

Student loans and the question of debt

This paper examines the issue of student debt and its impact on participation. It also describes the student support that will be available from 2006 under Government proposals.

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Student loans and the question of debt

Universities need more cash and students as beneficiaries are likely to pay more for their studies in future. That means students are likely to borrow more and at the end of their course will owe more. But is this debt in the true sense of the word?

The Government believes not. It argues that real-interest-free loans, repayable if and when the student is earning a good wage and at a level that is easily affordable means that this is more of an individual graduate tax, or a long term investment than a debt. It bears no resemblance to debt associated with credit cards or even bank loans.

The Government believes that ensuring students have enough to live on while they are at university is paramount, in order to protect access for the poorest students. The fundamental principles on which the student funding system is based are:

- Students must have sufficient funds to meet their basic living costs while studying, provided through a combination of loans, grants, and – where appropriate - parental support.
- It is right that graduates should make a contribution towards the cost of their higher education, once they are earning and can afford to do so.
- Repayments should be based on ability to pay rather than repaid in the shortest possible time.

How much does it cost a student to go to university?

The cost of going to university includes both course and living costs and involves choices about lifestyle and about the degree of debt that students are comfortable with.

Course costs:

- Government will continue to pay the bulk of the course costs for all students, through its annual grant to universities. This is equivalent to about £5,000 per student per year.
- In addition, all full-time students (or their families) are currently required to pay a tuition fee of £1,125 at the start of each academic year.
- From 2006/07, universities will be able to charge students up to £3,000 per year. But no student (or their family) will have to pay anything while they study. Payments will be deferred until after they graduate and will then be repayable through the tax system.

Living costs

The most comprehensive survey of students' income and expenditure patterns, the "Student Income and Expenditure Survey (SIES)(2002/03)" estimates the average basic costs of living, including household and course related costs as £3,665. But average total expenditure, including entertainment and non-study-related travel was significantly higher at £6,897.

- Total average expenditure had risen by 15 per cent in real terms since 1998/99 indicating a substantial rise in students' standard of living.
- Living expenses made up the majority of student expenditure and had risen by 20%. The largest increases were related to expenditure on non study related travel, including holidays, and personal expenditure including mobile phones.
- Expenditure on entertainment which included sports, hobbies and alcohol rose by 15% and was the most costly element of students' living costs at £1,405.

How students finance their time at university varies. Student loans are only one part of the equation and cover basic living costs only. Some students choose to work part time while studying; others work in the holidays and some rely on a combination of loans and parental contributions.

What financial support does the Government provide?

The following table compares the proposed system from 2006/07 with the existing system for full time students.

Issue	System now	New system	Effect
Paying Fees	Parents or students pay an upfront fee of £1,125 each year before they start university.	No parent or student will have to pay anything upfront or during university	A middle class family will no longer have to find £3375 to pay for their children's 3 year course.
Fee Remission	The upfront £1,125 fee is means assessed on parental income.	Students will get help with the first £1,125 worth of fees on the same basis as current system	Around 60% of full-time students will continue to get the same levels of fee support. The poorest will also get a new grant of up to £1000 (see below)

Grants	No maintenance grant available	From September 2004 up to £1k for poorest students (under £21k a year)	Poorest students get up to £1000 per year to help with living costs or with fee repayment
Maintenance Loans	All students can receive 75% of the student loan, 25% is means-tested. Different rates apply in different circumstances. ¹	Students will continue to receive maintenance loans on the same basis as the current system.	All students will continue to qualify for a maintenance loan which attracts no real rate of interest.
Bursaries	Some bursaries exist but only on a very ad hoc basis	From 2006 no university will be able to charge more than the current fee level without providing bursaries for poorer students.	Students from the poorest families will have enough in fee remission, grant and bursaries to cover tuition fees entirely.

Specific targeted help is also available to support part-time and mature students. Details of these and of significant improvements announced in the White Paper 'The Future of Higher Education' are annexed to this paper.

How much do graduates owe now?

There have been a number of unreliable and exaggerated estimates of student debt circulating recently. These tend to be from banks that base their estimates on customer surveys which provide a biased sample.

The most reliable estimate, based on SIES, is that the average student debt from all sources among final-year students in 2002/03 was **£8,666**. Student loans constituted 84%; overdrafts 11%; and commercial credit 3%.

This estimate is validated by a UNITE/MORI survey for 2003 which gave a very similar figure of £8,816.

¹ In 2003/04 students receive loans of up to £3165 if living at parental home, £4,930 if studying at an institution in London, or £4,000 if studying elsewhere.

And how much will they owe in future?

There are equally exaggerated claims made about the amount of debt students can expect to face in future. Barclays have quoted a figure of £33,000 for instance by 2010 – a figure which is entirely without basis.

Again based on the SIES data, our best estimate is that the average student debt will rise to an average of **around £15,000** for those beginning their courses in 2006/07.

This estimate takes account of the following:

- the introduction of deferred fees, will increase the amount of money that students can borrow from the Government;
- where students do not qualify for the fee remission grant and choose to defer the full fee, their loans will increase by £3,000 for each year;
- but around 60% of students will continue to get some fee remission grant, and around 40% of students will also get some or all of the new HE Grant which can be offset against higher fees;
- and universities charging higher fees will provide bursaries for the poorest students.

