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S09.15

Submission to the Education and Science Select Committee on the Student Loan Scheme (Repayment Bonus) Amendment Bill

Introduction

The National Council of Women of New Zealand (NCWNZ) is an umbrella organisation representing 50 nationally organised societies and national members. It has 26 branches throughout the country attended by representatives of those societies and some 150 other societies. The Council's function is to serve women, the family and the community at local, national and international levels through research, study, discussion and action.

Due to the short time available for consultation, this submission is based on responses from NCWNZ members, Corresponding Members and the Nucleus Group of the Education Standing Committee. It has been prepared by the Education Convenor and has included input from the Economics Standing Committee. It has been reviewed by the Parliamentary Watch Committee and a Board member of the National Council of Women New Zealand.

General Comments

In 1999 NCWNZ passed a resolution [5.11.11] urging that student loans be interest free until or unless the borrower is earning above the threshold for repayment.

We understand that the purpose of this Bill is to encourage student loan borrowers to repay their loans more quickly and lower the costs of the scheme to the government.

Statistical data indicates that since student loans became interest free from 1 April 2006, there has been a downward trend in student loan repayments received directly from borrowers and in the number of people fully repaying their loan each year. At the same time the amount borrowed by students continues to increase. The current economic recession and increasing unemployment has caused more students to up skill or continue with post graduate study adding to the collective student debt owed.

There was a mixed response from members about whether this Bill in its present form is a practical way of achieving what is intended. Nearly all those who responded supported the purpose of the Bill in theory, but considered having the capability to allocate \$500 or more over and above what is already required, would limit the number of people who would be able to take advantage of this incentive. The 10% incentive was also considered to be too low to encourage students to take it up. It is pleasing to see that the new policy doesn't discriminate between New Zealand and overseas-based debtors.

Issues with the Bill:

- a) The student loan scheme already discriminates against women. The disparity has been reduced by the removal of compounding interest, but as women's incomes continue to fall compared to men's, loans still take longer to pay off. Maori and Pasifika women take even longer, as a direct result of income levels. A 'Repayment Bonus' will bring discrimination right back to compounding interest days, as fewer women than men will be able to spare the extra \$500, and therefore their loans will not be reduced, and will continue for longer.
- b) Anyone on a lower income, man or woman, will be penalised by this incentive, for the same reason. Only well paid people or those who are entering the final stages of repayment of the outstanding balance or those planning to go overseas would benefit.
- c) The 10% bonus is unlikely to lower the incentive for students to borrow any less

Suggestions for improvement or change

Clause 4: New Section 45C

- i. There should be no minimum to the qualifying excess repayment. This would enable a much broader range of individuals to take advantage of the bonus. There might be some additional administration costs, but if the Government is really intent on retiring this debt, then it makes sense to widen the uptake. More importantly, it is less discriminatory.
- ii. There should be a more generous bonus, perhaps, 15 - 20%, so that even small excess repayments show a reduction in the debt total.

Concluding comments

NCWNZ members support efforts to provide stronger incentives to encourage students to pay back their student loan debt more quickly. However we believe that any level of excess repayment should qualify for the bonus and that the percentage value of the incentive should be raised to encourage a greater take up.

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Convener: Education Standing Committee