

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 initial years of study and initial qualifications*

You indicated to officials on 28 February 2012 that you wish to restrict eligibility for student allowances to 2-3 years, to focus on initial qualifications. We have considered three options for reducing the current 200 week lifetime limit: 120 weeks, 100 weeks and 80 weeks.

We recommend a limit of 120 weeks, which would allow most students to complete a three-year degree or similar. Combined with removing allowance eligibility for postgraduate study, this option would produce net savings of \$164 million over four years (allowing for student loan flow-on costs), and affect approximately 12,000 students (12% of all allowance recipients). Three quarters of these are expected to be postgraduate students.

Reducing the lifetime limit means students who fail courses or study longer qualifications, for example teaching, architecture or conjoint degrees, may not be able to complete these in 120 weeks. The loan scheme would be available to provide living cost support for most of these students.

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.

Beyond 120 weeks and 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.

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. Reducing the limit to 120 weeks and 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

#### 200 week limit

- c. **agree** to reduce the 200 week lifetime limit for tertiary study to:

(i) 120 weeks (Ministry of Education recommended option)	AGREE / DISAGREE
(ii) 100 weeks	AGREE / DISAGREE
(iii) 80 weeks	AGREE / DISAGREE

- d. **note** that reducing the lifetime limit means students who fail courses or study longer qualifications, for example teaching, architecture or conjoint degrees, may not be able to complete these in 120 weeks, but that the loan scheme would be available to provide living cost support for most of these students

#### 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 exceed the 120 week limit or 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 advice on:

- (i) New Zealand Bill of Rights implications
- (ii) timing for implementing a reduction to the 200 week limit, to avoid gaming following announcement
- (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:
  - Reducing the 200 week allowance entitlement to 2-3 years to focus allowances on initial years of study.
  - 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. Reducing the lifetime limit may be perceived as being contrary to the Tertiary Education Strategy priority of targeting more support to young people. 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	36	67	107	113	141	331
Sub-degree level study	17	33	44	53	79	334

13. The table above indicates that a relatively small proportion of current allowance recipients would be affected by a reduction in the 200 week limit, depending on the extent of the reduction. We have considered three options which would provide 2-3 years of degree level study: 120 weeks, 100 weeks and 80 weeks.

<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. Table 2 below indicates estimated savings and impact of these options, in combination with removing allowance eligibility for postgraduate study. 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.

*Table 2: Estimated impact of options for reducing the 200 week limit, with no eligibility for postgraduate study*

<b>Proposed lifetime limit (weeks)</b>	<b>Number of allowance recipients affected in first year (of approximately 100,000 total recipients), with no eligibility for postgraduate study</b>	<b>Net 4 year savings, with no eligibility for postgraduate study (\$m) excluding flow-on to accommodation supplement</b>
120	12,060	163.6
100	15,160	218.3
80	18,060	267.1

15. We recommend you reduce the 200 week lifetime limit to 120 weeks. This option, alongside removing the entitlement for post-graduate students, would generate \$163.6 million in savings over four years, excluding any flow-on to the Accommodation Supplement. Approximately 12,000 students would be affected in the first year. The greatest impact is from removing postgraduate eligibility: this alone would affect approximately 9300 students in the first year, and generate savings of \$99.4 million over four years (excluding Accommodation Supplement flow-ons).

16. We consider this the best option as it generates considerable savings, while having the least impact on the vast majority of allowance recipients. The 90th percentile for all allowance recipients is 117 weeks. The 80th percentile for degree level study is 113 weeks.

17. A limit of 120 weeks would allow most students to complete a three-year degree or similar. Those who fail courses or study longer qualifications, for example teaching, architecture or conjoint degrees, would not be able to complete these in 120 weeks. The loan scheme would be available to provide living cost support for most of these students. Bonding schemes also exist for some teachers and health professionals that provide extra support to students studying in these areas.

18. Lowering the lifetime limit means that students studying longer qualifications would have their allowance support cut off part way through their study. However, the widespread availability of interest-free loans means students will continue to have a form of living support to complete their qualifications.

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. Lowering the limit may also provide a disincentive for students to move into higher-level study if they have used up their allowance eligibility in lower-level study. However, fewer than 10% of students studying at levels 1 to 3 get an allowance, as most are studying part-time and are therefore ineligible.
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. We estimate that if the lifetime allowance limit is changed to 120 weeks, then based on current usage, approximately 5-10 percent of students will reach the limit. If these people continue studying beyond this point, they will become eligible for the accommodation supplement, in addition to student loan living costs. 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 had exceeded 120 weeks study, or 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

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<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.

addition to student loan living costs of \$169.51, totalling between \$214.51 and \$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 beyond the 120 week limit and 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 as a result of reducing the lifetime student allowance limit to 120 weeks with no postgraduate eligibility.<sup>5</sup> This compares to projected net annual savings of \$46 million per year. If students decided not to continue study past 120 weeks and became eligible for an income tested benefit, there would also be additional benefit costs.
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.

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<sup>5</sup> This assumes i) all students who would no longer receive an allowance past 120 weeks would continue to study, ii) 100% uptake of accommodation supplement at an average rate of \$60 per week.

