

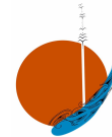
Universal Education Income
Te Rourou Matanui-a-Wānanga

The Economic Case



Authors Note

This report was authored by Diana Russell (Master of Business Studies - Economics), with contributions from Isabella Lenihan-Ikin (National President, New Zealand Union of Students' Associations). This report is jointly published by the New Zealand Union of Students' Associations, Te Mana Ākonga and Taura Pasifika



Forward

“All students, regardless of their background, should have the choice to pursue higher education. The only lasting impact of their study should be the knowledge and skills they gather, not the lasting and crippling student loan debt they accrue, in order to survive.”

Nohorua Parata, Tumuaki Takirua o Te Mana Ākonga

Education should be treated like a passport. It should be available, as of right, to all citizens, for education provides the tools for people to travel to new worlds and explore new ways of thinking.

The erosion of support for tertiary students since the 1990s in Aotearoa New Zealand, has restricted access for many people to achieve their dreams and study at wānanga, polytechnics, industry training organisations, private training establishments and universities.

In the weeks during the Covid-19 Alert Levels 3 and 4 lockdown, Secretary of Education Iona Holsted said, the inequity of this system has been revealed not created by Covid-19. We have seen many students lose their primary sources of incomes, be forced to stop studying to support sick relatives or their children and become increasingly anxious and isolated in times of great uncertainty.

We are tasked with an urgent challenge to address this inequity, and implement people-powered solutions to move away from the status quo as we plan our recovery in the wake of Covid-19.

For tertiary students, the status quo looks like an individualised tertiary education system, where a student’s education is not perceived to be a public good of humanity; it is seen to be a service for paying consumers or as a commodity of value to the wider economy. This has resulted in a system marked by rising student debt which now surpasses \$16 billion. Added to this is wide spread student poverty – because students do not have access to enough income each week to cover the essential costs of living.

Students have either got to borrow to live and add to their debt or navigate their way through the bureaucratic layers of the welfare system to receive a student allowance.



This system, which is designed to target funding where it is needed, does just the opposite. It means many people who need the support, can't access it. Including, those who have no relationship with their parents, and many people who don't need it, can, for example those who can pay for an accountant can pay to get around the income thresholds.

The only solution, to ensure that support goes to where it is needed, is to have a universal system of support. However, in order to ensure that a universal system doesn't repeat these same mistakes: it must be universally accessible, not universal in the income amount. It must also be a weekly amount that ensure that students have sufficient income to live on and to thrive.

Education is a passport. It is a gateway to our future success.

Please join us in supporting the implementation of a Universal Education Income / Te Rourou Matanui-a-Wānanga.

Mamaeroa Merito &

Nohorua Parata

Tumuaki Takirua o Te

Mana Ākonga

Ali Leota

National President

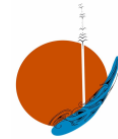
Tauira Pasifika

Isabella Lenihan-Ikin

National President

New Zealand Union of

Students' Associations



Summary

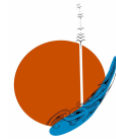
A Universal Education Income / Te Rourou Matanui-a-Wānanga (UEI) is weekly income that is paid to all domestic students in Aotearoa New Zealand, regardless of their income, their parents income or study situation. It upholds the principle that education is a right, not a privilege. A UEI is the solution to creating an education system that is a public good, that all New Zealanders can access.

The UEI is a universal payment that would be available to all domestic students, both undergraduate and postgraduate studying in Aotearoa New Zealand. This means that the current age and means-tested requirements of the existing Student Allowance scheme would be removed. Furthermore, it would not have a time cap on the number of years can be received to recognise that education is a lifelong process that all New Zealanders should have access to at different points of their life. A UEI would treat education as a right, not a privilege.

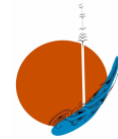
Universal refers to the fact that it would be universally accessible, not universal in amount. Students with disabilities or who have dependents should receive more each week will have access to a higher level of weekly support.

As this report outlines, a UEI would be set at a level that would enable tertiary study to be a financially viable option for all New Zealanders. The weekly amount should be sufficient to cover essential weekly costs.