An average liability of £15,000 is nevertheless a significant amount of money and as with any financial investment, there are a number of key tests that can be applied:

- 'Is the investment a good one?'
- 'Is the cost of borrowing reasonable?' and
- 'Are repayments affordable?'

If these tests are met, then going to university is the right thing to do and the rational thing to do, despite the costs.

Is the investment a good one?

There is a lot of evidence to suggest that the returns to higher education remain significant:

- Demand for graduates is strong. Research shows that 80% of the 2.1m jobs expected to be created by the end of the decade will be in higher level occupations - the ones most likely to be filled by those who have been through higher education.
- Around 80% of employed graduates undertake jobs that make use of

their degree-level skills three and a half years after graduation²

- Graduates are more likely to be in work and less likely to be unemployed. On average, they earn 50 per cent more than non graduates and over a lifetime, graduates earn £120,000 more than someone who goes out to work having got two A-levels.
- The latest OECD report shows that the financial benefit from getting a degree in the UK is among the best in the world and there is no evidence to suggest that the value added of a degree is decreasing with expansion.
- Graduates also experience better health, less poverty, are less likely to be victims of crime. And importantly, they are more tolerant and involved in their communities than other groups.

Surveys of student opinion show that they understand the benefits. The UNITE/MORI student survey (2003) found that:

- 96 per cent of students believe that going to university is a worthwhile experience
- 87 per cent of students consider the money they are spending on higher education to be a good investment.
- 79% of students agree with the statement that “university has set me in good stead for my working life”.

Is the cost of borrowing reasonable?

Under the Graduate Contribution Scheme it is the Government that meets the cost of borrowing.

Unlike commercial loans, student loans are only up-rated for inflation to maintain the value of the loans in real terms. Graduates do not pay any real rate of interest on their loans. They only ever pay back what they borrow.

Are the repayments affordable?

Repayments are collected through the tax system and are based on earnings, so graduates only pay what they can afford. Because of this there is none of the worry associated with debt from banks or commercial lenders suddenly being “called in”.

• ² Elias, P. and Purcell, K. (1999) 'Moving On' DfES co-funded research

The key elements of the repayment package are:

- no-one pays anything until they are earning more than £15,000;
- repayments are then made at 9% of income above £15,000;
- if earnings fall below £15,000 at any point, then payments stop too. This is particularly beneficial for those taking career breaks;
- graduates can take as long as they need to pay – the average repayment period will be around 13 years, and they won't be forced to pay more than they can afford in order to finish their payments earlier.

How payments will compare to the current system

Graduate's Salary	Weekly Income(Gross)	Weekly Payments NOW	Weekly Payments 2005
£12,000	£231	£3.46	£0
£15,000	£288	£8.65	£0
£18,000	£346	£13.85	£5.19
£20,000	£385	£17.31	£8.65
£30,000	£577	£34.62	£25.96

Does student "debt" deter people from participating in higher education?

Because these tests are met, the Government believes that debt need not be a significant deterrent. Young people overwhelmingly believe that going to university is a good thing and well worth the financial investment that they make.

This is supported by the evidence that student numbers, despite similar concerns at the time, have continued to rise in every year since the introduction of income contingent student loans and tuition fees in 1998/99. There are 796,000 UK students in higher education in 2001/02 compared with 747,500 in 1996/97 before the changes were announced.

And participation of young people from social classes iim to v have also increased from 17% in 1995 before fees were introduced to 19% in 2001. The evidence shows that 9 out of 10 young people who get 2 or more A

levels go on to higher education.

But the Government does recognise that perception of debt is an issue. This will need to be addressed by ensuring that there is accurate and easily accessible information about the student support package and the loan repayment scheme.

There are also specific groups for whom debt is more of an issue than students at large: students from poorer backgrounds, lone parents and ethnic minorities for example. The student support package has been designed with these groups in mind, including:

- fee remission, grants and bursaries for the poorest students;
- help with child-care, parenting allowances and Child Tax Credits for students with children;
- a zero real rate of interest which ensures loans are more acceptable to people with certain religious beliefs.

The Office for Fair Access (OFFA) will also ensure that any university wanting to charge higher fees ensures that under-represented groups are not put off from applying. As part of their plans, universities are expected to offer bursaries targeted at low income students. This will reduce immediate costs and longer term debt.

The real deterrents lie elsewhere

But addressing issues of debt is just one way in which participation can be encouraged. There are other steps that are being taken to encourage more young people, particularly from poorer backgrounds, to go to university. These steps are based around the following key themes:

- **attainment** – helping students from disadvantaged backgrounds get the qualifications they need to go to university. This work begins with Sure Start and continues through the Government's strategies for primary and secondary education. Young people who get 2 or more A levels do go on to higher education;
- **aspiration** – raising the sights of young people through initiatives such as 'Aim Higher' supported by parents, friends and teachers, as well as universities themselves. Evidence shows that the opinions of family and friends are very important when deciding whether to go to university;
- **application** – encouraging young people to be ambitious and apply for the universities that are the best match for them.

