

LOAN DANGER

It's not just the young who are dogged by student debt. Susanna Stuart on why it's a national issue – and how to pay off that loan faster

I belong to an unusually lucky generation. Somehow, in the 1970s when there were more single-income households and fewer taxpayers, the nation nevertheless provided virtually free tertiary education to its burgeoning baby boom of students. I was among them, attending Waikato University in the 1970s and graduating, as we all did, without a spot of student debt.

Tertiary education now comes with a price tag. Late last year Statistics New Zealand analysed student loan data and its report made, I thought, rather sad reading.

In 2008, the year they focused on, 178,506 students borrowed under the student loan scheme. Some 54,321 of these were new borrowers, while 124,000 were already on the treadmill. For sure, not every student borrowed (37.5% did) but the percentage who did borrow was up on previous years. Seven out of 10 students eligible to borrow did so.

Today the lion's share of these borrowers are students under the age of 24. More than 50% of these younger students take out a student loan. But what surprised me when I read the report was how many older people are also studying, and taking out loans to do so.

To illustrate this, Statistics NZ tracked those who left tertiary study in 2003 to find out how quickly students repay

their loans. Of the 42,654 who left owing a debt in 2003, just half were aged under 25 while a third (almost 14,000) were aged 30 or more. So student debt is not just a “young generation” problem. And of course the story only starts there because the debt usually takes time to repay. On graduation, only one student in nine settles their debt immediately.

In 2003 the average size of the ‘leaving debt’ was \$14,110. Here is the bad news: Just over a third of these borrowers fully repaid their debt within five years. On average, after five years, these ex-students had paid off only 23% of their debt. It is too soon to know when the bulk of these loans will be discharged, but of 1992 graduates, almost one in every six had not – even after 16 years – repaid their loans in full.

Some debt repayment is slow because of poor savings and spending habits. But in truth much of the slow repayment reflects the low incomes in New Zealand, even for those with good degrees, and the high cost of living.

Former students in their 40s, and there are increasingly more in this boat now, are almost as slow to repay student loans as the cash-strapped 24-year-olds. This means more and more Kiwis are getting into long-term debt – and that can't be good for the economy as a whole. 



HOW TO MANAGE YOUR STUDENT LOAN

- Treat your student loan as a serious debt. It may be interest-free but it is still debt.
- Use the online calculator and tools on www.ird.govt.nz/studentloans to work out your repayments. If you are salaried, your employer will deduct from your pay what is owing to the IRD. If you are self-employed, the IRD will calculate what has to be paid by February 7. The IRD will also advise if you have to make any interim payments.
- You can pay off your student loan faster by taking advantage of the 10% bonus on voluntary repayments of \$500 or more in a tax year. For example, if you make voluntary repayments of \$800 over a tax year, you'll get a bonus of \$80 and your loan balance will reduce by \$880. To see if you're eligible go to www.ird.govt.nz/sl/bonus/.
- While overseas your student loan won't be interest-free. The status of your loan will depend on how long you are overseas. You can opt for a repayment holiday but make sure you are clear on the terms and conditions. Again go to the IRD website for further information.

HAVE YOU HEARD?

Do you send money overseas? You can now make international transfers online through ASB Bank. If you arrange for a telegraphic transfer in person at the bank it costs \$25; by doing it online you save \$5. Just go to the international transfer option on the menu when you sign up for internet banking. Every month my partner sends money to pay the teachers at a rural school he set up in Cambodia, so every precious dollar counts.