

# Confronting the forthcoming reforms of England's student loan system: graduate perspectives

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# Background

# Main Funding Reforms in England

1998

- Tuition fees – means-tested (up to £1,000)
- Income-contingent maintenance loans
- Maintenance grants: abolished

2006

- Tuition fees: £3,000 (no longer means-tested)
- Income-contingent tuition fees loans
- Maintenance grants: reintroduced

2012

- Tuition fees: £9,000
- Various changes to the repayment system

2016

- Maintenance grants: abolished replaced with larger loans

New aim:  
reduce  
public  
expenditure

# In England today...

- All but the wealthiest students have to take out student loans.
- More students than ever take out student loans
  - 2019/20: 95% of all undergraduates had tuition fees loans
  - 2019/20: 91% had maintenance loans
- Students borrowing more money than ever before
  - Graduating with higher levels of student debt: £45,900 on average at graduation
  - Graduates will be repaying loans most of their working life
  - 75% of graduates will never repay loans in full
- For every £100 the government lends a student, it gets back £53

# What is missing from the debate

## Involved:

The Government

Politicians and policymakers

Think tanks

Researchers

## Missing:

The voices of graduates

Know and understand the realities of repaying these loans

Will be most affected by any change to the repayment system

**Hidden Voices:  
Graduates' Perspectives on the  
Student Loan System in England**

Claire Callender and Ariane de Gayardon



Higher Education Policy Institute



**HEPI Report 145**

**Aim:**  
To assess graduates' views on  
the different features of the  
student loan system in England

# Methods

# In-depth interviews

- **Sample of 98 graduates - 48 in cohort 1 & 50 in cohort 2**
  - Specialist recruitment company worked with broad demographic targets based on English student statistics
  - Graduates from low-SES and non-white graduates were oversampled
  - Sample that reflects the diversity of voices in both graduate cohorts
- **Semi-structured interviews via telephone on**
  - graduates' attitudes towards their student loans
  - the advantages and disadvantages of the student loan
  - the influence of student loans on their lives
  - reflections on using a loan-based system to finance undergraduate study
- **Thematic analysis**



# Context for our sample

# Student loan repayments

**English-domiciled full-time undergraduates attending a UK HEI and studying for their first degree are eligible for**

- Tuition fee loans – Cover all tuition fees
- Maintenance loans – towards living costs

## **Features of the loan repayment system**

- Based on ability to pay – not amount borrowed
- Income threshold 9% of their income above the threshold
- Until repaid in full or until write-off
- The loans accrue interest
- Repayments automatically deducted from graduates' pay packets

# Student loan repayment features

	Cohort 1	Cohort 2
Tuition fees	£3,000 in 2006	£9,000 in 2012
Repayment threshold when plan started	£15,000	£21,000
Repayment threshold when graduates interviewed	£19,390 (Autumn 2020)	£26,575 (Spring 2021)
Repayment rate over the threshold	9%	9%
Repayment period	25 years	30 years
Repayment method	Automatically deducted	Automatically deducted

# Student Loan repayment features

	Cohort 1	Cohort 2
<b>Interest rates</b>	<p>The lowest between:</p> <ul style="list-style-type: none"> <li>• RPI in the preceding March</li> <li>• previous Bank of England base rate plus 1%</li> </ul>	<p>While studying: <b>RPI +3%</b></p> <p>After leaving higher education:</p> <ul style="list-style-type: none"> <li>• RPI if income &lt;£27,295</li> <li>• RPI + up to 3% if income between £27,295 to £49,130</li> <li>• RPI + 3% if income &gt;£49,130</li> </ul>
<b>Interest rate when graduates interviewed</b>	1.1% (Autumn 2020)	RPI +3% = <b>5.6%</b> (Spring 2021)
<b>Average loan balance at graduation</b>	2010 repayment cohort: £14,670	2017 repayment cohort: <b>£32,350</b>

# Findings: What works for graduates

# Features that alleviate the debt burden

- Facilitate access to higher education – enabler and equalizer
  - *I take the loan or I don't go to university. (D66 – cohort 2)*
- Repayment system:
  - Protective threshold: *if I had been in a position where I couldn't pay it, I wouldn't be paying it. (D27 – cohort 1)*
  - Affordable monthly repayments: *it's just a little bit, so it's not hindering anything. (D51 – cohort 2)*
  - Automatic repayment: *The only number that I'm looking at when I'm looking at my payslip is **the amount that's going to be hitting my bank account** come the end of the month. So, anything before that is a short-lived burden because I consider it as spent money and so it's that: **I pay tax, I pay National Insurance, so therefore, I pay student loan as well.** Beyond that, it's then **put to the back of my mind.** (D45 – cohort 1)*

# Findings: What does not work for graduates

# High tuition fees



**Both cohorts feel they are unlucky**

Cohort 1 because they missed out on lower or no tuition fees

Cohort 2 because of the 2012 tripling of tuition fees



**Tuition fee rises did not lead to a different experience for them**

*One of my best friends [who enrolled before 2012], literally, he paid his student loan off..... he was able to do that because obviously it was so low and he always jokes around and, 'What does it feel like? How's your student loan going?' 'Oh yes, cheers mate,' it's like, you know, it's, 'Were your slides gold-plated or anything?' I'm saying, 'No, no; same as yours'. (D77 – cohort 2)*



**Graduates question the value for money**

*I think it's expensive and it's even more expensive now than when I went and I think **there's a lot of jobs out there that don't pay – even with a degree – that well**, so I think it's about the **ratio of the debt and the job** and I think that my debt it's actually a lot, so I feel that what current tuition fees are at is like another level and it feels like **they've just tipped the balance in terms of fairness.** (D13 – cohort 1)*



