

SENSITIVE

20 April 2005

Minister of Education

Associate Minister of Education

Minister for Social Development and Employment

Student Allowances Applications 2005

Proposal

- 1 The number of student allowances recipients in 2005 and expenditure on student allowances are likely to be only slightly higher than in 2004, despite changes made in Budget 2004 designed to expand access to allowances.
- 2 This paper analyses the data currently available on the uptake of student allowances in 2005 and provides an initial explanation for the trend.

Background – the Budget 2004 student allowances changes

- 3 In Budget 2004, the government introduced a number of changes to student allowances. The three major changes were:
 - adjusting the lower student allowances parental income threshold to \$33,696 pa and setting the abatement rate at 25% (which made the cut out point/upper threshold \$62,148 pa)¹;
 - agreeing to adjust the student allowances parental income threshold annually to take account of the movements in the Consumer Price Index; and
 - changes to Independent Circumstances Grant (ICG) and Student Allowances policy to remove inconsistencies with the New Zealand Bill of Rights Act (NZBORA) by removing the entitlement of formerly married students to an ICG, removing the entitlement of single students who had been in paid employment for 96 weeks to an ICG and having married students under 25 without dependents parentally income tested for student allowances eligibility purposes.

¹ Between 1992 and 2004 the parental income thresholds for the purposes of targeting eligibility for student allowances were: \$28,080 and \$50,752 pa.

- 4 The changes to the student allowances parental income thresholds were expected to:
- move 12,000² students from partial allowances to full allowances in 2005³, move 3,000 students from partial allowances to larger partial allowances and 21,000 previously ineligible students were expected to move onto partial student allowances – benefiting 36,000 students overall; and
 - cost \$222.733 million⁴ over the four years 2004/05 to 2007/08.
- 5 The changes to Independent Circumstances Grant (ICG) and Student Allowances policy were expected to:
- make 6,200 students who previously received an ICG because of their marital status or work history ineligible for an ICG;
 - make 450 married students under 25 without a dependent subject to the parental income test, rather than the spousal income test with a number of students expected to move to a lower student allowances benefit or be ineligible for student allowances; and
 - save the government \$102.180 million over 2004/05 to 2007/08.
- 6 In all, there should have been more than 20,000 new student allowances recipients in 2005 as a result of the new policy.

Student allowances applications trends for 2005

- 7 Monitoring of student allowances applications by the Ministry of Social Development (StudyLink) shows that on a date-for-date basis, the number of applicants for student allowances in 2005 had fallen, not risen as expected. The table below shows the number of applications received by StudyLink on 20 March 2005, compared with the number received on the same date in 2004 and with the number expected had applications tracked in line with the forecast.

Forecast from 1 October 2004 to 20 March 2005	Actual received from 1 October 2004 to 20 March 2005	Difference	Actual received 1 October 2003 to 20 March 2004
80,465	60,855	19,600	63,909

² The figures quoted in this paragraph and the succeeding one have been drawn from the information released at the time of Budget 2004. The figures were subsequently revised down as part of the December 2004 Economic and Fiscal Update (DEFU2004).

³ Compared to the number expected pre-policy change.

⁴ The figures quoted here include savings from reduced borrowing under the Student Loan Scheme and flow-ons to the Unemployment Benefit Student Hardship.

8 The pattern in that table has been consistent throughout the application period; instead of increasing as forecast, the number of applications has actually declined.

9 The number of student allowance recipients has also declined, though not by as much. Nevertheless, student allowances recipients at the end of March totalled only 40,434, 2,987 less than at the end of March 2004 and 16,700 less than the forecast for March 2005.

