Submission

By

BusinessNZ

To the

Education and Science Select Committee

On the

Student Loan Scheme Amendment Bill (No.2)

December 2006

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SUBMISSION BY BUSINESS NEW ZEALAND[1] ON THE STUDENT LOAN SCHEME AMENDMENT BILL (NO. 2)
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1. INTRODUCTION

1.1. Business New Zealand welcomes the opportunity to comment on the Student Loan Scheme Amendment Bill (No.2). Rather than provide a comprehensive analysis of the Bill, we have chosen to focus on four aspects of the Bill that are of particular interest – data-matching between Inland Revenue and the Customs Service; the proposal to establish a three-year 'repayment holiday' entitlement for non-resident borrowers; the proposed new repayment rates for non-resident borrowers; and proposals to reduce the penalty rates for late payments.

2. SUMMARY OF RECOMMENDATIONS

2.1. Business New Zealand **recommends** that:

2.1.1. proposals to improve data matching between Inland Revenue and the New Zealand Customs Service [sections 62A and 62B] proceed;

2.1.2. the proposal to establish an automatic 'repayment holiday' for non-resident borrowers [sections 31-33] not proceed;

2.1.3. further thought be given to the need for and nature of new repayment obligations for non-resident borrowers [section 34];

2.1.4. the proposal to reduce the monthly late payment penalty rate from 2% to 1.5% [section 17(2)] not proceed.

3. DATA MATCHING

3.1. Business New Zealand supports the proposals to improve data matching between Inland Revenue and the New Zealand Customs Service [sections 62A and 62B]. There have clearly been difficulties in determining the residency status of many student loan borrowers, and these have led some individuals to unfairly escape meeting their legal obligations. Efforts to ensure that individuals meet their appropriate repayment requirements are welcome.

Recommendation: that the proposals to improve data matching between Inland Revenue and the New Zealand Customs Service [sections 62A and 62B] proceed.

[1] Background information about Business New Zealand is attached as Appendix 1

4. REPAYMENT HOLIDAYS

4.1. Business New Zealand acknowledges public concern about highly-skilled New Zealanders leaving the country on a long-term basis. Like other members of the community, our vision is for a prosperous, vibrant New Zealand that can retain its best and brightest and attract top international talent.

4.2. Public and Government attention has tended to focus on the Student Loan Scheme as a cause of long-term emigration by skilled New Zealanders. Yet the evidence to support this assumption is actually pretty light. The most detailed analysis of the role that student loans play in encouraging overseas travel – the Ministry of Education's 2006 report *"Do Student Loans Drive People Overseas – What is the Evidence?"* – found that "the size of the student loan leaving balance is a statistically significant factor" in the decision to live overseas.[2] But the report also noted that "the scale of the linkage is not clear"[3] and that its findings "should be viewed with caution."[4]

4.3. The causes of permanent and long-term (PLT) departures from New Zealand are still not very well understood, although our suspicion is that higher wages and a wider range of career opportunities offshore are key factors in the decision to move overseas. We recommend that more work be done to understand the key causes of PLT departures from New Zealand and the points at which the Government can or should intervene.

4.4. But even if student loans were a major factor in 'driving people overseas', it is far from clear that creating a three-year 'repayment holiday' entitlement would counteract these choices. Indeed, depending on the size of an individual's loan and his or her income, the establishment of a repayment holiday for non-resident student loan borrowers could actually create incentives to leave the country.

4.5. The concept of a repayment holiday raises fundamental questions of fairness: why should borrowers who have left the country effectively be rewarded, when those who stay in New Zealand, meet their repayment obligations and make an economic contribution to the country are not?

4.6. The effective removal of any requirement by non-resident borrowers to keep repaying their loans for three years would seem also to undermine incentives for personal financial prudence and responsibility. These signals contradict messages the Government is

[2] Warren Smart, *Do Student Loans Drive People Overseas – What is the Evidence?* (Wellington: Ministry of Education, 2006), pp.5-6
[3] Ibid, p.6
[4] Ibid, p.5

attempting to send through other policy interventions about the importance of building up equity.

Recommendation: that the proposal for an automatic 'repayment holiday' entitlement for non-resident borrowers [sections 31-33] not proceed.

5. REPAYMENT OBLIGATIONS FOR NON-RESIDENT BORROWERS

5.1. The Bill proposes to introduce new repayment rules for non-resident borrowers. The current rules are designed to ensure that loans are repaid in 15 years, and require borrowers to pay one-fifteenth of their principal off each year (except for those whose debt is lower than $15,000, in which case they had to pay $1,000 per year) as well as their annual interest charges.

