

Tertiary Education Report: Means testing of the Student Allowance

Date:	23 August 2017	Priority:	Medium
Security Level:	In Confidence	METIS No:	1081695

Action Sought

Addressee	Actions sought	Deadline
Minister for Social Development	Agree that the Ministry of Social Development report back on a risk assessment before considering any further work on auditing of parental incomes.	30 August 2017
Minister for Tertiary Education, Skills and Employment	Agree that an asset threshold be considered after a risk assessment of parental income declarations is completed.	
Enclosure: No		Round Robin: No

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1 st Contact
9(2)(a)	Senior Manager	9(2)(a)	✓
	Manager		
	Drafter		

The following departments/agencies have seen this report:

☐ Other:

- ☐ TEC ☐ MBIE ☒ MoE ☐ IR ☐ NZQA ☒ MSD ☐ Treasury
☐ SSC ☐ OAG ☐ Stats ☐ TPK ☐ MPIA ☐ MWA ☐ NZTE

Minister to Complete (please circle) 1 = very poor 2 = poor 3 = acceptable
 4 = good 5 = very good

Minister's Office to Complete:

<input type="checkbox"/> Approved	<input type="checkbox"/> Declined
<input type="checkbox"/> Noted	<input type="checkbox"/> Needs change
<input type="checkbox"/> Seen	<input type="checkbox"/> Overtaken by Events
<input type="checkbox"/> See Minister's Notes	<input type="checkbox"/> Withdrawn

Comments:

Hon Goldsmith - Discuss later in 2017.
 1/9/17

Tertiary Group – TEP

Tertiary Education Report: Means testing of the Student Allowance

Executive summary

1. The student allowance provides a higher level of subsidy for tertiary education to help students from low-income families, and those most in financial need. An income test is used to ensure that student allowances are targeted to those most in need.
2. You have asked for advice on:
 - whether the current income test is both comprehensive and robust, or if auditing of parental income declarations is required; and
 - if there should be an asset threshold for student allowances.

Performance of income testing and auditing of parental income declarations

3. Applicants, partners, and parents (of those under 24 years) must declare income including more complex income sources. From 2012, the parental income definition was aligned closely to the comprehensive *Family Income Scheme* definition.
4. The Ministry of Social Development matches an applicant's personal and partner income information with Inland Revenue and spot audits income declarations. Each month approximately 250 individuals are matched. In 2016/17, 15 cases resulted in overpayments, with an average value of approximately \$2,090.
5. In 2016, there were 10 prosecutions in relation to the overpayment of student allowances as a result of fraud. The number of fraud prosecutions has not shown any significant variation since 2010.
6. The Ministry of Social Development's initial analysis suggests no evidence of any significant risk of fraud by parents. Parental income declarations, where not provided by an accountant or tax agent, require supporting evidence. In 2016, almost 90% of parental income assessments included evidence of income.
7. Without further evidence of risk, auditing of parental incomes is unlikely to be necessary. A more detailed risk assessment by the Ministry of Social Development would be required to confirm if there is any further risk and the scale of any risk before progressing.

Including an asset threshold for student allowances

8. Asset tests exist for other forms of subsidiary financial support in the welfare system. There is also precedent internationally with asset testing used in determining eligibility and further targeting of student financial support.
9. Although an asset test would be intended to deter and identify financial restructuring, it would also be a significant shift in the policy intent, by signalling the expectation that individuals, partners, or parents divest themselves of assets to support study. This is a move towards explicitly identifying the expected level of contribution required, and a shift away from alignment with the welfare system.

10. It is not clear what impact an asset test would have, or if it would improve current targeting. It is likely to introduce further complexity, deter applications and be viewed in a similar manner to the current income test, where those who are able will restructure their financial situations to ensure eligibility.

Recommended actions

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

- a. **note** that fraudulent parental income declarations are considered a low risk due to the high level of supporting income information provided
- b. **note** without any further evidence to suggest any serious risk of fraudulent behaviour, auditing is likely to be unnecessary
- c. **agree** that the Ministry of Social Development to report back on a risk assessment before progressing any further auditing of parental incomes

AGREE / DISAGREE

AGREE / DISAGREE

- d. **agree** that an asset threshold be considered after a risk of assessment of parental income declarations is completed.