[REDACTED]

[REDACTED]

[REDACTED]

Possible reasons for the downturn

10 On 17 February 2005, the Ministry of Social Development reported to the Minister for Social Development and Employment on trends in student loans and allowances applications. That report drew ministers' attention to the decline in applications and noted a number of possible reasons for the unexpected downturn in applications, including:

- Students may be applying later
- Inaccuracy in the forecast or the forecasting model
- A decline in full-time tertiary enrolments
- The buoyancy of the labour market
- The strength of part-time earnings may be such that more students are retaining part-time jobs and foregoing student allowances
- The effectiveness of communication of the changes to students
- Uncertainty surrounding the new qualification for entrance to a degree at a university

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[REDACTED]

12 Of the factors identified as possible reasons on 17 February, two have been discounted. It is clear that *lateness of applications* is not a factor – the great majority of provision is now well underway and it is unlikely that many of those intending to take up student allowances will be not taking advantage of the entitlement, especially given the new rule⁵ that means that if student apply for allowances late, their

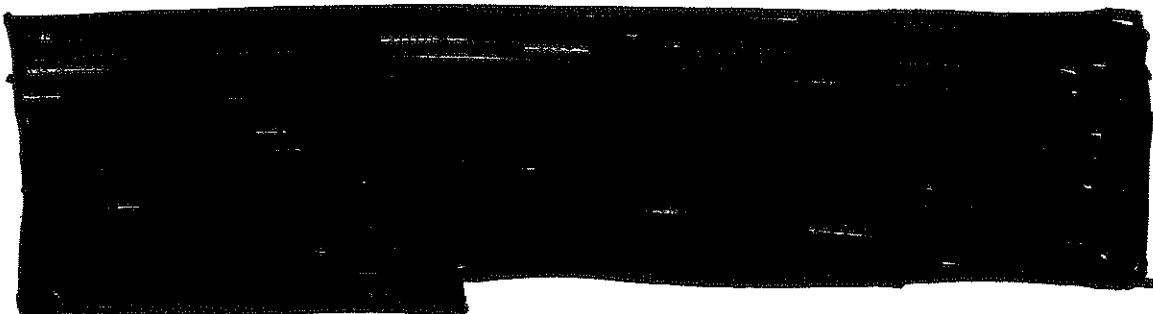
⁵ Introduced as an administrative reform along with the changes made in Budget 2004.

entitlement is backdated only to the date of application⁶. Secondly, the *uncertainty surrounding NCEA* results should by now have diminished; if the switch to the new university entrance requirement has had an impact, it will have been felt as one of several factors in the enrolment numbers.

Groups of possible reasons for the downturn

13 This paper assesses the reasons for the current uptake of student allowances and reviews the assumptions and results of the model used to cost the Budget 2004 changes to student allowances in the light of the latest information.

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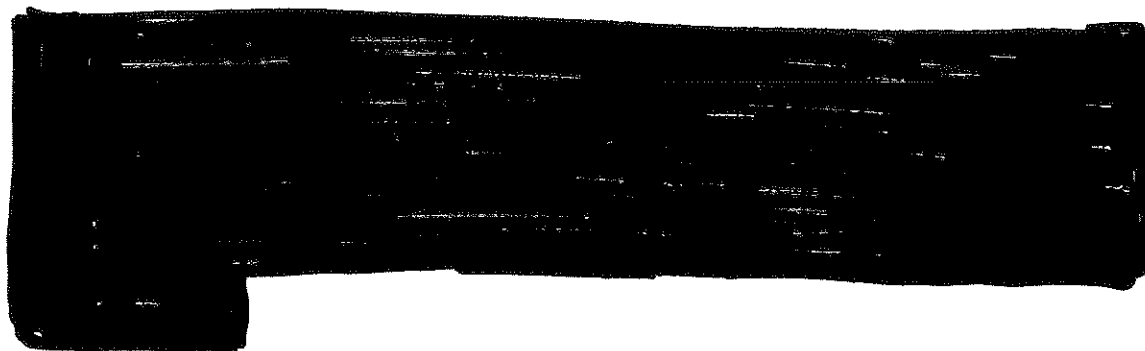


15 Key results to emerge from this analysis are that:

- The numbers of students in total now expected to receive full (unabated) allowances is **close** to the previous forecast. The numbers receiving full allowances as a result of the increased parental income threshold is slightly **greater** than expected.
- The numbers *continuing* to receive abated allowances is also **very close to expectations**.
- The number now receiving an abated allowance, through the raising of the upper parental income threshold, is **markedly below expectations**.

The last group is now forecast to be more than 16,000 lower in 2005, and less than 35 percent of what was cost for Budget 2004 and incorporated into the DEFU forecast.

