

Appendix 1 to agenda for Ministerial subgroup on 1 November: Increasing student allowance and living costs support for students

1. The Labour Party's manifesto commits to a \$50 per week increase to both student allowances and the weekly maximum for living costs that can be borrowed through the Student Loan Scheme. The 100-day plan commits to delivering these \$50 increases from 1 January 2018. Delivery of these commitments is feasible, if Cabinet decisions are made on the policy on 13 November 2017.
2. There are some complexities in the student allowance system that mean some detailed policy decisions are required. There is also a longstanding link between rates for student allowances and rates in the benefit system, so changes to the base student allowance rates will impact this alignment. Clarifying the policy objective will assist with decisions on the design of the proposal.
3. We seek some key choices on the design of the proposal that will be developed for Cabinet on 13 November 2017.

Key choices to inform Cabinet proposal

<ul style="list-style-type: none">• Is the policy intention to:<ul style="list-style-type: none">○ assist students with meeting the rising cost of living○ respond to rising accommodation costs○ reduce financial barriers to tertiary education	YES / NO YES / NO YES / NO
<ul style="list-style-type: none">• Should the student allowance increase be \$50 net based on an 'M' tax code?	YES / NO
<ul style="list-style-type: none">• Should the \$50 increase be consistently applied across all student allowance rates?	YES / NO
<ul style="list-style-type: none">• Should the income thresholds for student allowances remain the same?	YES / NO
<ul style="list-style-type: none">• Are you comfortable with proceeding with student allowance increases through base rate change, given the impacts on the benefit system? <i>(An alternative approach may be possible through changes to accommodation benefit).</i>	YES / NO

Increases to student allowance rates

4. Some consequential impacts and detail for key decisions are outlined below.

Should the student allowance increase be \$50 net or \$50 gross?

5. Student allowance rates are specified in the Student Allowances Regulations 1998 in gross amounts and students are taxed at their personal tax rate. Payment of a \$50 gross amount will mean that some students will not receive the full \$50 in the hand because they will be required to pay tax on the amount received. In order for most students to receive \$50 in the hand, a higher gross rate must be paid in order to account for tax.
6. It is possible to set gross rates that give a \$50 net increase based on an 'M' tax code. In 2016, over 90% of students were on a tax code of either M or M SL (ie M tax code with student loan repayments). Students who are on an M SL tax code and are on either a couple or sole parent gross rate above the threshold of \$368 per week at which they are required to repay their loan will have the loan deduction applied. Those students would not receive the full \$50 because part of the increase would go towards repaying their student loan.
7. Increasing net rates to \$50 for all tax rates (ie not just 'M') is not feasible as it would require new system changes that cannot be completed by 1 January 2018.
8. *We recommend that, if you seek to provide students with a \$50 in-the-hand increase, you agree that the increase should be a \$50 net increase based on an M tax code.* This would deliver the full \$50 to many students, substantial increases to all other students, and can be delivered on the timeframes required.

Should there be a \$50 increase to all student allowance rates?

9. Student allowance rates are paid at different amounts that depend on a student's relationship status, age, number of children and living situation. Accordingly, a \$50 increase will be a greater change in rate for some students than for others. For example, a \$50 increase would seem relatively smaller to a sole parent with one child who currently receives \$376.64 per week, compared to a childless single student under 24 who is living at home and currently receives \$158.23.
10. A \$50 increase for all students would maintain current relativities based on family situation and avoid any students receiving more or less than others.
11. *We recommend that the \$50 increase should be applied across all student allowance rates.* This will maintain existing relativities and deliver directly on your manifesto commitment.

Should income thresholds remain unchanged?

12. Personal, partner and parental income can affect entitlement to student allowance and the amount received (as most allowances are abated when income rises above a certain point). A student's relationship status, age, number of children and living situation also determine how they are affected.
13. An increase to student allowance rates will mean that the income cut-off point at which a student receives no allowance will be higher. As a consequence, students who were previously earning too much to receive any allowance would now become entitled to some assistance. The newly-entitled students would receive \$50 or less because their

other income would abate the rest of their entitlement. We do not currently have data on how many students would be in this group.

14. The alternative to this is to lower income thresholds in order to maintain the current level of spending on student allowances. However, this would remove entitlement completely for some students and remove some or all of the gain from the \$50 increase for others.
15. *We recommend that the income thresholds for student allowances should remain the same.* This will ensure broad access to allowances, with abatement impacts providing more students with some allowance support than under previous rates. You will still be able to consider a review of income thresholds as part of future work on student support.

