

11 April 2012

Tertiary Education Report: Student allowances: Removing eligibility for postgraduate students

Executive summary

Student allowances aim to address the financial barriers to study for low-income groups. Expenditure on allowances has increased significantly in recent years, and allowances have not been reviewed since the introduction of interest-free student loans.

We have previously recommended reducing the lifetime limit for allowance eligibility, including removing eligibility for postgraduate study (METIS 652520 and 650609 refer) to target allowances to initial years of study. You requested further information on removing eligibility for postgraduate students.

Providing allowance support for undergraduate study only would be a first step towards refocusing allowances on those students who most need additional support and updating allowance policy settings to reflect the wide availability of student loans. We consider that it is not unreasonable to expect postgraduate students to borrow to fund their study, so that allowance support can be focussed on those students who are entering tertiary education for the first time, and studying a first qualification. This also reflects the higher private benefit gained from postgraduate study.

There is some overlap between undergraduate and postgraduate courses. Bachelors degrees with honours vary between providers and fields of study. While some honours degrees require enrolment in an additional year of study, others involve extra assignments during the undergraduate degree, or are awarded on the basis of grades during the undergraduate degree. For some longer degree programmes, everyone who completes receives a degree with honours. To ensure consistency, we propose that all bachelors degrees with honours also be considered to be undergraduate study, and therefore be eligible for allowance support. We seek your agreement to this.

A number of exemptions exist to the 200 week limit for allowances, for Long Programmes (programmes of study typically culminating in postgraduate study, which exceed 200 weeks), any particular case or class of case (programmes similar to Long Programmes), and courses in the national interest (currently teaching qualifications). These exemptions are inconsistent with the proposed new focus of allowances on initial years of study. We recommend removing these exemptions.

Removing allowance eligibility for postgraduate students would disproportionately affect students with dependents, as these students receive a higher level of allowance support. To mitigate the impact on allowance recipients with dependants, we recommend implementing a grandparenting exemption for up to one year for these students only.

Removing eligibility for post-graduate students, removing the current exemptions, and freezing the parental income threshold (previously agreed by Cabinet) will save approximately \$130 million in operating costs over five years, and will have a corresponding debt impact of approximately \$148 million.

We seek an indication from you regarding whether you wish this initiative to be included in your Budget 2012 package.

Recommended actions

We recommend that the Minister for Tertiary Education, Skills and Employment:

- a. **note** that this report provides you with further policy advice on removing student allowance eligibility for postgraduate qualifications
- b. **agree** to remove student allowance eligibility for all level 8 and above postgraduate certificates and diplomas, Masters degrees and doctorates from 1 January 2013 and to include this in your Budget 2012 package

AGREE / DISAGREE

- c. **agree** that, due to variation within and between providers, all bachelor degrees with honours retain eligibility for student allowances

AGREE / DISAGREE

- d. **note** that the a Long Programme exemption exists for mainly postgraduate study in excess of the 200 week limit
- e. **agree** to remove the Long Programme exemption, from 1 January 2013

AGREE / DISAGREE

- f. **note** other exemptions are inconsistent with the proposed new focus of allowances on initial years of study and those who most need additional support, but also exist for:
 - (i) any particular case or class of case
 - (ii) courses in the national interest (currently teaching qualifications)
- g. **agree** to remove the exemptions in f (i) to (ii) from the Student Allowance Regulations 1998, effective from 1 January 2013

AGREE / DISAGREE

- h. **agree** that, for any exemption approved prior to 1 January 2013, a student will retain that exemption for the period approved

AGREE / DISAGREE

- i. **note** that we recommend a transition arrangement for allowance recipients with a dependent spouse or children, as these students are less likely to have the flexibility to respond to the changes as quickly as other students and will experience a greater drop in support

- j. **agree** to grandparent allowance recipients who have a partner, spouse or supported child, or are undertaking post-graduate study, and have an allowance approved in 2012, and are continuing to study the same qualification, until 31 December 2013, or until they have received 200 weeks of student allowance, whichever comes first.

