



Briefing Note: Student Loan Scheme Forecast Valuation 2022

To:	Hon Chris Hipkins, Minister of Education		
	Hon David Parker, Minister of Revenue		
Date:	4 May 2022	Priority:	Medium
Security Level:	In Confidence	METIS No:	1286006
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Messaging seen by Communications team:	No	Round Robin:	No

Purpose of Report

1. This report summarises the results of the forecast valuation of the Student Loan Scheme (the Scheme) for 30 June 2022.
2. The results of the forecast valuation will be made public through Budget 2022 documents.

Summary

1. Each year the Scheme is valued by actuaries contracted by the Ministry of Education. The results of the valuation are used for the Government's financial statements. In March the contracted actuaries (PwC) produce a forecast valuation to indicate what the year-end value will be.
2. The fair value of the Scheme is forecast to be **\$10.050 billion** at 30 June 2022, a decrease of **\$478 million**.
3. This year there are three key changes in value:
 - The repayments received in the first half of the year and the HYEPU 2020 forecasted repayments for the second half of the year are 13 percent higher than was expected at the 2021 valuation, and write-offs from deaths and bankruptcies are also lower than expected (**+\$61 million**)
 - Updated macroeconomic forecasts (related to CPI and Average Weekly Earnings) (**+\$117 million**)
 - Changes to the discount rate (**-\$656 million**), due to forecast higher risk-free interest rates, and an increase to the risk premium.
4. The explicit allowance for a shock to future employment outcomes due to COVID-19 is unchanged, as is the migration allowance and the provision for a potential deterioration in overseas compliance. PwC estimates the impact of the COVID-19

allowance at June 2022 is about \$200 million. PwC will reconsider the COVID-19 allowance when preparing the final 2022 valuation.

5. PwC has based the 2022 forecast valuation on the data used for the June 2021 valuation, due to concerns with the most recent Integrated Data Infrastructure (IDI) data. These issues have since been resolved, and the 2022 final valuation will use complete, updated data.
6. There are no impacts on the Scheme's value from policy changes for the 2021/22 financial year.
7. Changes in value beyond government's control (e.g. due to macroeconomic forecasts) are accounted for as a remeasurement and do not affect appropriations. Decreases in the Scheme's value that are not remeasurements (updates to the model, for example) need additional funding to be appropriated to Vote Revenue.
8. We do not anticipate additional funding will be required for changes in the Scheme's value for 2022. However, the updated IDI data may produce a different result to the forecast valuation. Vote Revenue's Supplementary Estimates 2022 include a \$200 million buffer to prevent any unauthorised expenditure.

Recommended Actions

The Ministry of Education recommends that the Minister of Education:

- a. **forward** this report to the Minister of Finance for his information
- b. **agree** that this report be proactively released following Budget 2022, with any redactions made in line with the provisions of the Official Information Act 1982.

☒ **Agree** / ☐ **Disagree**


Shona Ramsay
Senior Manager
Te Puna Kaupaphere Policy

04/05/2022



Hon Chris Hipkins
Minister of Education

2 / 7 / 2022

Valuation of the Student Loan Scheme

9. The Student Loan Scheme (the Scheme) is valued by actuaries contracted by the Ministry of Education. The results of the valuation are reflected in the financial statements of the Government and are made public in Inland Revenue's annual report and the Student Loan Scheme Annual Report.
10. The contracted actuaries (PwC) produce a forecast valuation in March to provide an indication of the Scheme's value for the upcoming 30 June Valuation. The forecast valuation will become public through the release of Budget 2022 documents. They then produce a final valuation which is completed in August.

Valuation results

11. The fair value of the Scheme as at 30 June 2022 is forecast to be is **\$10.050 billion** at 30 June 2022, a decrease of **\$478 million** compared to what would be expected without the revaluation.
12. Before considering discount rate effects (\$-656 million) the Scheme's value has increased by **\$178 million**. The causes of this change in value ('sources of impairment') are summarised below.