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⁶ Rather than to the date the student acquired eligibility, as was the case in 2004 and earlier.

⁷ and students under 25 years of age who have dependants and not subject to the parental income test.

- 17 The analysis concludes that there are four groups of factors that appear to have contributed to the unexpectedly low number of student allowances. Those groups of factors are:
- The economic conditions in 2005 were stronger than anticipated when the model was constructed in 2003, meaning that some of the assumptions used in the model are now out of date.
 - The patterns of enrolments in 2005 are somewhat different from what was anticipated in 2003, again, altering some of the key parameters of the model.
 - There have been changes in the behaviour of student allowances applicants that were not anticipated when the model was created and hence, that were not factored in at all during the modelling or costing.
 - In addition, there is a possibility that the parental income distribution used in the policy costing, which was based on Census 2001 data, may simply have overestimated the numbers of students at the upper end of the eligibility range.

Economic conditions in 2005 were stronger than anticipated when the model was constructed

- 18 A number of factors built into the assumptions underpinning the model have moved more strongly than anticipated when the model was constructed. These factors include:
- An increase in emigration from New Zealand and a decrease in immigration to New Zealand, meaning there are fewer students eligible for student allowances;
 - An overall decrease in unemployment, meaning there are more people in the work force, possibly choosing not to study; and
 - The extent of the decrease in unemployment, combined with a more significant than forecast increase in parental incomes - meaning that fewer students under 25 than otherwise will be eligible for student allowances under the parental income test.
- 19 The latest tertiary enrolment forecasts, which underpin the student allowances forecast, indicate that full-time enrolments in 2005 will be 1.2 percent lower than previously forecast in DEFU and around 11 percent below the BEFU 2004 forecast used in the costing and forecasting. This further fall is consistent with a reduction in numbers of student allowances from those forecast in the Budget policy costings.
- 20 The enrolment forecasts do not account for the economic factors listed above explicitly; those factors may, however be playing a part, if with a lag. Therefore, it is possible that the downturn in 2005 enrolments could be greater than forecast in DEFU: the student loans forecast foreshadows an absolute fall in loan numbers in 2005 for the

first time, [REDACTED]

- 21 The effect of economic condition changes would be likely to apply both to the numbers of recipients under 25 and to the over 25 years recipients.

Changes in patterns of enrolments in 2005

- 22 It is too soon to analyse enrolment patterns for 2005 in any detail. The first return of enrolment numbers via the single data return (SDR) is due on 15 May. It may, however, be a month before reasonably complete, quality assured provisional data becomes available, although there will be early indications of the key trends in major providers by the end of May.
- 23 However, based on trends emerging from 2004, it appears there has been a shift from full-time to part-time enrolments. In 2003, the percentage of domestic students studying on a full-time basis was 46.1 percent; provisional data for 2004 shows the percentage as 41.2 percent. Because student allowances are available only to full-time students, such a shift reduces the numbers eligible. The latest student enrolment forecasts indicate a further fall to 40.3 percent in 2005. The strong employment market will provide greater opportunity for work while studying part-time, implying that the trend is likely to persist.
- 24 Anecdotal information on enrolments indicates that enrolments by domestic students are down in 2005, especially in the universities where the largest numbers of allowances recipients study. [REDACTED]
- 25 The uncertainty surrounding the new university entrance requirements may have played a (small) part in such a trend in the universities, given reports in the media that some students had not taken subjects in NCEA that would enable them to meet the literacy/numeracy requirements for entrance to a degree. A proportion of the people affected by that change will have enrolled, but for a lower level, foundation qualification, thus dampening the effects of this factor.
- 26 Some accounts have suggested that growing debt aversity may have persuaded a greater proportion of students to delay their study or to study part-time.
- 27 It is not possible to quantify precisely the effects of these shifts until after the SDR round is complete. The effect of enrolment pattern changes would be likely to apply both to the numbers of recipients under 25 and to the over 25 years recipients.

