

Higher Education Finance and Cost-Sharing in New Zealand

I. A Brief Description of New Zealand Higher Education System

All post compulsory formal education institutions in New Zealand are called “Tertiary Education Providers”. According to the Ministry of Education, there were 35 public tertiary institutions including eight universities, 20 polytechnics (providing academic, professional and vocational courses), 4 colleges of education (providing teacher education), and 3 Wananga teaching and research institutions (Māori centers of learning). Private tertiary education providers are composed of those private institutions that receive a tuition subsidy, qualify for loans and allowances, are registered with the New Zealand Qualifications Authority or receive other Ministry of Education grants. There are no private universities.

The Education Act of 1989 provides the legal framework for the tertiary education system. The act defines the respective roles and responsibilities of tertiary education agencies (Ministry of Education, the Tertiary Education Commission, and the New Zealand Qualifications Authority), provides authority for the sector’s strategic direction, and describes the make up and functions of the different tertiary institutions (New Zealand Ministry of Education, 2006). The tertiary education system is presently implementing a series of reforms starting in 2002 with the enactment of the Tertiary Education (Reform) bill and the drafting of the first tertiary education strategy (TES). The main objectives of the reforms are to create a more coherent tertiary education sector, ensure that the system is better aligned to the country’s economic and social development goals, and to identify and meet the needs of the communities that it serves by increasing the influence and role of key stakeholders (New Zealand Ministry of Education, 2006).

There were 443,801 formally enrolled tertiary students as of 2006 according to the Ministry of Education. Of these, 146,931 attend universities (Ministry stats, 2006).

Admission to the tertiary education system is open, and students who have met the minimum entry requirements for enrolling in a particular course are entitled to enter that course. The New Zealand Qualifications Authority in consultation with the universities sets minimum academic standards for entrance in universities. Universities may limit the number of places and set their own admission requirements for some courses (New Zealand Ministry of Education, 2006).

Estimates in 2004 found that government funding to universities fell by almost 35 percent between 1980 and 2002 -- from 73 percent of total university operating revenue to 42 percent (NZUSA, 2006). In 2004/05, government operating expenditure (total expenditure minus money drawn down under the student loan scheme) on tertiary education was NZ\$2,721 million or 1.8 percent of GDP¹ (New Zealand Ministry of Education, 2006). The government is at present (August 2006) designing a new funding system that would move beyond a simple per student allocation for the Student Component of government funding.

Tuition Fees

Prior to 1990, New Zealand tertiary students paid nominal tuition fees most of which were covered by government fees grants. A flat NZ\$1,250 standard tertiary fee was introduced in 1990, and in 1991, the government gave institutions the power to set their own fees. In the 1990s, fees rose by an average of 13 percent per year. In 1999, a fee stabilization policy was introduced, and in 2001, 2002 and 2003, additional government funding was given to those tertiary education institutions that froze tuition fees at the previous year’s level. In December 2002, the fee maxima policy was introduced and took effect from 2004. Under this policy, the government sets seven fee maxima levels and annual fee movement limits. In 2008, fee maxima ranged from a low of

¹ Total government expenditure on tertiary education was 2.5 percent of GDP.

NZ\$3,826 (US\$2,484 at 2005 PPP) for Arts and Social Sciences courses to NZ\$9,812 (US\$6,370 at 2005 PPP) for Dentistry and Medicine (Tertiary Education Commission, 2008). The 2008 annual fee movement limit does not allow fees to increase by more than 5 percent per year (no fees can exceed the fee maxima level). The 2004 private share of direct tuition costs was estimated to be about 30 percent.

The Student Loan Scheme

The Student Loan Scheme, introduced in 1992, provides loans for tuition fees and other course-related expenses for students attending tertiary education institutions. The Ministry of Education is responsible for the scheme's strategic policies, while Study Link (Ministry of Social Development) is responsible for its administration and the distribution of the loans to students and the Inland Revenue is responsible for maintaining the loan accounts, assessing the loan amounts, and collecting the loan repayments.

The loan is composed of the following four components:

1. *Compulsory fees or tuition fees*: students studying at a public tertiary institution such as a university, polytechnic, or College of Education can borrow up to the full amount of their fees. The fees are paid directly to the education provider.
2. *Course-related costs*: each student can borrow up to NZ\$1000 (US\$649 2005 PPP) per year to cover costs related to their studies such as equipment, textbooks, and field trips.
3. *Living costs*: in 2009, a student will be able to borrow up to NZ\$155 (US\$100 2005 ppp) a week for living costs while studying or on study breaks of 3 weeks or less, less any net entitlement to student allowances.
4. *Administration fee*: a student is charged NZ\$50 (US\$32 2005 PPP) for each new loan account established, and this charge is added to their loan balance.

The Scheme is a government-funded, income-contingent loan program. Borrowers must make repayments through the tax system to the Inland Revenue Department once their income is above the repayment threshold even if they are still studying. The annual repayment obligation is 10 percent of their income above this threshold. Presently (2008), the repayment threshold is NZ\$18,148 (US\$11,784 2005 PPP) a year before taxes, which is reviewed on April 1 each year. Students can make extra payments at any time to pay off the loan faster and to pay less in interest.

Until 2006, interest on the outstanding balance was accumulated daily and compounded annually at an interest rate of 6.9 percent. Between 2000 and 2005 effectively half of all interest charged was written off by the government for low-income students.

