

Submission on

Making it easier for borrowers to repay their student loans – a government discussion document

1. Introduction

This submission is made on behalf of the New Zealand Union of Students' Associations (NZUSA). NZUSA is a federation of students' associations with members from Universities, Institutes of Technology and Polytechnics across the country. NZUSA has been representing the collective interests and concerns of tertiary students since 1929, and this year we proudly celebrate our 80th anniversary as the peak body for learners and as leaders of the student movement in New Zealand. We welcome the opportunity to submit on *Making it easier for borrowers to repay their student loans – a government discussion document*.

Our current members are:

- Albany Students' Association (ASA)
- Association of Students @ UCOL (AS@U)
- Auckland University Students' Association (AUSA)
- Lincoln University Students' Association (LUSA)
- Massey University Students' Association (MUSA)
- Massey University Extramural Students' Society (EXMSS)
- Massey At Wellington Students' Association (MAWSA)
- Otago Polytechnic Students' Association (OPSA)
- Otago University Students' Association (OUSA)
- Students Association at Waikato Institute of Technology (SAWIT)
- Victoria University of Wellington Students' Association (VUWSA)
- Whitireia Independent Students' Association (WISA)
- Weltec Students' Association (WSA)
- Waiariki Institute of Technology Students' Association (WITSA)
- Waikato Students' Union (WSU)

2. Discussion Document – Chapter 2 *Background*

NZUSA welcomes the Government's commitment and moves to improve the administration and impact on borrowers of the currently onerous and complicated Student Loan Scheme (SLS). Improved services, reduced compliance costs and a high degree of self-management would generally be welcome improvements to the system.

NZUSA is also broadly supportive of moves to reduce penalties to self-employed and overseas based borrowers.

However we are concerned about the wider implications of the proposed move away from a simple annual repayment threshold to a weekly/fortnightly/monthly pay-based system and are opposed to any increased obligations borrowers may face under this proposal.

Finally we wish to question the very short consultation period, and the timing of the consultation period – many students and borrowers (those directly affected by the proposed changes outlined in the discussion document) have had exams and mid-year study break during the consultation period and therefore may be unaware of, nor had time to participate, in the consultation process. Additionally, the title of, and message associated with, the discussion document has implied this process is simply about streamlining the system and has marketed it in a way that may result in many students feeling it doesn't apply to them, given many may feel their own repayments are some way off in the future, following graduation. This is a logical assumption, given the current repayment threshold of \$19,084, which most students earn under and therefore are unaffected by. We are concerned that as such valuable views and feedback may be missed.

Feedback on specific proposed changes is detailed below:

3. Discussion Document – Chapter 3 *Borrowers who are employees*

Current rules

While NZUSA is opposed to a system of user-pays education and the consequent SLS, we do acknowledge that the existence of such a system requires appropriate and necessary administration in order to meet the needs of both Government and borrowers. We therefore particularly welcome changes that will enhance the system for borrowers and are pleased to participate in the consultation process.

NZUSA supports the current annual assessment of earnings to determine loan repayment obligations, however we do believe that the repayment threshold of \$19,084 is very low, and that the repayment rate of a flat ten percent is regressive and too high. New Zealand's SLS is out of step with other OECD countries in this regard, and the punitive repayment rate and threshold have not been addressed since the scheme was introduced in 1992. While not necessarily within the scope of this particular discussion document, we do encourage urgent consideration of addressing these issues by Government, particularly given the negative social and economic effects of student debt, and the impact of current repayment obligations on borrowers in a time of high cost of living and global economic recession.

Proposed changes

For many borrowers, such as those in fulltime and/or regular or permanent employment, the move to a weekly/fortnightly/monthly pay-based repayment system will not represent much change. However those most affected by the proposed changes are those in irregular and/or part time employment, and for many the impact will be negative. These are people least able to afford extra repayments, and notably these are payments they aren't required to make under current obligations.

NZUSA is very concerned about the wider implications of the move away from an annual repayment threshold to a weekly/fortnightly/monthly system as borrowers who previously were under the annual income threshold didn't have to make payments, but now will. We question whether this move is even necessary as part of creating an open and efficient SLS administration system? – couldn't a new online system be introduced without changing the repayment obligations? And therefore the year-end square-up be retained? While we appreciate that the current system is cumbersome and inefficient from IRD's point of view, improvements should not come at the disadvantage or cost of borrowers. Most of the confusion with the current scheme comes from not having good and timely access to accurate borrower information – not simply from the fact there is an annual square-up. Alternatively, if IRD does want to encourage a pay-based system over an annual system couldn't borrowers be given the option to choose which they would prefer?