Changes in the behaviour of student allowances applicants

- 28 The changes made to student allowances in Budget 2004 were expected to reduce the proportion of student allowances recipients who were receiving a full allowance and to increase the proportion receiving a partial or abated allowance. This is because those who lose eligibility as a result of the NZBORA changes all lose entitlement to a **full** allowance. Those who gain eligibility to an allowance as a result of the shift of the upper parental income threshold from \$50,762 to \$62,148 will all gain a **partial** allowance. Only a relatively small number were expected to have moved from a partial to full allowance under these changes. It was expected that the proportion with a partial or abated allowance would move from about 16 percent of all recipients to about 38 percent.
- 29 But tracking of determinations of entitlement by StudyLink shows that the trend on a date for date basis is for a **lower** proportion of student allowances recipients to have a partial or abated allowance. As noted above, the most striking result is the far lower than expected number of allowances received by those in the upper end of the parental income threshold range.
- 30 The percentage of student allowances recipients who were receiving a partial allowance decreased gradually from 19.3 percent in 2000 to 14.7 percent in 2004. In 2005, the proportion receiving a partial allowance on that date was 13.1 percent.
- 31 The only way for this to have occurred is that a lower proportion of those eligible for a partial allowance can have applied for student allowances in 2005.
- 32 There are four possible reasons for people to forego student allowances in these circumstances when they are eligible:
- *Information* – students were not aware of their eligibility;
 - Behavioural change – some students may be unwilling to take a very small allowance that would *erode their lifetime 200 week entitlement* to student allowances;
 - Behavioural change – some students with good part-time jobs may be unwilling to forego *part-time earnings over the personal income limit* of \$135 (gross) per week for the sake of a small allowance.
 - Behavioural change – students with parental income between the old upper threshold of \$50,762 and new upper threshold of \$62,148 may be less in need of a small student allowance and hence *less likely to apply for small allowances*.

Information

- 33 In the report of 17 February, the Ministry of Social Development set out the strategies adopted to advertise and communicate the new eligibility requirements⁸. While the activities undertaken to publicise the new rules were extensive, there are some accounts of people who did not know they were eligible. The concentration of the variance in student allowance numbers amongst the newly eligible group of students reinforces that finding.
- 34 The model used to forecast and cost the changes made no provision for lags or delays in the communication of the new eligibility requirements. While it was acknowledged that there might be some students who would forego small allowances or otherwise not claim an entitlement, it was assumed that the number of these would not change. It may have significantly increased.
- 35 Given the severity of the down-turn in applications from those with an entitlement to an abated allowance, this reason appears the most significant explanation of the variance in the number of abated student allowances among students under 25 years observed in 2005⁹.

200 week entitlement

- 36 Student allowances eligibility is restricted to 200 weeks. Many of those who progress to postgraduate study lose eligibility for student allowances before completing their studies under this rule. A student who has an entitlement for a very small abated allowance – for instance, \$20 a week – might choose not to take up the entitlement, preferring to retain some eligibility until they are in postgraduate study following their 25th birthday – at which time, the entitlement would be for a full allowance. This effect would be confined to those studying or expecting to study for six or more years full-time. It is not expected that this effect would be significant.

Personal income limit

- 37 Recipients of student allowances may earn up to \$135 gross per week without losing eligibility for allowances. In a very strong labour market, where reasonably well-paid part-time work is relatively easy to find, there may be a disincentive to take up entitlement to a very small allowance. For instance, if a student has an entitlement of \$20 per week and an income from part-time work of \$185 per week, then, if the student were to reduce hours of work in order to take up the allowances entitlement, he or she would be worse off by \$30 per week¹⁰.

⁸ Refer Appendix A which reproduces the appendix to that report.

⁹ This is not to comment on the effectiveness of the StudyLink publicity campaign. Rather, the implied assumption in the model of perfect communication was incorrect.

¹⁰ It is accepted that there are other incentives operating in that situation – the student would have more time to devote to study. Thus, there would be a mixed response to the incentives created in this situation.

- 38 Improved economic conditions would accentuate this effect and could lead to some forecast error. It could contribute to the fall in the number of student allowances for those over 25 years of age. It is likely, though, to be one of many contributing factors, rather than a dominant one.

