NEW ZEALAND UNION OF STUDENTS' ASSOCIATIONS (INC.)
TE RŌPŪ ĀKONGA O NGĀ WHARE WĀNANGA O AOTEAROA
NZUSA
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Submission on the

Student Loan Scheme Bill

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, as the peak body for learners and leaders of the student movement in New Zealand. We welcome the opportunity to submit on the *Student Loan Scheme Bill*, and wish to appear before the Select Committee.

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)
- Weltec Students' Association (WSA)
- Waiariki Institute of Technology Students' Association (WITSA)
- Waikato Students' Union (WSU)

2. General position

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 be welcome improvements to the current system.

NZUSA is however concerned at the proposed move away from a simple annual repayment threshold to a weekly/fortnightly/monthly pay-period system, and is opposed to any increased obligations borrowers may therefore face under this Bill.

3. Electronic administration of the Student Loan Scheme

Online services

The current communications and interactions between student loan borrowers and Inland Revenue Department (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 IRD are complicated and unhelpful. 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 a very welcome move.

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

There are many changes that would benefit borrowers, and it is hoped that the changes proposed in the Bill will enable the following:

- Accurate, real-time loan balances and transaction histories
- Management of loan account, including amending repayments (compulsory and voluntary) and borrower details
- Ability to calculate repayment times (given current, and hypothetical, repayments)
- Ability to alter tax codes
- Requesting overpayment refunds
- Contacting IRD

While welcoming the shift to electronic services, NZUSA does however 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.

Credit contracts

While NZUSA is supportive of the shift to electronic management of loans, we are conscious of the concerns of The Commerce Commission expressed in the IRD's regulatory impact statement suggesting that having a different set of criteria for student loans from other domestic and personal loans significantly increases the chance of confusion amongst consumers regarding their rights and obligations. This appears an fortunate, but perhaps unavoidable and necessary consequence of a system shift, and we look forward to the debate at Select Committee regarding this aspect of the Bill.

Refunds

Linked to credit contracts is the issue of overpayments and whether they are required to be refunded. NZUSA has concerns at the automatic crediting of refunds to outstanding loan accounts, rather than the borrower retaining the choice the current system provides.

Contractual changes

The IRD regulatory impact statement on the Bill notes that changes proposed to existing contracts are not within the scope of variations permitted under the existing student loan contracts. Essentially, a trade-off is required between on the one hand, increasing the integrity of the student loan scheme, improving services to borrowers, improving administration, and maintaining open access to the scheme and on the other hand potentially confusing some borrowers and disadvantaging some borrowers. NZUSA suggests that such processes and outcomes should be treated with caution, and the balance explored carefully.

Administration fees

NZUSA questions the need for the increase to a $60 fee for students drawing down a new loan and the new charge of $40 for borrowers being introduced. While it is acknowledged that there are costs incurred with the administration of the SLS, many of the other changes proposed within this Bill are designed to improve the administration of the scheme and create subsequent cost savings for Government. It is therefore difficult to understand how increases in the administration costs of the scheme can be justified.

Indeed, the IRD regulatory impact statement on the Bill notes that the changes proposed are being implemented at the same time as the student loan computer redesign, therefore there are no additional administrative costs at this time. In light of this, students and borrowers will be very cynical of this new ‘tax’ and will be expecting evidence of the need for it, or the fees subsequently dropped.

Additionally, the Ministry of Education regulatory impact statement notes that the new administration will effectively slightly extend the time needed to repay a loan. This is counterproductive to the stated aims of the Bill, which include improving the rate and timeliness of repayments.

Interest

The current system which sees Studylink applying interest to borrowers’ accounts, and the IRD removing it for New Zealand-based borrowers upon receipt from Studylink, is a cumbersome and inefficient process, and has proven confusing for borrowers for some time. It is therefore pleasing that the future charging of interest will only be applied by IRD following checks against eligibility for the interest-free policy.

4. Repayment obligations

While the administrative improvements pending with the online portal can and will benefit borrowers and IRD alike, the most significant change proposed in the Bill will disadvantage many borrowers, and may actually create a level of uncertainty and complexity, rather than reduce this.

Impact of pay-period repayments

NZUSA supports the current annual assessment of earnings to determine student loan repayment obligations, and is opposed to the proposed shift to pay-period repayments in the Bill. NZUSA is very concerned at the potential negative implications of moving away from an annual student loan

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repayment threshold and believes there is potential for more borrowers than previously thought to be negatively affected by these proposed changes.

Any taxable income received is taken into account by the IRD in order to determine a borrower's total income earned in a year, and subsequently an individual's student loan repayment obligations. It is not simply personal income earned through paid employment that is taken into account, but rather all taxable income.

Therefore those students who receive student allowances, the Training Incentive Allowance, other benefits, and even superannuation, would have to add this income support to any income earned from paid work they may undertake in order to calculate their total income, and consequently determine whether they are earning over the student loan repayment threshold. While many may continue to remain under the current annual threshold of $19,084, there may be many who could find themselves over the proposed new weekly threshold of $367.

NZUSA therefore urges careful consideration of this negative, potentially unintended consequence of the desire to improve the administration, efficiency and ease of use of the Student Loan Scheme, and recommends that annual assessment of income be retained.

