

Student 2: High Merit

NZQA Intended for teacher use only

The contemporary issue I am exploring is the student loan scheme and how it has impacted on Kelly's decision-making.

Kelly [not her real name] is 22 and is currently studying at Auckland University. She has just completed her first year of a four-year law degree. After leaving school Kelly had a gap year overseas where she worked in hospitality and travelled as much as she could afford to. Once she returned to New Zealand she went flatting and worked long hours in hospitality so that she could continue to travel. Two years ago, Kelly decided that she would need to undertake study if she was to ever get a decent job paying a decent income. She was not going to earn a good income or get enough job satisfaction from hospitality work.

Once Kelly had decided she wanted to study law, she was very keen to go to Victoria University in Wellington because the law school has an excellent reputation. Living in Wellington would also give Kelly the independence she had become used to while travelling overseas and flatting. However, once she looked into it, she realised that she would have to take out a very large student loan because of the cost of accommodation in Wellington, living expenses such as food, and flights to and from Auckland during uni vacations. She would also have to try to find part-time employment in a new city.

The basic tuition fees for a law degree at Victoria is around \$6,300 per year. Then there would be the campus living cost at least \$360 per week or at least \$13,650 per year. These living fees include a furnished room, heating, power and internet. It also includes three meals per day Monday to Saturday at the communal cafeteria. Although shared rooms are cheaper, Kelly knew that if she was going to go to Victoria she would want a single room. So, to live in Wellington, Kelly would have to take out a student loan of at least \$20,000 per year for three years.

Kelly decided against studying at Victoria because she didn't want to begin her working life with a \$60,000 loan. Instead, she chose to study at Auckland University as it would allow her to live at home with her parents, where she would not have to pay rent or board but would have to pay all her study and personal costs. This meant Kelly would only have to get a student loan for the \$6,200 fee per year. She decided this was better as she wouldn't have as much pressure to pay off such a large student loan once she graduated. So, she decided to stay in Auckland so she could live at home. She could also stay at her part-time job where she works five shifts per week, more during uni holidays, earning the minimum wage. For Kelly, the long-term benefit of living at home outweighed the downside of not being able to live independently for a few more years.

Kelly took out a student loan to pay for her first year's fees and drew down some loan for a computer and other 'expenses' which she now regrets. Her loan balance is already at \$20,000 before she increases it for her second year. As an older student who is now in a hurry to improve her life and prospects, Kelly wants to become much more responsible about using the loan even though this will place financial restrictions on how she lives. She has become very strict about how she spends her money and has decided that she will not use the loan for anything but study costs.

After travelling to and from university in her old car during the first semester, Kelly decided to find a cheaper means of travel. Fed up with rising petrol costs, more traffic congestion and an increase in city parking from \$12 to \$20 a day, she switched to using the bus. By using a student HOP card Kelly can save a large amount each week on week just on travel costs. She pays for her bus fares using the income from her job. Taking the bus also saves on wear and tear on her car so Kelly potentially saves on maintenance costs. Kelly is not a public transport sort of person and hates the inconvenience of not being able to use her car during the day or go places on the way home. However, it was because she doesn't want to constantly draw down more of her student loan that she made her decision to travel by bus. She doesn't earn enough from her job to cover fuel, maintenance, and parking costs. Although bus travel is faster in peak hour traffic because of the bus lanes, she has found the bus timetable inconvenient as it often means she travels much earlier than her classes start and much later than they finish. Sometimes she ends up being late to work and needs to make up the time at the other end of her shift.

Living at home and using public transport has left Kelly with more money in the bank at the end of each month. Once she decided to try to save money, Kelly looked at bank account options and decided to switch to Co-operative Bank's tertiary account where she earns 4.00% interest on the first \$4,000 in her bank and 1.00%

on every dollar above this. It is rare for her to have more than \$600 in her account, but the interest rate is better than at her previous bank. She also received a Debit MasterCard without the annual fees so this is also a saving. Apart from when she opened the new account at a kiosk branch in the mall, Kelly does all her banking online so the fact that the Co-op Bank has very few physical branches doesn't matter to her.

Kelly works at the Cotton-On branch near her home. Even though she is a part-timer she was offered a promotion and higher pay, but she has decided to stay as a retail assistant so that her uni work was not compromised. She doesn't really enjoy the work but has decided to stay there as it is easy and funds her travel and allows her to pay for the occasional night out, a new pair of shoes or gifts. Although working while studying is difficult and her social life is restricted because of work and assignments, Kelly is prepared to stick with her Cotton-On job so that she doesn't have to increase her student loan. Besides, working at Cotton-On comes with perks. She gets a 50% discount on everything at the Cotton-On Group. This reduces Kelly's spending on clothes.

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Before she decided to study full-time, Kelly and her sister were talking about buying a house to provide them with some security for the future. Because of the really high house prices in Auckland they were looking at buying a home in Whangarei. The sisters' parents were willing to pay the deposit on the house. Kelly's sister would live in the home and pay two-thirds of the mortgage and Kelly, who would continue to live in Auckland would pay one-third of the mortgage. When she decided to go to university, Kelly knew that having a student loan would affect her ability to get a mortgage. Then when she decided to study in Auckland and live at home her parents said that giving her free board for four years was equivalent to her share of the deposit that they would have paid. They have four adult children and want to help them all out equally. So Kelly's dream of buying a home has been deferred indefinitely.

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Wanting to be able to get a mortgage in the future is more motivation for Kelly to keep her student loan as low as possible and to pay it off as soon as possible. Having a perfect loan repayment history (and being very careful in how she uses her Co-Operative Bank accounts) will ensure that Kelly keeps a good credit rating so that she is in a stronger position to borrow in the future.

There are other ways that having the student loan will impact on Kelly's plans. She has some family members who have taken off overseas to escape their student loan debts. This worries Kelly as recently there has been publicity about some loan defaulters being arrested when they have visited New Zealand on holiday. Kelly wants to move to Australia to get work experience within a year of graduating, so she will continue to live at home for a year after she finishes her degree. The agreement is that she would pay her parents board but that's okay because it is likely to be cheaper than she would have to pay in a flat.

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Kelly's uncle owns a law firm in Melbourne and has said that she could work in the firm when she moves from New Zealand. She is confident that she will be able to fund the airfares and some savings while working full-time and repaying her loan but she is likely to still have some loan balance outstanding when she moves overseas. It is important that she keeps up her loan repayments because if she doesn't she will become a loan defaulter which would affect her credit rating and, worse case, could be arrested at the New Zealand border if she returned for a visit. Both of these would be a bad look for a lawyer. When she is living in Australia Kelly will accrue interest on her loan balance and will need to make repayments at least twice a year.

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Today, many couples put off having children till they are 30 or older. One of the main reasons behind this is the need to repay student loans before taking out a mortgage, and the now very high purchase price of first homes in city centres. With student loans and possibly mortgages many young couples can no longer survive on one income while raising a child. For this reason, couples either decide to go back to work a lot sooner after giving birth and give up some of their income to childcare costs, or delay having children until they have paid off the student loans or are at least very close to it. Even though she is not even in a relationship, it does concern Kelly that having to defer having children is just one more way having a student loan could impact on her future plans.

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Kelly's loan has had a huge impact on her decision making. She has had to compromise on her first choice of university purely because the cost was too great. She has become a public transport user, has turned down a promotion opportunity at work, and has become very budget conscious. She has made decisions that already saved her money so her she can get out of university with the smallest student loan possible. Kelly is very grateful that the student loan scheme exists. It has enabled her to go to university to study law. It paid fees that she could otherwise not afford and is setting her up for a great future with a professional career that will pay a steady income.

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