In an effort to stem brain drain, the government passed legislation in December of 2005 that, effective April 2006, abolished interest payments for students who have been in the country for six months of the previous fiscal year. Interest will continue to be charged at an interest rate of 7.12 percent (as of June 2007) to each student's loan, but will be written off automatically for eligible students at the end of each tax year. The government also offered amnesty of interest payments to New Zealand graduates living abroad with outstanding student loans (estimated at 62,000 people) who move home (The Chronicle of Higher Education, 2006 and Inland Revenue, 2006). Under the previous system, the economic value of the Student Loan Scheme was 81.6 percent of face value, while under the new policy, the level of effective subsidy will rise (New Zealand Ministry of Education, 2006). Interest will be charged to those students who are living overseas.

The interest free student loan policy in New Zealand can be conceived of as an on-the-job type of workforce-contingent financial aid program such that is found in the United States and several other countries such as Ethiopia and Lesotho (Kirshstein et. Al. 2004). In this type of program, a

portion of a loan is forgiven if the borrower works in a specified occupation, field or geographical area for some period of time after graduation.

Preliminary findings suggest that the interest free student loan policy in New Zealand is decreasing the number of people who get into negative repayment situations and reducing the median time until full repayment. Interestingly it also appears to have precipitated a fall off in voluntary additional repayments (Ministry of Education 2008).

In 2006, 167,400 students were borrowing, over 712,000 people had availed of the student loan scheme since it was introduced and 216,254 people had repaid their loans in full (Ministry of Education 2007). In 2007, the average student loan debt on leaving study was \$NZ16,833 (US\$10,930 2005 PPP). Median repayment time for those who finished their education in 2003 is 6 years (New Zealand Ministry of Education, 2006).

Student allowance

The Student Allowance Scheme, introduced in 1989, provides living costs for full-time students from low-income families who meet certain income and age criteria. Since 1992, parental incomes are means-tested for single students under 25 years of age. Policy changes introduced in January 2005 increased parental income thresholds for the first time since 1992. Dependent students living away from home are eligible to receive a weekly allowance ranging from a minimum of NZ\$12.80 to a maximum of NZ\$153 depending on their parent's income. Parental income thresholds are adjusted for inflation on a yearly basis. Students may earn up to NZ\$185 per week before it affects their allowance rates. Students who live away from their parents may also receive an accommodation benefit ranging from NZ\$34.50 to NZ\$40.00 per week depending on where they live. In 2006, 58,194 student received allowances (Statistics New Zealand 2007).

II. Estimated Expenses of Higher Education in New Zealand

Higher Education Expenses Borne by Parents and Student

First Degree, Academic Year 2008-09 (9 months)

[National currency New Zealand Dollars converted to \$US by 2005 World Bank PPP estimate
US\$1=NZD1.54]

		Low	Medium	High
Instructional Expenses	Special "One-Time" or "Up Front" Fees	0	0	0
	Tuition Fees Ω	NZ\$2,696 (US\$1,750)	NZ\$3,426 (US\$2,224)	NZ\$6,915 (US\$4,490)
	Other Fees	NZ\$400 (US\$260)	NZ\$400 (US\$260)	NZ\$400 (US\$260)
	Books and Other Educational Expenses	NZ\$1000 (US\$649)	NZ\$1000 (US\$649)	NZ\$1000 (US\$649)
	Subtotal of Expenses of Instruction	NZ\$4,096 (US\$2,659)	NZ\$4,826 (US\$3,133)	NZ\$8,315 (US\$5,400)
Student Living Expenses	Lodging	0	NZ\$11,784* (US\$7,652)	NZ\$9,995 (US\$6,490)
	Food	NZ\$1,900 (US\$1,233)		NZ\$3,800 (US\$2,467)
	Transportation	NZ\$1,200 (US\$780)	NZ\$1,200 (US\$780)	NZ\$1,200 (US\$780)
	Other Personal Expenses	NZ\$1,700 (US\$1,103)	NZ\$1,700 (US\$1,103)	NZ\$3,225 (US\$2,094)

	Subtotal Expenses of Student Living	NZ\$4,800 (US\$3,116)	NZ\$14,684 (US\$9,535)	NZ\$18,220 (US\$11,830)
	Total Cost to Parent & Student	NZ\$8,896 (US\$5,776)	NZ\$19,510 (US\$12,668)	NZ\$26,535 (US\$17,230)

Ω Present value of repayments using 2008 deferred tuition fee maxima of: NZ\$3,826 for Arts and Social Science courses, NZ\$4,861 for architecture and health sciences, and NZ\$9,812 for dentistry and medicine and zero interest rate.

*Accommodation for full academic year

**Accommodation in student flat for full academic year.

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New Zealand Union of Students' Association: <http://www.students.org.nz>

Tertiary Education Commission: <http://www.tec.govt.nz>

Statistics New Zealand: <http://www.stats.govt.nz/datasets/education-training/student-loan-borrowers.htm>

Study Link: <http://www.studylink.govt.nz>

Tertiary Education Commission website:

http://www.tec.govt.nz/downloads/a2z_publications/fee-course-costs-max-factsheet.pdf

TNS Income and Expenditure Survey 2004 in New Zealand Union of Students' Association website: <http://www.students.org.nz> ;

University of Otago website: <http://www.otago.nz/about/accomodation/budget.html>;