The income distribution in the model may have been wrong

- 39 The model used to forecast and cost the student allowances changes made in Budget 2004 used data from Census 2001 to construct a parental income distribution. Such a distribution is inevitably difficult to build. Although information is held about the parental income of students who apply and qualify for student allowances, there is no direct information about incomes of students whose parental income lies outside the eligible limits. Where a change to thresholds is required, proxies from sources such as the census must be used.
- 40 This factor may have had an impact on the number of under 25 years student allowances recipients by overestimating the numbers of additional students newly eligible for student allowances under the new policy. However, it would not have influenced the downturn in the number of those over 25 years.

Other more minor factors

- 41 StudyLink has moved to a greater reliance on on-line applications. This is thought to have reduced the number of duplicate applications. This factor may have exaggerated the fall in applications. It is not considered an important factor, however; confirmed allowances are down, if by a lesser amount than applications.
- 42 Over the last few years, StudyLink has improved its checking and verification processes. This improvement may have also led to a small reduction in allowances applications and approvals, an effect more likely to be felt in allowances targeted on parental incomes.

Conclusion

- 43 The Budget 2004 changes to student allowances were expected to increase both the expenditure on student allowances and the number of recipients substantially. The tracking of applications during the early part of 2005 indicated that these increases would not be realised. The analysis of data available to date and the latest student allowances forecast indicate that:
- expenditure on student allowances in 2005 will be down by \$18.007 million on earlier forecasts;

- the number of student allowances recipients in 2005 will be down by 16,250 on earlier forecasts;
 - the reduction in expenditure is largely attributable to a reduction in the number of student allowances recipients over the age of 25 while the reduction in the number of recipients is largely due to the number of recipients of partial allowances being lower than earlier forecast.
- 44 Analysis of the model used to cost the Budget 2004 changes indicates that the most important reasons for the downturn are likely to be:
- economic conditions being stronger than expected;
 - changes in the pattern of enrolments;
 - understanding by students of the changes in eligibility rules; and
 - a possibility that the parental income distribution developed from Census 2001 did not match the characteristics of the population in 2005.
 - a possible behavioural difference between students with higher parental income and those with lower parental income regarding applying for small, abated allowances.
- 45 Data on 2005 enrolments will not be known with any certainty for another six weeks.
- 46 The first two factors may have had an influence on the numbers of over 25 year old recipients and hence on the reduction in expenditure. All five factors are thought to have played a part in the downturn among those under 25 years receiving partial allowances. It has not been possible to quantify the strength of each of the factors with any precision.

Further work

- 47 Further information will come to hand principally in the form of weekly data on the number of student allowances applications and approvals and associated expenditure, and in the April SDR about student enrolments.
- 48 Student allowances data will confirm or otherwise the extent of the reduction in student allowances in 2005, refining some of the conclusions presented in this paper. However, the April SDR which will be available for analysis in June will provide the key to assessing what the uptake of allowances has been.
- 49 We would expect that SDR to identify the level of enrolments in 2005 (to date), the full-time/part-time split of those enrolments and the split between students subject to

parental income testing. Further analysis based on the SDR and supported by the regular student allowance data will be available by mid-June.

- 50 That further analysis will be used to determine the extent to which the model design/construction (rather than the data used in the model) was an issue in this situation.

Consultation

- 51 Consultation on this submission has been held with the Ministry of Social Development (StudyLink) and with the Treasury.

Recommendations

- 52 It is recommended that you:

- a. **note** that numbers of students receiving student allowances in 2005 and, in particular, the numbers benefiting from the Budget 2004 policy changes, are significantly less than expected;
- b. **note** that the costing for the Budget 2004 policy changes has significantly overestimated the number of students who would now receive abated allowances under the new policy;
- c. **note** that students' understanding of their entitlements is likely to have contributed significantly to a lower than expected take-up of student allowances;
- d. **note** that other factors influencing the number of student allowances recipients under 25 include stronger economic conditions, changing enrolment patterns and factors relating to the modelling of the parental income distribution;
- e. **note** that numbers of student allowances received by students over 25 years of age, who are largely unaffected by Budget 2004 policy changes, are also lower than expected in 2005;
- f. **note** that the factors affecting the change in the number of recipients over 25 appear to be stronger economic conditions and changing enrolment patterns;
- g. **note** that the Ministry will report further to you by 30 June with further analysis on student allowance numbers in the light of information from the April SDR.

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