What are the impacts for the benefit system?

16. Many parts of the student allowance system currently link to the benefit system, including:
 - net amounts of student allowance currently align with the equivalent Jobseeker Support or Sole Parent Support rates in the benefit system
 - sole parents receive student allowance accommodation benefit at the rate of accommodation supplement that would apply as if they received Sole Parent Support (with the formula for accommodation supplement partly based on the amount of Sole Parent Support paid), and
 - some students receive non-beneficiary assistance that is impacted by the amount of student allowance that they receive, and so would receive less of this assistance if there was a student allowance increase.
17. In addition, during holiday breaks some students move off student allowance on to a benefit, known as Jobseeker Support Student Hardship (JSSH). An increase to student allowance only will mean that students face a drop in income during holiday breaks, as the JSSH rate is the same as the Jobseeker Support rate. While there is nothing that says both rates will stay the same, a difference between these rates could cause issues for some students and result in students seeking additional hardship or emergency support during holidays.
18. Increasing student allowance rates could raise questions about why students are receiving additional support with living costs when beneficiaries are not. This may be especially so if the policy objective is to address the rising cost of living.
19. Increasing student allowance rates (and possibly combined with fees-free tertiary study) would also mean that, for some students, there is a financial incentive to move into study. This is particularly so for sole parents because they receive accommodation supplement rates as if they received Sole Parent Support.
20. *If you wish to deliver directly on your manifesto commitment to increase student allowances by \$50 per week, we recommend that you proceed with changes to base allowance rates.* However, this decision will have flow-on implications and alter incentives across the benefit and student support systems, and may add complexity to any future work on reviewing benefit system rates. An alternative approach is outlined below.

Increasing accommodation benefit may be an alternative option but there are complications

21. The main point of difference between the student support and benefit systems is in the area of accommodation assistance. Support for students is usually substantially less

than that provided for by the benefit system (up to \$105 per week for a single student in Auckland central).

22. Student allowance recipients who are eligible are paid the accommodation benefit (63% of allowance recipients in 2016). For students other than sole parents, the amount of accommodation benefit depends on the region the student lives in but the most that can be paid is \$40 (to become \$60 on 1 July 2018 if other manifesto commitments are implemented as indicated). Sole parents generally receive more on accommodation benefit than other students because their rate of support is calculated at the same rate as sole parents in the benefit system.
23. As an alternative, it is possible to increase accommodation benefit rates by \$50 per week by 1 January 2018 but this would also come with some complications. These include:
- this would not provide a \$50 allowance increase to all student allowance recipients because not all recipients receive accommodation benefit
 - increases to loan living costs maxima may provide a \$50 weekly loan increase for those student allowance recipients who miss out on accommodation benefit increases, but this will not be available to students who receive an allowance above the new loan maximum – these students would not receive any increase
 - some students who receive an increase to accommodation benefit would also be able to borrow up to \$50 more from the increase to the loan living costs maximum (essentially a \$100 weekly increase in total)
 - sole parents already receive higher accommodation support at the same rate as beneficiaries, so application of the \$50 accommodation increase would need to be considered for this group, and
 - Student groups may continue to question differences in accommodation assistance.
24. In the longer term, Ministers may wish to consider reviewing accommodation benefit rates. However, an increase to student allowance rates now would make it harder or more expensive to realign the student support and benefit systems later.

Increases to student loan living costs maximum

25. Increasing the student loan living costs maximum by \$50 is relatively straightforward as there is a single rate and this rate is not linked to the benefit system.

Implementation

26. Implementing a \$50 increase to student allowance rates and living costs loan maximum requires StudyLink system changes. Detailed implementation costs are being prepared and will be provided in further advice once available.
27. Student allowance rates are detailed in the Student Allowances Regulations 1998. Rate changes will need to be made through an amendment to those regulations. MSD is preparing drafting instructions so that drafting can begin on the amendments as soon as policy decisions are confirmed.
28. Loan amounts are contractually agreed with students so no change in regulations is required. However, due to this contractual relationship, students who have already applied for loans before the increase is implemented will need to agree to increase the amount borrowed (if they wish to do so). Students will be able to complete this online through StudyLink systems.