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 significant and negative. These are the people least able to afford extra repayments, and notably these are payments they aren't required to make under current obligations. The Explanatory Note to the Bill states that for the vast majority of borrowers there won't be much of a change, however the impact on those who will be affected will be significant. If there is to be such little change, but the greatest changes represent the most disadvantages, NZUSA questions the legitimacy and appropriateness of such changes.

NZUSA questions whether this move is even necessary as part of creating an open and efficient SLS administration system, and suggest that improvements should not come at the disadvantage or cost to borrowers. Most of the confusion with the current scheme comes from not having adequate and timely access to accurate borrower information – not simply from the fact there is an annual square-up. If IRD does want to encourage a pay-based system over an annual system, NZUSA recommends an option to choose pay-period repayments. This will suit many borrowers, and would avoid negatively affecting those who can least afford the increased repayment obligation.

Those most negatively affected by the proposed changes will be students. While NZUSA does note that fulltime students will be eligible to apply for exemption from the new pay-period system, this is not an automatic entitlement and will require students to apply before they can retain the annual arrangements. This will set up two tiers of repayment obligations between fulltime students – those who know about the option and exercise it, and those who do not. It also unfairly separates fulltime and part-time students, who may also be carrying quite high course-loads while not being officially considered as fulltime. This is inherently unfair and may add to the administrative burden for IRD – something we note this Bill was designed to mitigate. NZUSA participated in wide public consultation on this issue in 2009, and was pleased to note there was not public support for a pay-period system, particularly for students. It is therefore very disappointing that it remains part of this Bill.

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If the proposed income threshold of $19,084 per year is averaged out to $367 per week (or other relative pay-period) 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 income to support them 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. It would be very unfortunate if this Bill were to proceed in its current form, which proposes to take money from students before they have finished their studies, and ironically forcing them to have to borrow more. We also do not believe that enabling an option to apply for exemption, or an advertising campaign, is enough to mitigate the unfairness of this proposed new repayment obligation. Some borrowers may be disadvantaged by a lack of awareness of the exemption option, by a lack of knowledge as to how to request their employer facilitate this for them, or by an employer who refuses to comply with such requests. Fairness should not be at the whim of the success of advertising campaigns or the kindness of employers.

While acknowledging the Government may want to address the significant outstanding loan debt held in the community, the changes within the Bill will hit those most vulnerable hardest. As explained above, those who work part-time or for part of the year and are under the current annual repayment threshold, but are above the new pay-period threshold, will be required to make repayments. While it is acknowledged that these borrowers may see their debt reduce slightly quicker than under the current system, these are generally low income earners who can not afford to make these increased payments. They will be worse off in the short term, and the medium to long term benefits do not out weigh the difficulties they will face in paying basic living costs and supporting themselves in their studies in the interim. The IRD regulatory impact statement notes that this could in fact increase demand for extra financial support through the Ministry of Social Development as a result. This seems a counterproductive and unnecessary situation for the Bill to create.

Consistency

A shift to a pay-period system is inconsistent with other tax obligations – PAYE payments are determined on an annual basis with a year-end square-up of income, as is child support and Working for Families. Student loan borrowers should not be treated differently, particularly if the IRD is supposedly aiming to improve systems and remove complexity for all parties.

Secondary income

There are also issues that arise with the Bill regarding second jobs and the repayment 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.

Repayment bonus implications

NZUSA wishes to query the implications for the ten percent voluntary repayment bonus scheme in moving to a pay-based repayment obligation, rather than an annual assessment. Borrowers who may have been expecting to utilise the voluntary repayment incentive scheme may potentially find themselves ineligible in future as their repayment obligations may have shifted. It would be disappointing if this already narrow bonus policy, now benefits even less borrowers. The IRD regulatory impact statement notes that the impact on voluntary repayments is an unknown area, and one of concern, and yet the Bill is recommended despite advice on this area not expected until early 2011. The bonus was implemented in an effort to encourage voluntary repayments and assist New Zealanders to clear their outstanding debt more quickly. It would be disappointing if this Bill were to undermine this policy and effectively discourage voluntary repayments.

5. Interest and penalties

NZUSA generally supports the changing and aligning of penalty payments for the SLS.

Debt collection

NZUSA supports a fair approach to student loans, and one that does not see more spent on debt collection than is collected. We recommend keeping the SLS in line with other systems, for example child support.

6. Concluding comments

NZUSA is pleased to submit on the *Student Loan Scheme Bill.* 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 under the proposed new system. NZUSA does not believe that any borrowers should be negatively affected by a streamlining of the administration of the SLS and therefore recommends the clauses relating to a shift to pay-period repayments be removed, or amended to an optional system, and the annual obligation be retained.

Some of the Bill’s proposed changes, and the negative implications for some borrowers, have again highlighted an issue NZUSA has been very concerned with, and advocating on, for some time – New Zealand’s low repayment threshold and high flat ten percent repayment rate. While NZUSA acknowledges that this is outside the scope of the current Bill, we do recommend that the SLS repayment threshold and repayment rate also be addressed, and we look forward to contributing to such a process in the future.

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