refers).
13. The table below details the number of students who would be affected by removing allowance eligibility for postgraduate students from 1 January 2013. Most affected students will be able to access an interest-free student loan to provide living cost support.

Table 1: Number of students affected

	2013	2014	2015	2016
Number of students no longer eligible for an allowance	12,310	10,900	10,170	9,780

14. This change might be seen as contrary to improving New Zealand's knowledge economy and may not be well received by student groups. It may also be viewed as discouraging progression to higher levels of study. However, this change aims to direct allowance support to those students who need it most, and to acknowledge the higher private returns from post graduate study.

#### **Financial implications**

15. The table below outlines the indicative financial implications for this initiative, and includes the decision to freeze the parental income threshold. These initiatives will save approximately \$130 million in operating costs over five years, and will have a corresponding debt impact of approximately \$148 million.

<sup>1</sup> What do students earn after their tertiary education? David Scott, Statistics New Zealand and Ministry of Education (2009).

<sup>2</sup> Jacques van der Meer, Austina Clark and Chikako van Koten *Establishing Baseline Data: using International Data to Learn More About Completion Factors at One New Zealand University*. Journal of Institutional Research, 2008. Jacques van der Meer *I don't even know what her name is: Considering the challenge of interaction during the first year*. Studies in Learning, Evaluation Innovation and Development, 2009.

Table 2: Financial implications

	2011/12	2012/13	2013/14	2014/15	2015/16	Five-year total
Removing eligibility for post-graduate students, and removing Long Programmes	-	(28.278)	(53.654)	(49.266)	(47.292)	(178.490)
Freezing parental income threshold for four years	(0.574)	(2.729)	(4.458)	(6.100)	(7.139)	(21.000)
Offset loan costs	-	12.074	21.351	18.846	16.853	69.124
Total operating impact	(0.574)	(18.933)	(36.761)	(36.520)	(37.578)	(130.366)
Debt impact	-	23.703	43.595	40.943	39.272	147.513

### Definition of postgraduate

16. We have defined postgraduate as all study at levels 8 and above, except bachelors with honours. This includes postgraduate certificates and diplomas, masters and doctorates. None of these qualifications would be eligible for allowance support. Bachelors degrees are level 7, and would therefore be eligible for allowance support, as would graduate diplomas (for example a graduate diploma in teaching, following a bachelors degree).
17. Bachelors degrees with honours vary between providers and fields of study. While some honours degrees require enrolment in an additional year of study, others involve extra assignments during the undergraduate degree, or are awarded on the basis of grades during the undergraduate degree. For some longer degree programmes, everyone who completes receives a degree with honours.
18. To ensure consistency, we propose that all bachelors degrees with honours also be considered to be undergraduate study, and therefore be eligible for allowance support. We seek your agreement to this.

### Exemptions

19. We have previously advised that the Student Allowance Regulations 1998 (the Regulations) provide for a number of exemptions to the usual student allowance eligibility (METIS 652520 refers).
20. An extension is available for Long Programmes (programmes of study typically culminating in postgraduate study, which exceed 200 weeks). Long Programmes of study typically have high economic returns and students must have demonstrated academic ability to progress. In most cases students are choosing to continue with further study.
21. Removing allowance eligibility for postgraduate students would mean that most Long Programmes would no longer be approved because they have a postgraduate element. Approximately 10 of the 76 approved Long Programmes would remain, for example the Bachelor of Veterinary Science/Bachelor of Philosophy and the Bachelor of Landscape Architecture Long Programmes.
22. This raises the question of whether additional student allowance entitlement should continue to exist for Long Programmes. We consider that this extra support does not represent effective use of limited resource and we recommend that the Long Programme exemption be removed.
23. Another exemption is the discretion to extend study beyond the 200 week limit. This discretion can be exercised by StudyLink where there are 'special circumstances' in a particular case.

24. We consider that this change would not be impacted by the 'special circumstances' exemption and therefore propose no change.
25. The Secretary for Education also has discretion to determine that it would be in the national interest for a student to undertake a programme of study to retrain for employment. This discretion allows StudyLink to approve payment beyond the 200 week limit. Currently, only teacher training courses are approved for this purpose.
26. The Secretary for Education also has discretion to approve an extension 'in any particular case or class of case'. This is currently used by the Ministry of Education for programmes of study that are equivalent to a Long Programme, however the discretion is not limited to this type of situation. Approximately six of these exemptions are approved per year.
27. We recommend that, for consistency, the exemptions for any particular case or class of case, and national interest, also be removed.

### **Students with dependents**

28. Removing allowance eligibility for postgraduate students would disproportionately affect students with dependents, as these students receive a higher level of allowance support. These students would be able to borrow living costs from the loan scheme, however at a lower rate than their student allowance. For example, a student with a dependent partner, living in Auckland, would be eligible for a maximum allowance of \$375.66 per week (including accommodation benefit), but would only be allowed to borrow a maximum of \$169.51 per week. The student would also be eligible for an Accommodation Supplement of \$160.
29. To mitigate the impact on allowance recipients with dependants, we recommend implementing a grandparenting exemption for up to one year for these students only.
30. We recommend that, as at announcement date, students who receive a dependants rate of allowance, continue to be eligible for that allowance in 2013 and continue to study the same qualification, be grandparented until 31 December 2013.

### **Next steps**

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31. We seek an indication from you regarding whether you wish this initiative to be included in your Budget 2012 package. You are taking the final Budget paper to Cabinet on Monday 23 April, this paper needs to be lodged on Thursday 19 April.