In summary, this report outlines the history of Student Allowances in New Zealand and the economic case for universalisation of the Student Allowance scheme. In total, if Student Allowances were to become universal the estimated forecast cost difference between the status quo and a universal system in 2021 would be just over \$2.5B. This



amount includes recommendations for an increase of Student Allowance entitlements by \$100 per week. This recommendation is based on the current cost of living in comparison to the current and outdated rates of student support.



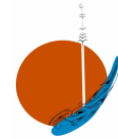
History of the Student Allowances in New Zealand

The 1990's represented a turning point in New Zealand's tertiary education system, resulting in the introduction of a user-pays system for tertiary education – the Student Loan Scheme. Although the educational reforms that took place in the 1990s have become accepted as the status quo, this system is less than thirty years old. New Zealand's Student Loan Scheme is responsible for New Zealand being the 7th highest country in the OECD for student debt, which is currently above \$16B.

The high cost of fees limits study and life choices for many current students, prospective students and recent graduates. It has created a barrier of access and full participation in the tertiary education system, across universities, polytechnics and wānanga.

Up until 1992, 86.4% of students studying at a public tertiary education institution (TEI) receive a living allowance or grant while they studied. Prior to the mid-1970s, student support was provided through government bursaries (Fee Bursaries; Fees and Allowance Bursar and; Masters' Bursary). In 1976, a new system of government funded tertiary bursaries was introduced. This included a study or living costs grant available to most students.

In 1989, the Fourth Labour Government introduced the Youth and Student Allowance scheme. This scheme included an element of means-testing, which paved the way for further reforms of successive governments and moved the system of support further away from the universal system of support prior to 1976. In the 1991 'Mother of All Budgets', further changes were made to extend the means-testing requirements of Student Allowances. Despite modest changes to the amount of the Student Allowance



in 2018¹, the strict criteria to access the Allowance, including parental means-testing, have remained. Allowances begin to abate on a combined parent income of \$56,888.52. Once a students' combined parental income hits \$106,372 (\$98,654 if a student doesn't live with them), students are deemed ineligible for an allowance.

There remain two ways that students can access weekly financial support from the government: Student Allowance and Living Costs. Student Allowance is available only to a limited number of students (approximately 33%) and is not added to a student's loan. The criteria for students being able to access the Student Allowance is very strict – it's available only to undergraduate students and is means-tested against the parental income of the student until they are 24 years old. Eligibility for Student Allowance continues to be marked against strict criteria, which has changed very little during the almost 30-year history of the Student Loan Scheme. The only substantive change during this time is the removal of the post-graduate allowance in 2014. Although the current Labour, New Zealand First and Green Party coalition government promised to reinstate the postgraduate allowance, and despite strong calls from students, this did not eventuate.

The strict criteria for Student Allowance assumes that students younger than 24, whose parents have a combined income above the threshold amount, are receiving parental support. But there are a number of reasons why this assumption is wrong. Firstly, as housing and other costs for families are increasing, the parents of high-school leavers are increasingly likely to be carrying their own debt and are therefore unable to support their children in tertiary education. Secondly, this provision discriminates

¹ From 1 January 2018, Student Allowances and Living Costs increased by \$50 per week.

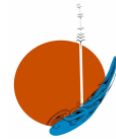


against students who come from large families. Statistically, Māori and Pasifika people have larger families and therefore this situation is exacerbated even further. Living Costs, on the other hand, is added to a student's loan. The maximum weekly amount is \$239.76 per week. Living Costs are only paid to full-time students.

Since the inception of the 1992 Student Loan Scheme, NZUSA and Te Mana Ākongā have been lobbying the government to reform the system and introduce a universally accessible system of student support. In the wake of Covid-19, it is more important than ever to create a universal system of student support. Without it, the week-to-week cost of being a tertiary student will remain a barrier for New Zealanders being able to access it and achieve their dreams.

Currently, the tertiary education policy of both the Green Party, New Zealand First and the Māori Party includes a Universal Student Allowance.² We believe that our proposal of a UEL is needed to create a fair and equitable education system.

² The Green Party wants to introduce a Guaranteed Minimum Income of \$325 per week for all students and New Zealanders out of work. The tertiary education policy of New Zealand First includes the implementation of a universal student allowance.



The Economic Case

Overview

The main costs associated with the implement of a UEI is the increased weekly amount (to account for higher costs of living) and the increased availability, from students who would have otherwise received Living Costs. This includes widening the net to include students who are currently excluded due to the individual and parental (until 24 years of age) means-testing requirements, the age caps (under 40 years old) and the post-graduate student exclusion.