Students should not be expected to repay their loans while still studying. If the proposed income threshold is averaged out to \$367 per week, this will have a negative impact on many students who work longer hours, particularly over summer and during other non-teaching periods in order to generate enough money to support themselves during the academic year. Students are very flexible workers and adjust their paid work to suit their academic workloads. Many work longer hours during study breaks and holidays in order to support their living costs during term time when their capacity to work is diminished, and many of them would be earning more than \$367 a week at these times. The proposed changes could penalise students for undertaking such additional employment. NZUSA therefore believes the threshold change would be harsh and punitive, especially considering it is these periods of increased work that supplement term time income and enable many to keep their overall student loan borrowing down.

In regards to second jobs and the threshold – the system should err on the conservative side and automatically benefit the borrower with the least compulsory obligation being applied. Borrowers should not automatically be hit with a higher cost, and instead should benefit from the lower obligation being applied by IRD with their 'unused' repayment threshold being used first before secondary income in excess of the threshold is used.

NZUSA questions the implications for the proposed ten percent voluntary repayment bonus scheme in moving to a pay-based scheme, rather than an annual assessment. Borrowers who may have been expecting to utilise the voluntary repayment incentive scheme may potentially find themselves ineligible as their repayment obligations may have shifted. We would not want to see this already narrow policy, now benefit even less borrowers.

4. Discussion Document – Chapter 4 *Self-employed borrowers or those with other income*

Proposed changes

NZUSA supports a move to lower interest-based penalties, away from the higher more punitive charges currently charged for overdue payments for borrowers who are self-employed or those with other income. This would create continuity and parity with those penalties faced by overseas borrowers. However we do not support a change to initiate

penalties following the first overdue payment. We recommend retaining the current system of initiating penalty charges following the third and last instalment, if missed.

Recouping underpayment by increasing the following year's instalments may not suit all borrowers and could create undue hardship or inconvenience. Allowing flexibility for the borrower as to how they wish to address any underpayment would be preferable (eg either increasing future payments to make up the balance, or including it as a lump sum payment).

5. Discussion Document – Chapter 5 *Borrowers who are based overseas*

Proposed changes

NZUSA supports the proposed move to a slightly higher (than the current interest rate already incurred) interest-bearing penalty system for late student loan repayments, in place of the current system which sees heavy monthly penalties applied.

Reducing loan burden and cost to overseas based borrowers will be beneficial for the individual and New Zealand. Overseas based borrowers are disproportionately those with higher student debt, and it is widely known and accepted that the presence of student debt is a factor in many graduates choosing to stay away longer, or not return home at all. Reducing the cost and penalties to such borrowers could have a positive impact on skilled New Zealanders choosing to return home, whereby assisting with the nation's skills shortages and contributing to society and the economy generally.

6. Discussion Document – Chapter 6 *New online services*

Current process

The current communications and interactions between borrowers and IRD are complicated, inefficient and not user-friendly. It is an inflexible, time-consuming and out-dated system which is long overdue for an overhaul.

The current poor lines of communication and delayed data matching between Studylink and the Inland Revenue Department (IRD) are complicated and unhelpful and must be remedied. Vast improvements in access to knowledge regarding a borrower's outstanding loan balance and the ability to manage one's loan quickly and easily online is therefore a long overdue and very welcome move.

Online services for the future

NZUSA strongly supports the expansion of online services and increased electronic and personal management of outstanding student loan balances. This will be of great benefit to borrowers generally, and particularly useful for overseas based borrowers.

Online and electronic services should include, but not be limited to:

- Accurate, up-to-date loan balances and transaction histories
- Management of student loan account, including amending repayments (compulsory and voluntary)
- Ability to calculate repayment times (given current, and hypothetical, repayments)

- Ability to alter tax codes
- Requesting overpayment refunds
- Contacting IRD

We support continued provision of paper-based and phone-based communications and interactions between IRD and borrowers where appropriate and necessary, in order for IRD to be as accessible and inclusive as possible to all borrowers.

While there may be opportunities for other forms of technology to be introduced to the SLS administration toolkit, such as text messages, this should only be a supplementary or complementary feature, and not be in place of fuller email or paper-based communications.

NZUSA strongly supports the increased frequency of transfers of loan balances from Studylink to IRD (as opposed to the current annual transfer), and the subsequent reduction in the need to contact two separate government agencies for information on a borrower's student loan.

Conclusion

NZUSA is pleased to submit on *Making it easier for borrowers to repay their student loans – a government discussion document*. While some of the proposed changes will be better for some borrowers, and the online communications will be a significant improvement overall, those most affected by changes may be significantly worse off. NZUSA does not believe that any borrowers should be negatively affected by a streamlining of the administration of the SLS.

Some of the proposed changes, and the negative implications on some borrowers, has again highlighted an issue NZUSA has been very concerned with, and advocating on, for some time – New Zealand's very low repayment threshold and high flat ten percent repayment rate. NZUSA recommends that the SLS repayment threshold and rate therefore also be addressed, and we look forward to contributing to such a process in the future.

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