AGREE / DISAGREE

AGREE / DISAGREE



Dwina Dickinson
Group Manager
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Ministry of Education

NOTED / APPROVED

NOTED / APPROVED

Hon Anne Tolley
Minister for Social Development

___/___/___



Hon Paul Goldsmith
Minister for Tertiary Education,
Skills and Employment

29 / 8 / 17

Tertiary Education Report: Means testing of the Student Allowance

Purpose of report

1. This report provides advice on:

- whether the current income test is both comprehensive and robust, or if auditing of parental income declarations is required; and
- if there should be an asset threshold for student allowances.

Student Support and the Student Allowance

The Government provides significant financial support for students

2. The Government provides financial support directly to students through loans and allowances, to assist with costs while studying. Alongside this, tuition subsidies paid directly to providers reduce the costs that students face in relation to their tertiary education.

The student allowance is the most targeted financial support for students

3. The Student Allowance provides a higher level of subsidy for tertiary education than student loans or tuition subsidies to help students from low-income families, and those most in financial need, to overcome financial barriers to tertiary education.
4. Allowances are designed to lower the total cost of tertiary education and so reduce financial barriers. Allowances are targeted based on need and may be appropriate for:
- a. students with very few upfront resources, including information, who may heavily discount the benefits of tertiary education and be reluctant to invest in study
 - b. students who face higher living costs, for example because they have dependants, and do not have the means to meet those costs independently
 - c. study which has high public benefit (for example employment outcomes, health outcomes) but will not deliver significantly higher incomes, for example foundation education.

Changes were made to better target those in need

5. Since 2012, Government has tightened eligibility requirements for the Student Allowance. These changes included:

- removing allowance access for those 65 years and over
- limiting allowance access to 120 weeks for students over 40 years, and removing exemptions to lifetime limits
- abolishing allowances for postgraduate students (excluding Bachelors with Honours)

- expanding the definition of income for the purposes of parental income testing
 - freezing the parental income threshold at the 2011 rate until 2019.
6. These measures focused allowance support to students from lower income families, and those in their initial years of study. This represented an explicit shift from:
- a. before the 1990s, when allowances were universal, but participation rates were very low (there was also no subsidised Student Loan Scheme)
 - b. the mid-2000s, when allowance access was extended to middle-income families, through successive increases in the parental income threshold (this was in the context of increased subsidisation of the Student Loan Scheme).

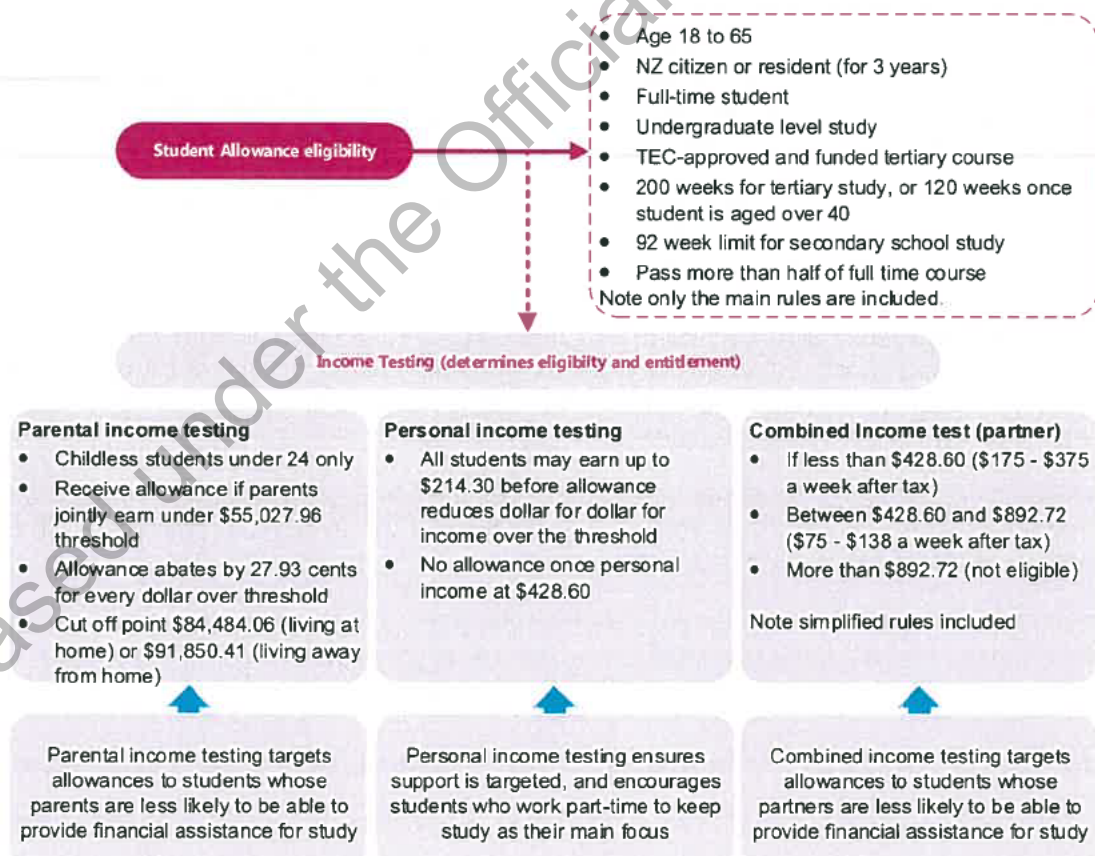
Financial means testing of Student Allowances