5.2. According to the commentary prepared on the Bill,

"for many borrowers the amount that they are currently expected to repay is simply not achievable…the existing repayment rules are not consistent with the objective of encouraging borrowers to return to New Zealand and are undermining the government's intent of ensuring that debt levels are commensurate with the benefits borrowers receive from their tertiary study."[5]

5.3. We are not in a position to judge whether the existing repayment rules have been too onerous for non-resident borrowers. We do note that the Ministry of Education has recently been conducting research into the outcomes of study, which suggest that tertiary education continues to provide very health private rates of return. We note too that there are already provisions in the current Student Loan Scheme Act [section 54] that allow the Commissioner of Inland Revenue to refrain from collecting repayment obligations where this would create hardship, and that these powers will be enhanced by the Amendment Bill (No.2). These provisions would seem to permit targeted responses to individual circumstances. But it may well be that there is a need to reconsider the speed with which all non-resident borrowers are required to repay their loans. We would be grateful for more information from IRD or the Ministry of Education about the state of non-resident borrowers.

5.4. What is not clear to us, however, is the rationale for the proposed new annual repayment obligations. Rather than have annual repayments set at a proportion of principal (plus interest), the new rules introduce a set of tiered repayment obligations:

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[5] Hon Peter Dunne, *Student Loan Scheme Amendment Bill (No.2): Commentary on the Bill*, (Wellington: Inland Revenue Department, 2006), p.13

Proposed new repayment obligations for non-resident borrowers

Student loan debt	Annual repayment obligation
$15,000 or less	$1,000
$15,001-$30,000	$2,000
$30,001 or more	$3,000

5.5. We understand from officials that under the proposed new arrangement, non-resident borrowers will only have to pay these identified amounts, rather than pay a proportion of principal as well as their annual interest charge.

5.6. This will obviously reduce the amount that individuals will have to pay each year. It could also be argued that this approach would provide greater clarity to borrowers about their expected contributions. But the benefits to borrowers of the new repayment obligations vary considerably (and seemingly arbitrarily), depending on the level of an individual's debt:

Difference between current and proposed annual non-resident repayment obligations

Debt	Current obligation	Proposed obligation	Reduction in obligation
$10,000	$1,690	$1,000	40%
$11,000	$1,759	$1,000	43%
$12,000	$1,828	$1,000	45%
$13,000	$1,897	$1,000	47%
$14,000	$1,966	$1,000	49%
$15,000	$2,035	$1,000	51%
$16,000	$2,171	$2,000	8%
$17,000	$2,306	$2,000	13%
$18,000	$2,442	$2,000	18%
$19,000	$2,578	$2,000	22%
$20,000	$2,713	$2,000	26%
$25,000	$3,392	$2,000	41%
$30,000	$4,070	$2,000	51%
$35,000	$4,748	$3,000	37%
$40,000	$5,427	$3,000	45%
$45,000	$6,105	$3,000	51%
$50,000	$6,783	$3,000	56%
$55,000	$7,462	$3,000	60%
$60,000	$8,140	$3,000	63%

Note: current obligation = 1/15 principal plus 6.9% interest.

5.7. If there is a need to reduce the annual repayment obligations for all non-resident borrowers, another option would be to reduce the proportion of principal that borrowers are required to pay (e.g. from one-fifteenth to one-twentieth or one-twenty fifth). This would ease repayment burdens, while distributing the benefits fairly across all borrowers.

Recommendation: that further thought be given to the need for and nature of new repayment obligations for non-resident borrowers [section 34]

6. LATE PAYMENT PENALTIES

6.1. The Amendment Bill (No.2) proposes to reduce the monthly penalty fees charged on outstanding payments to borrowers who do not meet their obligations on time from 2% to 1.5%. According to the commentary prepared on the Bill, the penalty rates "are often criticised as being too punitive."

6.2. We are not convinced of the need for these reductions. As noted above, there are already strong provisions in place for borrowers to apply to the Commissioner of Inland Revenue for relief. Rather than reducing the incentives for borrowers to meet their repayment obligations on time, the focus should be on ensuring that those who face difficulties meeting their obligations due to hardship are aware of, and able to access, these relief provisions.

Recommendation: the proposal to reduce the monthly late payment penalty rate from 2% to 1.5% [section 17(2)] not proceed.

APPENDIX 1

BACKGROUND INFORMATION ON BUSINESS NEW ZEALAND

Encompassing four regional business organisations (Employers' and Manufacturers' Association (Northern), Employers' and Manufacturers' Association (Central), Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), Business New Zealand is New Zealand's largest business advocacy body.

Together with its 63 member Affiliated Industries Group (AIG) which comprises most of New Zealand's national industry associations, Business New Zealand is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy on behalf of enterprise, Business New Zealand contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.

Business New Zealand's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). An increase in GDP of at least 4% per capita per year is required to achieve this goal in the medium term.

The health of the economy also determines the ability of a nation to deliver on the social and environmental outcomes desired by all. First class social services and a clean and healthy environment are possible only in prosperous, first world economies.