The evidence suggests that these are the things that are key to promoting access, including access to universities with very high entrance qualifications.

Generally speaking, universities' admissions arrangements admit students from under-represented groups in proportion to the number of applications. The key is to get them to the starting point of applying. This is where OFFA will focus its efforts and universities wanting to charge higher fees will be expected to engage in a range of activities to promote attainment, aspiration and applications.

Conclusion

The Government believes that their reforms, including a larger graduate contribution will promote and not damage access because:

- Higher Education remains one of the best investments a young person can make. Surveys of student opinion show that students accept this and they vote with their feet.
- The abolition of up-front fees will remove a significant barrier for some young people and their families, from lower and middle income groups.
- The Graduate Contribution Scheme allows graduates to re-pay their loans on very generous terms through the tax system. No student need ever be worried about a debt hanging over them because no real interest is ever applied, and repayments are linked to earnings to ensure that repayments are affordable.
- The student support package targets the most needy and debt averse so that the combination of fee remittance, the new HE Grant and university bursaries will mean that the poorest students need not experience higher debt even attending the most expensive course.

Frequently Raised Concerns and Responses

1. The money available to students is not enough

Most students' standard of living has risen over the past four years with increases in personal, entertainment and recreational travel expenditure pushing up their overall costs. The student loan continues to do generally what it is intended to do – to meet basic living costs. However, we are analysing the findings from the latest Student Income and Expenditure Survey as part of our spending review process to make sure the student loan is effectively covering different categories of student.

2. Students are going to be saddled with debt for the rest of their lives

Repayment of student loans will be at an affordable and fair rate, based on levels of earnings over £15,000. Students can pay off their loan more quickly if they choose, but the repayment period has been spread over a longer period of time to reduce the level of repayments and ensure that this is not a significant financial burden.

3. Levels of debt mean that students won't be able to get mortgages

Not true. The Council of Mortgage Lenders has said that, on the basis of the current repayment schedule for student loans, the existence of an outstanding student loan is unlikely to have any negative bearing on the graduate's ability to obtain a mortgage.

4. Fear of debt means that students will have to live at home

Staying at home is cheaper and 35% of students in the lower socio-economic groups asked in the UNITE/MORI survey (autumn 2002) said that the ability to live at home during term time was important in their selection of university.

For many students, this is a matter of choice. Decisions are often as much to do with the fact that the area is familiar to them and family support is more readily available.

However, greater levels of financial support are available to students who choose to study elsewhere, recognising the fact that costs of living are higher for those who do not live at home.

5. More debt will mean fewer poor students going to university

Evidence shows that the proportion of lower income students going to university has not fallen since loans were introduced. Moreover, international evidence demonstrates that the introduction of higher variable fees, together with a system of deferred payment such as the one proposed by the Government, does not discourage poorer students from going to University. For more information see "Higher Education – international comparisons" published by the Department for Education and Skills on 15 December 2003.

6. What about longer courses?

Universities will need to consider the length of courses when deciding the level of fee that is appropriate. And for some public sector courses, there is support from employers. Currently, medical and dental students pay no fees for the 5th and 6th years of study, and trainee teachers pay no fees for PGCEs.

Part-time students

Existing arrangements	New arrangements (04/05 onwards)
£500 repayable loan available to students with incomes of up to £13,000. ³ No loan is available where income is over £13,000.	A non-repayable grant of £250 available to students with incomes of up to £19,587. ³ Partial grant available to students with incomes up to £21,487.
Maximum of 6 loans available (one per academic year)	Maximum of 8 grants available (one per academic year).
Age limits apply to loans.	No age limits for the grants.
Fee waivers available from institutions for those on incomes below £14,200, subject to funding available.	A full fee grant of £575 or the value of the fee charged (where lower) available to students on incomes of up to £14,599. Thereafter, partial fee grant is available up to incomes of £19,112.
No support for students where course takes longer than double the time of an equivalent full time course. (Exception for disabled students – who must complete courses in no more than four times the length of a full-time course.)	Students whose courses will take longer than double the time of an equivalent full-time course, can get help with fees and other course costs from the Access to Learning fund (subject to completing 10% of a full-time course in each year).

³ All income references are to single childless students. The income thresholds are higher for those who are married and/or have children.

Mature students

Existing arrangements	New arrangements (04/05 onwards)
All net income over £7,500 is taken into account for single students.	Around 10% gross income over £10,000 is taken into account for single students.
Spouse/partner income over £18,040 taken into account (£1 in £8)	Spouse/partner income over £20,970 taken into account (£1 in £9.50)
<p>Students with dependent children are eligible for extra grants, including</p> <ul style="list-style-type: none"> • Child Tax Credits • Parents' Learning Allowance • Childcare Grants • Additional support through "Access to Learning" funds if needed. 	<p>Students with dependent children are eligible for extra grants, including</p> <ul style="list-style-type: none"> • Child Tax Credits • Parents' Learning Allowance • Childcare Grants • Additional support through "Access to Learning" funds if needed.