Currently, post-graduate students are not able to receive a Student Allowance. Post-graduate students have the option to apply for the Accommodation Supplement (through Work and Income), however this is separate to the Accommodation Benefit that is available to undergraduate students who are eligible for the Student Allowance.



Table 1 [A]: Historical Data & Estimated Forecast of Student Support: Number of Individual EFTS Enrolled (Source: [Education Counts](#))³

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Undergraduate (Level 3 and above)	180,210	178,850	173,020	171,410	169,530 0	170,630	204,340	191,560	185,690
Postgraduate Enrollments	25,231	26,283	26,749	27,585	27,594	27,387	30,224	26,145	26,749
Total:	205,441 0	205,133	199,769	199,995	197,124	198,017	234,564	217,705	212,439
margin of error +/- 3%						5,346	6,333	5,878	5,736

³ The numbers for postgraduate students are sourced from Ministry of Education data that included international PhD students, our estimates are based on an international PhD participation rate approximation of 13.7% (taken from 2018 actual numbers), which was deducted from the total. The forecasts of demand for tertiary education presented in the above table adopts methodology that relies on a strong and stable relationship between the youth unemployment rate and youth population size and the demand for tertiary education, and that this relationship holds in the future. These forecasts were done in late March (under Alert Level 4) during the Covid-19 novel coronavirus pandemic. Treasury's forecasts of unemployment over the next four years were derived under great uncertainty. Despite this, these demand forecasts were based on Treasury's final BEFU macro-economic forecasts released on 30 March 2020. However, When comparing incentives to enrol in higher, we would caution against making false comparisons of a recession bought on by a COVID-19 pandemic — that is heavily disruptive to the tertiary education sector — to a previous economic recessions and their effect on demand for tertiary education.



Currently Inland Revenue, who administer Student Loans, write of 41 cents for every \$1 lent.⁴ The costs to Inland Revenue of collecting Student Loans into the future are incorporated into the cost of lending. Therefore, the additional cost for providing allowances to students who would have otherwise received the loan is 59 cents for every dollar (as opposed to \$1 of loan transferred to \$1 of allowance).

Maximum Entitlement and the Cost of Living

Table 2: Cost of Student Living in Wellington⁵

	Single student	Couple with children
Rent	230	600
Bills	38	120
Cell Phone	10	10
Food	80	80
Transport	35	240
Miscellaneous / clothes/ activities/ text-books etc	75	150
Childcare	0	180
Total	468	1380

⁴ [Student Loan Scheme Annual Report](#) (2018/2019), Ministry of Education.

⁵ The cost of living provided in this table is based on recommendations made by Victoria University of Wellington in their [2020 Student Handbook](#).

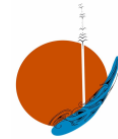


Table 3: Current maximum entitlements (before tax) and forecast based on CPI

	Current	Forecast under current scheme			Forecast under UEI
	2020	2021	2022	2023	2021
CPI for year ending Q1	3.3%	3%	3%	3%	
Student Loan Living Costs	\$239.76	\$246.95	\$256.36	\$261.99	-
Student Allowance					
Living in parents' home	\$257.51	\$265.24	\$273.19	\$281.39	\$357.51
Not living in parents' home	\$310.51	\$319.83	\$329.42	\$339.30	\$410.51
Single with Children	\$459.25	\$473.03	\$487.22	\$501.83	\$559.25
Partner no children - not studying	\$553.87	\$570.49	\$587.60	\$605.23	\$653.87
Partner no children - studying but cannot get allowance due to age, residency, non-approved course	\$310.51	\$319.83	\$329.42	\$339.30	\$410.51
Partner no children - studying but cannot get allowance due to other reason	\$265.81	\$273.78	\$282.00	\$290.46	\$365.81
Partner is studying and gets Student Allowance (each)	\$265.81	\$273.78	\$282.00	\$290.46	\$365.81
*Living with partner	\$148.40	\$152.85	\$157.44	\$162.16	\$158.40
**Not living with partner	\$192.38	\$198.15	\$204.10	\$210.22	\$292.38
Partner with children - not studying	\$585.98	\$603.56	\$621.67	\$640.32	\$685.98