7. Means tested financial support is intended to promote access by more vulnerable groups.

Financial means testing alongside other eligibility criteria are used to target support

8. The income test serves to both identify eligible students from lower income families and the level of entitlement. The current test applies to personal, combined (partner), and parental incomes, impacting on both eligibility and entitlement (see figure 1 below).

Figure 1: Eligibility and income tests for the Student Allowance



Is the income test fit for purpose?

9. You have asked us to provide advice on whether the current income test is both comprehensive and robust, or if spot auditing of parental income declarations is required.
10. This involves both considering whether the definition of income provides significant coverage (what types of income are included), and if there is sufficient confidence in the declaration and capture of this information (compliance, data matching and auditing).

What types of income are required to be declared by applicants?

11. The definition of personal/partner income is comprehensive; parental income was expanded from 2012 to improve the accuracy of targeting aligning it with the *Family Income Scheme* definition in tax legislation. New Zealand's income definition is extensive compared to international jurisdictions (see appendix one).
12. Personal income or partner income is defined as any income which is derived in New Zealand or overseas, whether or not taxable, excluding some specific forms of income, for example some benefits or family tax credits.
13. Parents (for those under 24 years) must declare income from wages and salary and additional related employment payments for example bonus pay. They must also declare more complex forms of income such as interest and dividends, income as a beneficiary or trustee of a trusts, and farm, business, or rental income. Additionally, income from indirect monetary benefits such as free board or shares in a business and also any other income they may deprive themselves of.¹
14. We consider that the current income definition provides comprehensive coverage of the range and types of income available. The changes to the parental income definition were intended to improve the fairness and integrity of the scheme, and align it closely to similar changes to the *Family Income Scheme* definition, under tax legislation.

How do we capture and confirm income information?

Personal and partner income checks

15. Allowance applicants must declare any income they believe they will earn while studying when they apply, and advise of any changes that might affect entitlement during receipt of the Student Allowance. Applicants are warned of the consequences of making a false or misleading declaration when signing their applications.
16. Evidence is not required at the point of application. One in 10 recipients is selected randomly to provide evidence of the income they have declared or received. These random checks are made on an on-going basis.
17. The Ministry of Social Development also undertakes electronic matching with Inland Revenue to identify students who may have received taxable income they have not declared. Each month approximately 250 individuals are matched.

¹ See appendix one for the full list of sources income that are required to be declared and how this compares to international jurisdictions.

18. In 2016/17, 15 cases resulted in overpayments, with an average value of approximately \$2090. There were a total of 10 successfully prosecuted fraud cases in 2016. The number of prosecutions for fraud has not shown any significant variation since 2010.

Parental income checks

19. Parental application forms also require parents to declare any income they will receive during the tax year applicable to the student's study period. In addition, where the parent is completing the form, as opposed to an accountant or tax agent, they are asked to provide supporting evidence.