Table one: Classification of sources of change in fair value

Change in fair value source	Appropriation or remeasurement	COVID related	Total (\$m)
Experience variance	Appropriation		+61
Macroeconomic effects, Consumer Price Index and loan interest	Remeasurement		-43
Macroeconomic effects, Average Weekly Earnings (ie COVID-19)	Remeasurement	Yes	+159
COVID-19 model changes	Remeasurement	Yes	0
COVID-19 provision of \$100m for overseas payments	Remeasurement	Yes	0
Data and modelling changes	Appropriation		0
Other impacts	Appropriation		0
Total before discount rates			+178
Discount rates, unwind differences	Remeasurement	Yes	-26
Discount rates, risk-free rate	Remeasurement	Yes	-390
Discount rates, risk adjustment	Remeasurement	Yes	-239
Total appropriation (\$m)			+61
Total remeasurement (\$m)			-539
Total change in fair value (\$m)			-478

- *Experience variance (increase of \$61 million)*: The repayments received in the first half of the financial year and the repayments forecast for the second half of the financial year are higher than was expected in the 2021 valuation. Write-offs from deaths and bankruptcies are also lower than expected.
- *Policy changes (no change)*: There are no impacts on the Scheme's value from policy changes this year.

- **Data and modelling changes (no change):** The models used to value the Scheme have not been updated due to issues with the updated Integrated Data Infrastructure (IDI) data, discussed below. For the 30 June valuation, the valuers will assess whether there is a need to update the predictive behavioural sub-models, particularly given the evolving environment with COVID-19.
- **Macroeconomic effects (increase of \$117 million):** Updated future interest rate assumptions (including changes to the loan repayment thresholds due to CPI) decreased the Scheme's value by \$43 million, and higher salary inflation assumptions in HYEUFU increased the value by \$159 million.
- **COVID-19 allowance (no change):** The \$100 million allowance for a shock to future employment outcomes is unchanged, as is the migration allowance and the provision for a potential deterioration in overseas compliance. Whilst there are positive signs for the economy, the Omicron outbreak has added significant short-term uncertainty. The valuers will reconsider the COVID-19 allowance for the 30 June 2022 valuation.
- **Discount rate (decrease of \$656 million):** The discount rate is made up of the risk-free rate and a risk adjustment:
 - i. Adopting the Treasury's risk-free rate as at 31 Jan 2022 **decreased the Scheme's value by \$390 million.**
 - ii. The risk adjustment has been updated using market data to 31 January 2022. It has increased from 1.65 percent to 2.10 percent, **decreasing the fair value by \$239 million.**
 - iii. A higher-than-expected interest unwind rate **decreased the Scheme's value by \$26 million.**

Impact on Vote Revenue

13. Changes in the Scheme's value are classified as either:
 - remeasurements (changes outside of government control due to moving macroeconomic forecasts and changes in the discount rate); or
 - changes to appropriations (changes that are not considered remeasurements e.g. policy decisions).
14. Remeasurements do not require funding. The principle underlying remeasurements is that, where events not under the control of the Crown cause a reduction in the value of student loans, it is not appropriate for Government to require prior approval for such events.
15. Changes to appropriations require additional funding when they decrease the Scheme's value. The experience variance, data and modelling changes and the expense assumption are classified as changes to appropriations but together they *increased* the Scheme's forecast value by **\$61 million.**
16. New IDI data will be used for the final 2022 valuation, which may yield a different result to forecast. Inland Revenue has therefore included a \$200 million contingency in Vote Revenue's Supplementary Estimates 2022 to prevent any unauthorised expenditure.

Data differences with previous years

17. The valuation model for the Scheme uses education, loan and tax data linked by Stats NZ and made available in the IDI. Each year IR extracts and transfers updated data to Stats NZ.
18. PwC identified significant differences in the IDI loan data compared to data provided in previous years. Because of this, they were not able to update their models for 2021 in time for this forecast valuation. They therefore based the 2022 Forecast valuation on the data used for the Final 2021 June valuation.
19. These issues have since been resolved, and the 2022 final valuation will use complete, updated data.

Risk-adjustment methodology review

20. When we briefed you on last year's final valuation, we noted that PwC was reviewing its methodology for deriving the risk adjustment used in the valuation, and that any resulting changes to the risk premium could have a significant impact on the Scheme's value [METIS 1271338 refers].
21. PwC has completed the review. The new methodology has not affected the risk adjustment.

Proactive Release

22. We recommend that this report be proactively released following Budget 2022. Any information which may need to be withheld will be done so in line with the provisions of the Official Information Act 1982.