Partner with children - studying but cannot get allowance due to age, residency, non-approved course	\$459.25	\$473.03	\$487.22	\$501.83	\$595.25
Partner with children - studying but cannot get allowance due to other reason	\$297.62	\$306.55	\$315.75	\$325.22	\$397.62
Partner with children - studying and gets Student Allowance (each)	\$281.58	\$290.03	\$298.73	\$307.69	\$381.68
Accommodation Benefit	\$60.00	\$61.80	\$63.65	\$65.56	-

* partners income is less than **\$449.16** before tax a week

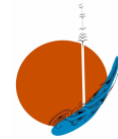
** partner's income is between **\$449.16** and **\$935.46** before tax a week

Current Rates

Currently, (FY April 2020 – March 2021) the maximum a student can receive for weekly living costs, through the Student Loan Scheme, is \$239.76 and the maximum a student (not living in their parents' home) can receive through a Student Allowance and Accommodation Benefit is \$370.51.

However, the cost of living in Wellington, based on mean rents (comparable for Auckland and Dunedin) and based on information provided to students on the cost of living by Victoria University of Wellington is \$460 for a single student with no dependent; or \$1,380 for a couple with children.

In addition to making it universal, we recommend a \$100 increase to Student Allowance entitlements, which will ensure the weekly allowance payments cover the basic costs of living. The new maximum entitlement for a single student not living in their parents' home would be \$470.51, a 27% increase on the current, 2020, rates. This



new maximum recommended rate of \$470.51 per week is the rate our estimates, presented in this report, are based on.

Cost of Implementing a Universal Education Income / Te Rourou Matanui-a-Wānanga

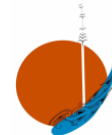
Under the current Student Support Scheme, the total projected costs for the financial year ending March 2021 is around \$1.15B, which is made up of \$593M Student Loans cost of lending and \$563M in Student Allowances — see Table 4(a). The total amount of Student Loans paid out is comprised of \$517M of Student Loan Living Costs, \$830M fees and \$85.8M course-related costs (see Appendix Table 3).

In comparison, the projected costs of a UEI, if it were to be implemented from the start of 2021, would be a total cost of \$3.7B, comprised of \$3.4B allowance and \$379M Student Loan cost of lending (see Table 4(b)).

Therefore, the difference in the total forecasted cost between the current student support scheme in 2021 and the UEI in 2021, is therefore just under \$2.6B (as presented in Table 4 (b)).

Table 4(a): Historical cost of student support scheme v forecast cost under Universal Education Income / Te Rourou Matanui-a-Wānanga

	Historical cost of student support scheme				Forecast under current student support scheme		
(\$)	2016/17	2017/18	2018/19	2019/2020	2021	2022	2023
Total Cost of Lending	\$694,188,41 2	\$641,065,26 3	\$606,250,50 5	\$597,515,90 8	\$593,573,20 4	\$589,630,49 9	\$585,687,79 5



Total Cost of Allowance	\$466,240,396	\$601,875,916	\$593,540,706	\$577,540,486	\$563,587,521	\$549,634,557	\$535,681,592
Total:	\$1,160,428,808	\$1,242,941,180	\$1,199,791,212	\$1,175,056,394	\$1,157,160,725	\$1,139,265,056	\$1,121,369,387

Table 4(b): Forecast cost of the Universal Education Income / Te Rourou Matanui-a-Wānanga

	2019/2020	2020/21	2020/22	2022/23
Total Cost of Lending	\$388,629,676	\$379,514,090	\$370,398,504	\$361,282,918
Total Cost of Allowance	\$2,713,103,321	\$3,371,158,114	\$2,275,651,601	\$3,339,729,387
Total:	\$3,101,732,997	\$3,750,672,205	\$3,646,050,106	\$3,701,012,305
Difference/ Net Cost:	\$1,926,676,603	\$2,593,511,480	\$2,506,785,049	\$2,579,642,918
95% Confidence	<i>\$60,497,645</i>	<i>\$81,436,260</i>	<i>\$78,713,051</i>	<i>\$81,000,788</i>



Administration Costs

Student Loan Scheme

The cost of administering the Student Loan Scheme varies from year to year, depending on the number of borrowers, the number of transactions, and any system changes required to implement new policies. For example, the total number of students applying for Student Loan fees and course-related costs should stay the same. The growth in the total number of students applying for student support (allowance and/or loans should stay the same regardless of whether a UEI is implemented or not).