AGREE / DISAGREE

Dr. Andrea Schöllmann
Acting Deputy Secretary
Tertiary, International and System Performance
Ministry of Education

NOTED / APPROVED

Hon Steven Joyce
Minister for Tertiary Education, Skills and Employment

____/____/____

RELEASED UNDER THE OFFICIAL INFORMATION ACT

Tertiary Education Report: Student allowances: Removing eligibility for postgraduate students

Purpose of report

1. This report provides you with further policy advice on removing student allowance eligibility for postgraduate students and seeks your agreement to include this initiative in your Budget 2012 Cabinet paper.

Background

2. The student support system is designed to reduce financial barriers to participation in tertiary education.
3. Government expenditure on student allowances has increased significantly in recent years – from \$385 million in 2007/2008 to \$620 million in 2010/11 (a 62% increase). The number of students receiving an allowance has also increased, particularly since 2009, due to policy changes and the effects of the recession, including higher tertiary enrolments due to increased unemployment.
4. Allowances play an important role, as supplementary support to student loans, for two reasons:
 - To assist people to enter tertiary education who have very little upfront cash or family resources, and who heavily discount the future benefits of qualifications.
 - To provide additional support for students with higher financial needs, for example those with dependents.
5. Student allowances aim to address the financial barriers to study for low-income groups. These barriers may be direct or indirect (for example, the opportunity cost of time in study). Allowances assist people to enter tertiary education who have very little upfront cash or family resources, and who heavily discount the future benefits of qualifications.
6. The current lifetime limit for student allowances is 200 weeks, with extensions available for Long Programmes (programmes of study typically culminating in postgraduate study, which exceed 200 weeks), any particular case or class of case, and courses in the national interest (currently teaching qualifications).
7. We have previously recommended reducing the lifetime limit for allowance eligibility including removing eligibility for postgraduate study (METIS 652520 and 650609 refer) to target allowances to initial years of study. You requested further information on removing eligibility for postgraduate students.

Removing student allowance eligibility for postgraduate students

8. There is a substantial body of evidence that shows that those with higher levels of education are more likely to participate in the labour market, face lower risks of

unemployment, have greater access to further training and receive higher earnings on average.

9. Among young domestic graduates last enrolled in tertiary education in 2003, median annual earnings three years after completing their studies were 16% higher for those with a master's degree compared with those with a bachelor's degree, and 46% percent higher for those with a doctorate —more than twice the national median income¹.
10. We consider that it is not unreasonable to expect postgraduate students to borrow to fund their study, so that allowance support can be focussed on those students who are entering tertiary education for the first time, and studying a first qualification. This also reflects the higher private benefit gained from postgraduate study.
11. Providing allowance support for undergraduate study only would be a first step towards refocusing allowances on those students who most need additional support and updating allowance policy settings to reflect the wide availability of student loans.
12. Our previous advice highlighted evidence that a student's first year in tertiary education is the most important for ensuring their success² (METIS 652520 refers).
13. The table below details the number of students who would be affected by removing allowance eligibility for postgraduate students from 1 January 2013. Most affected students will be able to access an interest-free student loan to provide living cost support.

Table 1: Number of students affected

	2013	2014	2015	2016
Number of students no longer eligible for an allowance	12,510	10,990	10,170	9,780

14. This change might be seen as contrary to improving New Zealand's knowledge economy and may not be well received by student groups. It may also be viewed as discouraging progression to higher levels of study. However, this change aims to direct allowance support to those students who need it most, and to acknowledge the higher private returns from post graduate study.

Financial implications

15. The table below outlines the indicative financial implications for this initiative, and includes the decision to freeze the parental income threshold. These initiatives will save approximately \$130 million in operating costs over five years, and will have a corresponding debt impact of approximately \$148 million.

¹ What do students earn after their tertiary education? David Scott, Statistics New Zealand and Ministry of Education (2009).

² Jacques van der Meer, Austina Clark and Chikako van Koten *Establishing Baseline Data: using International Data to Learn More About Completion Factors at One New Zealand University*. Journal of Institutional Research, 2008. Jacques van der Meer *I don't even know what her name is: Considering the challenge of interaction during the first year*. Studies in Learning, Evaluation Innovation and Development, 2009.