Spot auditing of parental incomes

20. The Ministry of Social Development's initial analysis suggests there is no evidence of any significant risk of fraud by parents. In 2016, almost 90% of parental income assessments included evidence of income.
21. Without further evidence of risk, auditing of parental incomes is unlikely to be necessary. A more detailed risk assessment by the Ministry of Social Development would be necessary to confirm if there is any further risk and the scale of this before progressing.
22. The Approved Information Sharing Agreement (AISA) between Inland Revenue and the Ministry of Social Development recently agreed to by Cabinet [CAB 17-Min-0208] amalgamates existing sharing arrangements into one AISA including students, their partners' and their parents' income, for Student Allowance purposes.
23. Although intended to simplify the application process for Student Allowances, the agreement may provide an avenue for matching parental income declarations with Inland Revenue tax information. The match may provide further information on the reliability of current income declaration processes in the future.

Asset testing for Student Allowances

24. You have asked us to consider including an asset test into the financial means assessment of parents. The purpose would be to capture those parents who are able to structure their financial assets and subsequently reduce their incomes so that their children are eligible for a Student Allowance.
25. Asset tests exist for other forms of subsidiary financial support in the welfare system. There is also precedence internationally with asset testing used in determining eligibility and further targeting of student financial support (see appendix two for an overview of these approaches and appendix three for what types of assets are included).
26. Although an asset test would be intended to deter and identify financial restructuring, it would also be a significant shift in the policy intent, signalling the expectation that individuals, partners, or parents divest themselves of assets to support study. This is a move towards explicitly identifying the expected level of contribution required, and a shift away from alignment with the welfare system.
27. It is not clear what impact an asset test would have, or if it would improve current targeting. It is likely to introduce further complexity, deter applications, and be viewed in a similar manner to the current income test where those who are able will restructure their financial situations to ensure eligibility.

The Ministry has previously considered personal asset testing

28. There was some early consideration of asset testing in advice to the previous Minister of Tertiary Education Skills and Employment, in Budgets 2012 and 2013, before decisions to target allowances using limits on age and level of study.
29. The focus of this advice was on personal asset testing for students aged over 24 years, who are not subject to parental income testing. We considered that current personal income was an imperfect means of targeting student allowances to older students, who may be able to contribute to their costs of study through savings from past high incomes and/or their assets.

A number of limitations with existing income tests were identified

30. There were number of limitations identified with the existing income tests:

- Personal income while studying is not a good indicator of need – as people are choosing to forgo income in order to invest in themselves which will later result in a higher income.
- Many students will have been overseas prior to studying and data on their income will often not be available. Income prior to study is also a poor proxy if they were on a working holiday.
- A young person's personal income may not be a good indicator of socio-economic background if students have been working in low-paid jobs or supported by their parents during gap years.
- There are likely to be some families with significant assets who are able to structure those assets to minimise their income, so that their children qualify for Student Allowances.
- It doesn't necessarily reflect the costs faced by parents, nor the actual ability of parents to provide financial support.

There are advantages to using other eligibility and entitlement levers over asset testing to better target student allowances

31. We already target student allowances by limiting access to those in full-time study, at undergraduate level, with lifetime limits on the number of weeks of support available. The main advantages of these eligibility criteria are they are a simple and effective means by which target student allowances, without creating a more complex and costly administrative case management system.
32. Any consideration of asset testing (to improve targeting) should be considered alongside other forms of eligibility criteria, similar to the changes made in 2012 (see paragraph 5-6).

We need to consider how far the current income definition extend

33. The current income test is comprehensive and picks up on income-generating assets (see appendix one), and more complex financial arrangements.
34. Students, their partners, and their parents are also required to advise of any situations where they will directly or indirectly deprive themselves of income. This includes re-arranging their financial circumstances to reduce their income, charging less than the market rate on a loan, or not requiring a market rental when renting property.

35. Further risk assessment may identify the extent to which the current income declarations accurately reflect more complex financial arrangements. This information may help in any consideration of asset testing.

There are also risks and limitations to introducing an asset test

36. Asset testing has limitations in that:

- a. Existing income definitions, including identifying any deprivation of income or explanation of nil income, are to a degree a proxy of any likely assets available to applicants/partners/parents.
- b. Establishment of an asset test, in the same manner as income tests, creates an incentive to restructure assets in a way where they won't be recorded against eligibility or entitlement.
- c. Any additional layer of compliance or complexity can discourage and increase non take-up of support by those most in need of financial support and therefore work against the Government's tertiary education participation objectives.
- d. Establishing an asset test is likely to have significant implementation costs due to the complexity of identifying and investigating assets that an applicant, their partner or parents may have at their disposal.
- e. What assets are available to the applicant are difficult to identify and rely on self-declaration.