The costs of Inland Revenue collecting loans into the future (*Table 5*) are incorporated into the cost of lending. The money collected through the \$40 administration fee charged by Inland Revenue offsets part of the cost of lending. In the long run, Inland Revenue costs associated with managing and collecting repayments should reduce due to less loan payments being made; in the short run, we expect repayments to remain stable.

The money collected through establishment fees covers part of Ministry of Social Development's (MSDs) administration costs. In 2018-2019 there was \$9M of establishment fees added to Student Loans and this has a fair value of about \$5 million. This \$5M covered part of the \$16.8M of MSD costs identified in 2019 (see *Table 5*). The 2021 MSD Student Loan administration costs, under the current scheme are projected to be \$18.5M (*Table 5b*). In comparison the projected 2021 admin costs to MSD under the proposed UEI would be \$11.85 (*Table 5c*).



Table 5: Historical Estimated Cost Ratios Student Loan Scheme⁶

	2015	2016	2017	2018	2019
Cost Ratio	0.88	0.99	1.02	1.14	1.15
Total Loan Payments	\$1,611,708,528	\$1,591,454,042	\$1,557,873,457	\$1,442,865,775	\$1,463,666,117
MSD Student Loan Scheme Admin Costs	\$14,183,035	\$15,755,395	\$15,890,309	\$16,448,670	\$16,832,160

Table 5(b): Forecasted Cost Ratios under Current Student Loan Scheme

	2020	2021	2022	2023
Cost Ratio	1.27	1.29	1.41	1.43
95% confidence	0.018	0.018	0.018	0.018
Total Loan Payments	\$1,442,578,244	\$1,433,059,401	\$1,423,540,558	\$1,414,021,716
MSD Student Loan Scheme Admin Costs	\$18,306,318	\$18,539,489	\$20,043,451	\$20,248,791
95% confidence	\$146,451	\$166,855	\$180,391	\$182,239

Table 5(c): Forecasted Costs Ratios of the Student Loan Component

⁶Ministry of Social Development; Inland Revenue; Ministry of Education and Statistics via Education Counts; Student Loan Scheme Annual Report 2019.



	2020	2021	2022	2023
Cost Ratio	1.27	1.29	1.41	1.43
95% confidence	<i>0.018</i>	<i>0.018</i>	<i>0.018</i>	<i>0.018</i>
Total Loan Payments	\$938,265,757	\$916,258,064	\$894,250,372	\$872,242,680
MSD Student Loan Scheme Admin Costs	\$11,906,592	\$11,853,630	\$12,591,045	\$12,490,515
95% confidence	<i>\$95,252</i>	<i>\$106,682</i>	<i>\$113,319</i>	<i>\$112,414</i>

The historic cost of administering the Student Loan Scheme to MSD is presented in Table 5 and was \$16.8M in 2019 and is projected to be \$18.3M in 2020 (Table 5(b)).

If a UEI were to be implemented, the administrative costs of the Student Loan Scheme to MSD (presented in Table 5(b) and (c)) shouldn't change significantly from the forecasted figures for the current scheme. This is based on the underlying assumption that the total number of distinct students applying for and receiving some form of Student Loan payment will not be affected as a direct result of a UEI being implemented (for example, even though students will no longer be receiving Living Costs, they can still apply for a Student Loan to cover the cost of course fees and course-related costs).

The administrative cost incurred by Statistics NZ and the Ministry of Education should stay comparable regardless of a UEI scheme as these costs are largely fixed – see Table 6.



Table 6: Historical Admin / Operating Costs Student Loan⁷

	2013	2014	2015	2016	2017	2018	2019
No of students Applied	241,319	238,029	230,465	228,594	220,374	208,932	198,017
Change		-1.36%	-3.18%	-0.81%	-3.60%	-5.19%	-5.22%
Admin Cost MSD	\$15,844	\$16,068	\$13,489	\$15,129	\$15,083	\$16,509	\$16,799
Admin Cost IRD (M\$)	\$30,200	\$33,500	\$33,900	\$36,100	\$37,800	\$38,700	\$40,000
Admin Cost MoE	\$900	\$700	\$700	\$800	\$800	\$900	\$800
Admin Cost Stats NZ	\$700	\$700	\$700	\$700	\$700	\$800	\$900
Total cost	\$47,644.00	\$50,968.00	\$48,789.00	\$52,729.00	\$54,383.00	\$56,909.00	\$58,499.00

Note: Date is for year ending June. All amounts exclude GST.

