# Conclusions and recommendations of the National Audit Office

## Effectiveness of the reforms of student financial aid in the 2010s

Several major reforms of student financial aid were made in the 2010s. The impacts of the reforms and their appropriateness in view of central government finances have been examined relatively little, even though the benefits targeted at students are significant for central government finances. The audit provides information on the effectiveness of the reforms of student financial aid made in the 2010s and on their appropriateness in terms of central government finances. The aim is to expand the knowledge base of Parliament and the Government for the development of student financial aid and to produce new information to support the work of the committee preparing the social security reform.

The audit was targeted at the following amendments to the legislation on student financial aid: the structural reform of the student financial aid scheme in 2011 (HE 149/2010 vp), the student loan compensation and the increase in the study grant in 2014 (HE 116/2013 vp and HE 197/2013 vp), the increased emphasis on student loan and the housing allowance reform in 2017 (HE 229/2016 vp and HE 231/2016 vp). The Ministry of Social Affairs and Health was responsible for the reform of the student housing allowance (HE 231/2016 vp), and the Ministry of Education and Culture was responsible for the other reforms. The aim of the reforms was to improve the adequacy of student financial aid, to promote planned full-time studying of higher education students and to speed up studies. In addition, the 2017 reform aimed at savings in central government finances. The audit examined to which extent the objectives of the reforms had been achieved, whether the reforms had had unforeseen impacts on central government finances, and on what kind of knowledge base the impact assessments of the reforms had been based.

## The housing allowance reform of 2017 led to significant unforeseen expenditure

The student financial aid reform of 2017 increased the emphasis on student loan in the student financial aid scheme, as the study grant level of higher education students was decreased and the state guarantee for student loans was raised. A housing allowance reform was carried out at the same time, as a result of which the majority of students were transferred from the housing supplement of the student financial aid to the general housing allowance. The housing allowance reform mainly improved the housing allowance of those who live alone.

The amendments to the study grant aimed at savings of around EUR 112 million, which were expected to be mainly achieved by 2019. The savings that the reforms aimed to achieve were realized in the case of the study grant, but the transfer of students to the scope of the general housing allowance led to significant unforeseen expenditure. In 2018, the housing allowance reform had already increased the expenditure by at least EUR 130 million, while the increase had been estimated in the preparatory phase to be EUR 54 million. The housing allowance reform has probably increased the expenditure on the general housing allowance even after 2018, as the average accommodation costs of students continued to increase faster than those of other groups receiving general housing allowance in 2019 and 2020.

The knowledge base of the housing allowance reform was unreliable due to outdated information on accommodation costs used in the assessment calculation. The unforeseen expenditure may also be partly explained by the fact that more students than expected had moved to more expensive accommodation after the reform.

## The student loan compensation caused unforeseen expenditure but had also positive indirect impacts

The student financial aid reform of 2014 introduced student loan compensation for new higher education students. The student loan compensation means that the Social Insurance Institution of Finland (Kela) pays 40 per cent of the student loan exceeding EUR 2,500 if the student completes the degree within the target time. The purpose of the student loan compensation is to speed up studies in higher education.

The student loan compensation has caused significant unforeseen expenditure. By 2021, the expenditure estimated in the preparatory phase had been exceeded by EUR 48 million. In 2021, the expenditure on the student loan compensation totalled EUR 84 million. The unforeseen expenditure is explained by the fact that the use of the student loan has increased clearly more than expected. The uncertainties related to the use of the student loan and their impact on the development of the expenditure on the student loan compensation should have been documented in the form of scenarios, for example. However, the unforeseen expenditure should not be interpreted as a failure, as the objective of all of the reforms audited was to increase the use of student loans. When assessing the significance of the unforeseen expenditure arising from the student loan compensation for central government finances, it is also important to consider the fact that the compensation is likely to shorten the degree completion times. Thus, it also has a positive impact on employment and central government finances.

## Degree completion times became shorter

The degree completion times shortened in both universities and universities of applied sciences during the 2010s. The increase in full-time studying is also evident in the credits completed annually. According to the audit findings, the student loan compensation has probably speeded up the completion of degrees. However, the student loan compensation became available at the same time for all higher education students who began their studies on 1 August 2014. For this reason, it is not possible to establish a reliable comparison in order to assess the impacts of the reform.

The proportion of those who had completed a higher education degree within the target time was approximately five percentage points higher among the students who had begun their studies in the autumn of 2014 than among those who had begun their studies the year before and were not entitled to the student loan compensation. This is a fairly significant increase in the degree completion rate. The degree completion rate, i.e. the proportion of students who completed their degree within the target time, has grown almost similarly in universities of applied sciences. The degree completion rate was 4.3 percentage points higher among the students who had begun their studies in the autumn of 2014 and were covered by the student loan compensation than among those who had begun their studies the year before. However, it is possible that there are also other factors explaining the speeding up of studies, as the proportion of those who completed their degrees in universities of applied sciences in the target time had already increased before the student loan compensation was introduced.

In future, it would be justified, where possible, to stagger the most significant reforms in terms of time or geography, for example, to make it possible to produce more reliable assessment data on the impacts.

## Average income of the recipients of student financial aid increased significantly

All of the reforms audited aimed to improve the adequacy of student financial aid. Based on the income data registered by Kela, the average real income of those receiving student financial aid increased at all levels of education during the 2010s by around EUR 3,600 (32%).

When the adequacy of student financial aid is assessed, it is necessary to take into account the amount of loans actually used by the recipients of the aid as well as their earned income. According to the audit, the adequacy of student financial aid should be monitored in the future based on personal level data rather than by example calculations.

Despite the increase in income from student financial aid and housing allowance, the most significant source of income on average for the recipients of student financial aid continues to be earned income. Employment is also a significant factor that slows down studies in higher education. However, there is no clear research-based evidence of whether working during studies facilitates employment after graduation. The issue should be examined in detail.

## Attention should be paid to the risk of indebtedness among students in vocational institutes

The use of student loans increased significantly at all levels of education during the 2010s. The increasing indebtedness of students may have a negative impact on employment and central government finances if debt problems reduce the incentives for young people to undertake further education after upper secondary education. Attention should be paid particularly to those who have studied at vocational institutes, as they are overrepresented among those who have failed to pay back their student loans. The debt problems of students in vocational institutes increased after the reform of 2017, when the state guarantee for student loans was raised, a payment default entry stopped being a hindrance for the granting of a student loan, and upper secondary students were allowed to take out the loan instalment for a whole semester at one time.

## Recommendations of the National Audit Office

1. The Ministry of Education and Culture should monitor the adequacy of student financial aid based on personal level data to provide up-to-date information on the income formation of the recipients of student financial aid by income type, household type, and region.
2. The Ministry of Education and Culture should conduct a register-based study on the impact of the use of student loans and debt problems on the willingness of upper secondary students to undertake further education. The Ministry should also seek ways to increase the loan security of upper secondary students.
3. When developing student financial aid, the Ministry of Education and Culture should pay attention to the possibility of carrying out reliable impact assessments of reforms.
4. The Government should carry out a register-based study on the impact of working during studies on future employment.