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. Reducing the 200 week limit to 120 weeks would affect fewer than 10% of students with dependants. 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. This approach would discriminate based on family status. We will provide further advice on the Bill of Rights implications. [8]

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>6</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]

48. [2]

## Amending the parental income threshold

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49. 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

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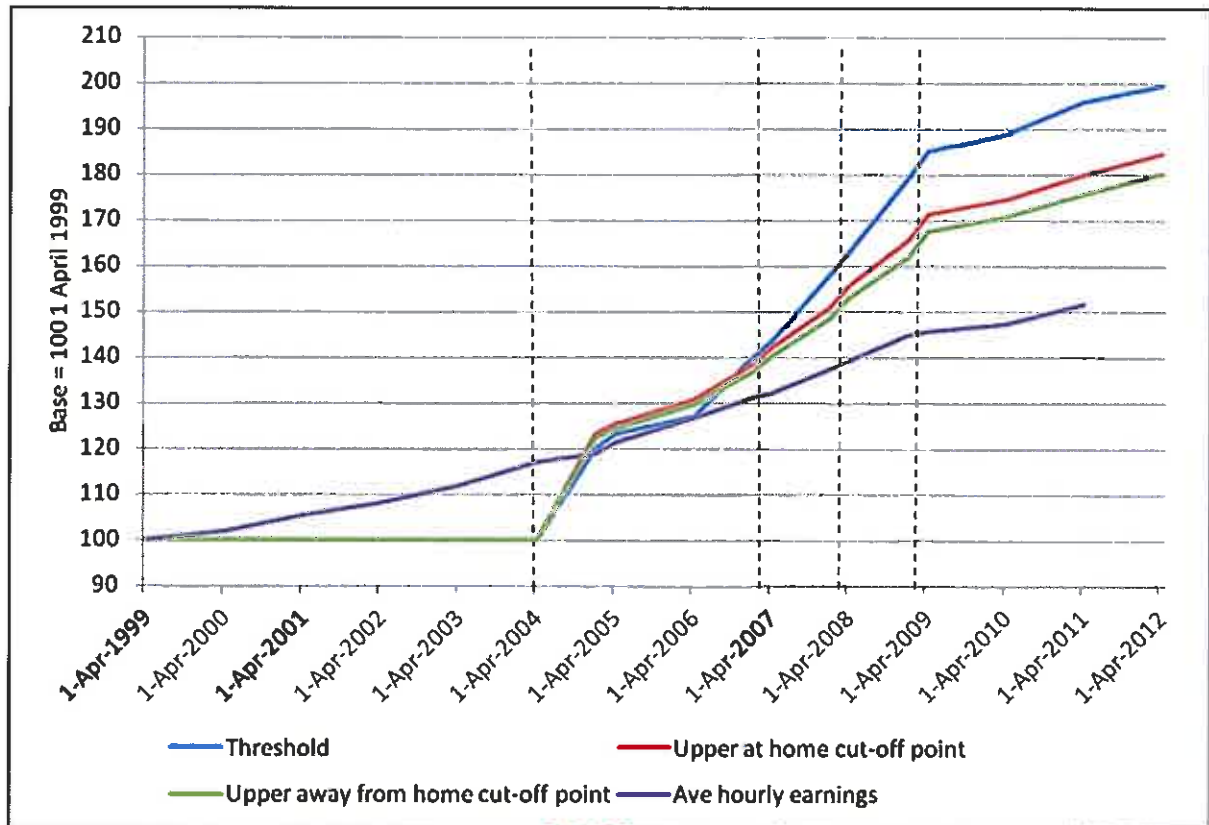
<sup>6</sup> Equivalent long programmes are similar to long programmes, but not formally recognised.

income level at which 18-24 year olds are eligible for a student allowance would return 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.

50. 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).
51. 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.
52. 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.
53. 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>7</sup>



Source: Quarterly Employment Survey and Ministry of Education

54. 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.

55. 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>7</sup> The dollar value used for the 1 April 1999 measure is \$17.28 and for 1 April 2011 is \$26.21.

56. 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>8</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.

57. 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 47 below).<sup>9</sup>

Table 2: Projected impact of options to reduce parental income threshold or abatement rates<sup>10</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	<b>Threshold:</b> \$41,340 <b>Upper at home:</b> \$69,761 <b>Upper away from home:</b> \$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%	<b>Threshold:</b> \$55,028 <b>Upper at home:</b> \$75,329 <b>Upper away from home:</b> \$80,404	\$22.1	\$6.8	2290  4.1%	13,284  24.0%

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

58. 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>8</sup> This corresponds to an increase in the net abatement rate from 25.0% to 35.0%.

<sup>9</sup> Savings are calculated from 1 April 2013. Savings for study starting after 1 January 2013 would be slightly higher.

<sup>10</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>11</sup>

59. 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>12</sup> These students would not be eligible for the Accommodation Supplement.
60. 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.
61. Median annual household income for the June 2011 quarter for a couple with two dependent children was \$83,408 (including all sources of income). For a single parent with one or more dependent children, median annual household income was \$30,888.
62. 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>14</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>11</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>12</sup> Flow-on savings from Accommodation Benefit and unemployment Benefit Student hardship are included.

<sup>13</sup> New Zealand Income Survey: June 2011 quarter.

<sup>14</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

63. 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

64. 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.

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

66. Under the proposed threshold, we estimate that the bottom 15-20% by income of two-parent families with dependent 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

67. 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>15</sup> and 30% for Domestic Purposes Beneficiaries.<sup>16</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>15</sup> From 1 April 2012

<sup>16</sup> On income between \$100 and \$200 gross a week

68. 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.
69. 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*

70. 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>17</sup>

#### Impact on beneficiaries and the welfare system

71. 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.
72. 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.
73. Beneficiaries often study at lower levels. Lower level courses are generally shorter duration, and these will therefore be included in the 120 week lifetime limit.
74. 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.
75. [2]
76. 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>17</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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77. StudyLink has estimated implementation costs for reducing the 200 week limit, removing postgraduate eligibility, and amending the parental income threshold. One-off costs are estimated at approximately \$0.7 million, with ongoing costs between \$0.200 and \$0.400 in the first year and \$0.100 and \$0.200 million per year after that.
78. 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.
79. 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.
80. We recommend that you forward this paper to your colleagues the Minister for Social Development and the Minister of Revenue for their information.

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