Next steps

37. The Ministry of Social Development considers that fraudulent parental income declarations are a low risk. Although further auditing may be possible, there is no evidence to suggest any high risk of fraudulent behaviour.
38. It would be necessary for the Ministry of Social Development to carry out a more detailed risk assessment to identify the size of any issue before progressing further.
39. An asset threshold could be considered after a risk of assessment of parental income declarations is completed.

Appendix 1: Types of income included in assessment for student grants

Key: ✓ = included in assessment, ✗ = specifically excluded from assessment, ⊕ = neither specifically included nor excluded from assessment (or with caveats e.g. exceeding a certain limit)

Type of Income	New Zealand	Australia	United States	United Kingdom
Income from employment/benefits				
Salary and wages	✓	✓	✓	
Benefit payments and ACC	✓	Some	Some	If taxable
Attributable fringe benefits	✓	✓		
Salary exchanged for private use of an employer-provided motor vehicle	✓	⊕		✓
Employer-provided short-term charge facilities	✓	⊕		✓
Income from capital				
Shareholder salaries	✓	✓		⊕
Interest	✓	✓	✓	✓
Dividends	✓	✓		✓
Portfolio Investment Entity income (PIE)	✓			
Net rental income	✓	✓		✓
Income from boarders	✓	✓		
Business net income (sole trader)	✓	✓		✓
Partnership net income	✓	✓		✓
Income of major shareholder held in a closely held company	✓			✓
Director fees				
Income from trusts				
Trust beneficiary income	✓	✓		✓
Attributable trustee income (settlers only)	✓	✓		✓
Trustee fees	✓	⊕		✓
Other				
Personal drawings	✓			
Other payments that exceed \$5,000 (NZ)	✓			
Scholarship payments		Above \$7,826	If taxable	
Tax exempt income	✓			
Pensions and annuities, distributions from retirement savings schemes (private)	✓	✓		✓
Income equalisation scheme deposits	✓			
Income equalisation scheme withdrawals	✓			
Other sources of income (including income from outside country of residence)	✓	✓		✓
Lump sums	Some	Some		✓
Income from a life interest	⊕	✓		
Allowable expenses on which the client claims tax relief	⊕	⊕		✓
Money paid on your behalf (e.g. bills)			✓	
Expenses assessed				
Child support paid			✓	
Income offsets (s MB 3(3) Income tax Act 2007)	✓	N/A	N/A	N/A

Appendix 2: International examples of asset testing for student support

Australia

1. Means-tested student grants are administered by Centrelink, as part of the welfare system. They include: Youth allowance (for students 24 years and under), Austudy (for students 25 years and older) and ABSTUDY (for Aboriginal or Torres Strait Islanders).
2. Personal income and assets tests are applied to all grants. Parental income testing applies to 'dependent' students (aged under 22 years). The family assets test was removed from January 2016 as part of the Commonwealth 2015-16 Budget.
3. Asset limits are the same across Australia's welfare system. Different limits apply based on the client's relationship status, any dependents and whether they own their home. There is no entitlement once assets exceed a certain limit (e.g. \$250,000 for single homeowners). A waiting period applies for those with liquid assets over \$5,500.
4. Clients complete online declarations as to their income and assets. Applicants must declare the value of each asset, and attach proof (e.g. bank account balances).
5. Centrelink matches data with other government agencies, including the Australian Tax Office (ATO). An automatic matching system can find disparities between income declared to Centrelink and income declared to the ATO. Property ownership can be verified against land title information.

United Kingdom (England)

6. England offers maintenance loans to students, on the basis of income. There is no separate assets test for access to the maintenance loan.
7. The amount available for maintenance loans was recently increased as a result of the abolition of maintenance grants in 2016. Eligibility for maintenance grants (as for loans) was assessed on the basis of income. Students who were not eligible for maintenance grants (or eligible for partial grants only) could still receive loans.
8. There are three loan categories with different maximum entitlements: students living with parents, students away from home (studying outside London), students away from home (studying in London).
9. The maximum loan entitlement reduces by £1 for every £8.12 of total income over £25,000, until 44-49.8% of the maximum loan entitlement remains.
10. A student's "household income" is their personal income as well as:
 - Their parents' income, if the student is under 25 years and living at home or financially dependent on their parents.
 - Their partner's income, if the student is over 25 years and either lives with their partner or is married to them.
11. Parents and partners make a declaration that their income details are correct. Income details are shared and checked with HM Revenue and Customs. The students and their parents or partner may be asked to provide evidence if this process picks up any discrepancies.