Other costs that would be expected include a one-off implementation cost. For comparison, in 2018 when fees-free was introduced, there was one off implantation fee of around \$600,000; (which included implementation costs for increasing Student Loan Living Costs maximum being done simultaneously to fees-free) and flow on costs

⁷ Source for historical data: Ministry of Social Development, Inland Revenue, Ministry of Education and Statistics New Zealand. G.60 Ministry of Social Development| Annual Reports 2012/13-2018/19



for the benefit system (for jobseeker support and accommodation assistance over the vacation period).

Table 7 presents the historical costs incurred by the Ministry of Social Development of administering the Student Allowance and accommodation benefit. Table 7(b) presents forecasted administration costs of the allowance and accommodation benefit for the current student support scheme; while Table 7(c) presents the forecasted administrative costs if a UEI were to be implemented. Under the current student support scheme, in 2021 the total admin costs incurred by the Ministry of Social Development would be \$16.7M, however, if a UEI were to be implemented, the admin costs incurred by MSD would be \$77.8M. This substantial increase is based on the number of unique students shifting from receiving Student Loan Living Costs to the UEI.

Table 7: Historical Admin/ Operating Costs Allowance & Accommodation Benefit⁸

	2012/13	2013/14	2014/15	2015/16	2016/17
Applied	148047	142678	132,293	127,099	118,204
MSD Admin Cost	\$15,743,000	\$16,749,000	\$16,740,000	\$15,794,000	\$16,712,000
Cost ratio	2.90%	3.31%	3.39%	3.39%	2.78%

⁸ Ministry of Social Development annual reports 2012/13 —2018/19



Table 7(b): Forecast Administrative Costs Allowance & Accommodation Benefit under the current Student Allowance scheme

	2019/20	2020/21	2021/22
Applied	103,158	96,933	90,708
Margin of error	3,094	2,710	2,721
MSD Admin Cost	\$16,633,865	\$16,707,693	\$16,781,592
Cost ratio	\$2.83	\$2.78	\$2.72
95% confidence	\$980.00	\$1,011.00	\$1,040.00

Table 7(c): Forecast Administrative Costs of a Universal Education Income / Te Rourou Matanui-a-Wānanga

	2019/20	2020/21	2021/22
Applied	193,666	194,928	196,695
Margin of Error	5,810	5,848	5,901
MSD Admin Cost	\$75,094,026	\$77,881,911	\$80,499,190
Cost ratio	2.83%	2.78%	2.72%



Total allowance paid	\$2,653,499,164	\$2,801,507,601	\$2,959,529,049
<i>95% confidence</i>	<i>\$4,424.24</i>	<i>\$4,712.72</i>	<i>\$4,988.75</i>

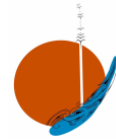
NB: Table 7 figures are on based on the assumption that the cost is per person.

Conclusion

The forecast analysis presented in this report estimates that the cost difference between the current student support system (Living Costs and Student Allowance) and the implementation of a universal system of student support (involving the implementing of a UEI) would be just over \$2.5B. This amount includes recommendations for an increase of the maximum entitlements by \$100 per week and ensuring that Student Allowance is universal.⁹ This increase is based on the cost of living in comparison to current rates. It is the belief of NZUSA, Te Mana Ākonga and Tauria Pasifika that a UEI should be universal in access, but not in amount.

The recommendations in this report are grounded in the belief that everyone in Aotearoa New Zealand should be able to access a barrier free tertiary education system and entitled to live with dignity in pursuit of that education by being able to meet the basic costs of living.

⁹ The new maximum entitlement for a single student not living in their parents' home would therefore be \$470.51, a 27% increase on the current, 2020, rates – See Table 3 for a breakdown of the suggested maximum entitlements (before tax) under a Universal Education Income.



These recommendations are also based on the premise that no one should be required to take on weekly debt in order to meet the basic costs of living. The normalisation of debt in the education system is responsible for the creation of ongoing wealth and income inequality once students graduate and enter the workforce. It is time that this changed. It is time for a Universal Education Income / Te Rourou Matanui-a-Wānanga.