Table 2: Financial implications

	2011/12	2012/13	2013/14	2014/15	2015/16	Five-year total
Removing eligibility for post-graduate students, and removing Long Programmes	-	(28.278)	(53.654)	(49.266)	(47.292)	(178.490)
Freezing parental income threshold for four years	(0.574)	(2.729)	(4.458)	(6.100)	(7.139)	(21.000)
Offset loan costs	-	12.074	21.351	18.846	16.853	69.124
Total operating impact	(0.574)	(18.933)	(36.761)	(36.520)	(37.578)	(130.366)
Debt impact	-	23.703	43.595	40.943	39.272	147.513

Definition of postgraduate

16. We have defined postgraduate as all study at levels 8 and above, except bachelors with honours. This includes postgraduate certificates and diplomas, masters and doctorates. None of these qualifications would be eligible for allowance support. Bachelors degrees are level 7, and would therefore be eligible for allowance support, as would graduate diplomas (for example a graduate diploma in teaching, following a bachelors degree).
17. Bachelors degrees with honours vary between providers and fields of study. While some honours degrees require enrolment in an additional year of study, others involve extra assignments during the undergraduate degree, or are awarded on the basis of grades during the undergraduate degree. For some longer degree programmes, everyone who completes receives a degree with honours.
18. To ensure consistency, we propose that all bachelors degrees with honours also be considered to be undergraduate study, and therefore be eligible for allowance support. We seek your agreement to this.

Exemptions

19. We have previously advised that the Student Allowance Regulations 1998 (the Regulations) provide for a number of exemptions to the usual student allowance eligibility (METIS 652520 refers).
20. An extension is available for Long Programmes (programmes of study typically culminating in postgraduate study, which exceed 200 weeks). Long Programmes of study typically have high economic returns and students must have demonstrated academic ability to progress. In most cases students are choosing to continue with further study.
21. Removing allowance eligibility for postgraduate students would mean that most Long Programmes would no longer be approved because they have a postgraduate element. Approximately 10 of the 76 approved Long Programmes would remain, for example the Bachelor of Veterinary Science/Bachelor of Philosophy and the Bachelor of Landscape Architecture Long Programmes.
22. This raises the question of whether additional student allowance entitlement should continue to exist for Long Programmes. We consider that this extra support does not represent effective use of limited resource and we recommend that the Long Programme exemption be removed.
23. Another exemption is the discretion to extend study beyond the 200 week limit. This discretion can be exercised by StudyLink where there are 'special circumstances' in a particular case.

24. We consider that this change would not be impacted by the 'special circumstances' exemption and therefore propose no change.
25. The Secretary for Education also has discretion to determine that it would be in the national interest for a student to undertake a programme of study to retrain for employment. This discretion allows StudyLink to approve payment beyond the 200 week limit. Currently, only teacher training courses are approved for this purpose.
26. The Secretary for Education also has discretion to approve an extension 'in any particular case or class of case'. This is currently used by the Ministry of Education for programmes of study that are equivalent to a Long Programme, however the discretion is not limited to this type of situation. Approximately six of these exemptions are approved per year.
27. We recommend that, for consistency, the exemptions for any particular case or class of case, and national interest, also be removed.

Students with dependents

28. Removing allowance eligibility for postgraduate students would disproportionately affect students with dependents, as these students receive a higher level of allowance support. These students would be able to borrow living costs from the loan scheme, however at a lower rate than their student allowance. For example, a student with a dependent partner, living in Auckland, would be eligible for a maximum allowance of \$375.66 per week (including accommodation benefit), but would only be allowed to borrow a maximum of \$169.51 per week. The student would also be eligible for an Accommodation Supplement of \$160.
29. To mitigate the impact on allowance recipients with dependants, we recommend implementing a grandparenting exemption for up to one year for these students only.
30. We recommend that, as at announcement date, students who receive a dependants rate of allowance, continue to be eligible for that allowance in 2013 and continue to study the same qualification, be grandparented until 31 December 2013.

Next steps

31. We seek an indication from you regarding whether you wish this initiative to be included in your Budget 2012 package. You are taking the final Budget paper to Cabinet on Monday 23 April, this paper needs to be lodged on Thursday 19 April.