United States

12. Federal Pell grants are made to undergraduate students in financial need who have not yet earned a bachelors or professional degree. Eligibility is assessed on the basis of "financial need," which is determined by the difference between the cost of attendance and their "expected family contribution" (EFC).
13. The EFC is determined by a statutory formula. This formula takes into account a student's family's income, assets and benefits received, as well as the number of family members supported. Parental income and assets are taken into account only for students aged 23 years and under.
14. Students may qualify for a "simplified" EFC formula assessment (meaning assets are not considered) if:
 - anyone included in the parents' household received benefits from designated means-tested federal benefit programs over the previous two years; and
 - the parents' combined household income in the last assessed tax year (2015 for applications to study in 2017-18) was \$49,999 or less.
15. Students may qualify for an automatic zero EFC calculation if:
 - the student (or their parents) meet the criteria for a simplified EFC formula assessment; and
 - the parents' combined household income (or the student and their spouse's combined income) in the last assessed tax year was \$25,000 or less; and
 - the student is dependent on their parents (23 and under) or the student has dependents (other than a spouse).
16. Students who withdraw early from their course may be required to repay their grant.

Appendix 3: Types of assets included in eligibility assessments

Key: ✓ = included in assessment, ✕ = specifically excluded from assessment, ⊖ = neither specifically included nor excluded from assessment (or unclear)

Type of asset	NZ (accommodation supplement)	Australia (most benefits)	United States (Federal Pell Grants)
Real estate			
Family home (and surrounding land)	✕	✕	✕
Māori land (where individual ownership cannot be identified)	✕	N/A	N/A
Land or buildings other than principal home (includes rental properties)	⊖	✓	✓
Any property left to you in an estate, which you can't get for up to 12 months	⊖	✕	⊖
Financial Investments and Income Streams			
Money in bank accounts (including fixed and term deposits)	✓	✓	✓
Building society shares	✓	✓	
Bills of exchange or promissory notes	✓	✓	
Money invested with or lent to any bank, or other financial institution	✓	✓	
Proceeds from the sale of the family home	✓	✕ ²	
Shares, stocks, debentures and bonds etc.	✓	✓	✓
Pre-paid funeral expenses	✓	✓	
Cemetery plot and a prepaid funeral, up to an allowable limit	⊖	✕	
Funds held in Kiwisaver/other retirement schemes accounts ³	✕	✕	✕
Mortgage investments	✓	⊖	✓
Money withdrawn from a Kiwisaver scheme	✓	⊖	N/A
Any money left to you in an estate, which you can't access for up to 12 months	⊖	✕	⊖
Trust funds	⊖	⊖	✓
Value of life insurance	⊖	✓	✕
Qualified educational benefits/savings accounts	N/A	N/A	✓
Business assets			
Client's share in any partnership	✓	⊖	⊖
Business assets	⊖	✓	✓
Family farm	⊖	⊖	✕
Small family business (100 or fewer employees, family owns more than 50%)	⊖	⊖	✕
Other non-cash assets/personal items			
Home contents/personal effects	✕	✓	⊖
Motor vehicle (for private use)	✕	✓	⊖
Caravan, boat or other vehicle	✕	✓	⊖
Assets given away (gifting)	⊖	✓	⊖
Licences, such as fishing or taxi	⊖	✓	⊖
Trading, hobby or investment collections	⊖	✓	⊖
Cyber currency (e.g. Bitcoin)	⊖	✓	⊖
Any interest (life, reversionary, remainder, or contingent) not created by client or their partner	⊖	✕	⊖
Most compensation or insurance payments for loss or damage	✕	✕	⊖

² Excluded if you use it to buy another home within 12 months (exempted amount included in the income test).

³ In Australia and New Zealand, funds are not included for those under the retirement/pension age.