**Graduates in cohort 1: If subject to the £9,000 tuition fees 'would have thought twice about it [going to university]' (D24 – cohort 1)**



# Amount of debt

- Different levels of psychological disturbance because of the level of debt
- Cohort 1: ‘daunting’, ‘painful’, something that is ‘hanging over [them]’
- Cohort 2: ‘insane amount of money’, ‘ridiculous’, ‘running joke’
  - Lack of credibility, futility of repayments
- Amount so high it becomes meaningless
  - *it can say any figure, to be honest. It could say £100,000 because it doesn't really matter. (D72 – cohort 2)*
- Different coping mechanisms
  - Ignore
  - Staying informed
  - Significant minority make voluntary repayments

*I think of it like a ball and chain, [...] I have been increasing the voluntary payments that I make every month, to try and accelerate the repayment of this loan... (D29 – cohort 1)*

# High interest rates

- Cohort 1 (inflation): mixed feelings
- Cohort 2 (inflation + up to 3%): contentious & nonsensical
  - *I won't be able to repay it because of how much interest is being charged (D83 – cohort 2)*
  - *it actually is a real disincentive to try and pay it back (D59 – cohort 2)*
- In both cohorts,
  - Frustration of rising balances: *I think with the student loan, you're just always sort of like **moving one step forward and then two steps back** and ... or like there's this **whole rush of a river coming in and you're just trying to just stop the flow**, but it just keeps coming in because no matter what you do, the interest rates go on increasing. (D30 – cohort 1)*
  - Interest accruing while studying or non-repayment period seen as unfair
- Distress for Muslim students

# Never-ending repayment period

- a 'lifelong' debt, a 'never-ending' debt which will follow them *'till pretty much [they] die'* (D32 – cohort 1).
  - *I'd say that the disadvantages are the fact that **I have this kind of lifelong debt** that probably isn't going to be paid off anytime soon or whatever. A lot of people I've discussed it with are just kind of just like, 'Yes, that's just **a tax for the rest of your life** now until you pay it off or it gets written off; it's just there'. (D52 - cohort 2)*
- Linked to misunderstanding about forgiveness
  - *I can't remember if this is real or something I read a long time ago, but I think it was 25 years ... Then I think it gets wiped off. But again, genuinely, I can't remember if that's something I've read or it's actually true. (D39 – cohort 1)*
  - Prevents from reaping the psychological benefit of that valuable feature

## Four features that increase the student loan debt burden for graduates

- Especially felt by post-2012 graduates
- Anxiety, pressure, worry, dread

*like a ball and chain*

*It makes you feel sick and horrible, you know: an absolutely horrible feeling inside your chest, your stomach*

*I don't see a light at the end of the tunnel.*

*it's sort of a big hit to you and mentally and morally, it's just a case of: 'Will it ever go away?'*

# The 2023/24 reforms

# Key changes

- Tuition fees frozen at £9,250 until 2024-25
- New entrants from 2023-24
  - Student loan repayment threshold reduced to £25,000
    - Indexing of threshold from 2026-27 – rise in line with inflation not wages (and for graduates who entered HE between 2012 and 2022)
  - The period when any outstanding debt is written off extended from 30 to 40 years
  - The real interest rate of RPI +3% on loans abolished: rate cut to RPI only
- Consultation on restricting access to loans based on prior academic attainment

*Graduates who entered HE between 2006 and 2011 unaffected by changes*

# Questions

How might future graduates experience these reforms?

What might the changes mean for the burden of student loan debt?

# Learning from past graduates experiences of loan debt



## Tuition fees frozen

- Will save £780 over a 3-year course
- Fees still too high: 'excessive,' 'ridiculous' level

## Interest rates fall to RPI

- Makes loan repayments less progressive
- Change likely to be welcomed by graduates
- Decrease frustration associated with rising outstanding debt balances

# Impact of changes for 2023/24 HE entry cohort

- Earnings threshold when repayments start lowered
  - Threshold when graduates start repaying will fall from £33,390 to £25,000
  - Lower threshold means less protection
  - Graduates will start repaying earlier, and pay more monthly and over their lifetime
    - Will repay around £750 a year more from 2027–28 if earning above £33,390
    - More graduates will repay their loans in full
  - But Cohort 1 graduates have a lower threshold than Cohort 2 or future graduates and still appreciated this safeguard

# Impact of changes for 2023/24 HE entry cohort

Repayment period extended from 30 to 40 years

Graduates will be in their 60s before their loan is written off

Extending to 40 years will exacerbate the feeling that repayment period is 'never-ending'

Will make debt forgiveness an even more abstract concept

Student loan minimum eligibility requirement

If implemented, would restrict access to loans especially for the most disadvantaged

Would undermine the main appeal for graduates of the current loan system: facilitating access to HE

# Impact of changes on amount of student loan borrowing and debt

**Table 7: Loans borrowed and nominal loan debt at SRDD, for a student starting a 3-year degree in AY23/24 borrowing maximum fee loans and maximum maintenance loans for studying in London and not living with parents.**

	Current Loan System without intervention	New Loan System	Difference between Current and New System
<b>Loans borrowed</b>	£69,470	£68,160	- £1,310 <b>(-1.8%)</b>
<b>Nominal loan debt at SRDD</b>	£79,300	£72,780	- £6,520 <b>(-8.0%)</b>

Source: DfE, 2022

- Limited impact on the amount of debt, keeping it at ‘ridiculous,’ ‘insane’ levels.

# Conclusion

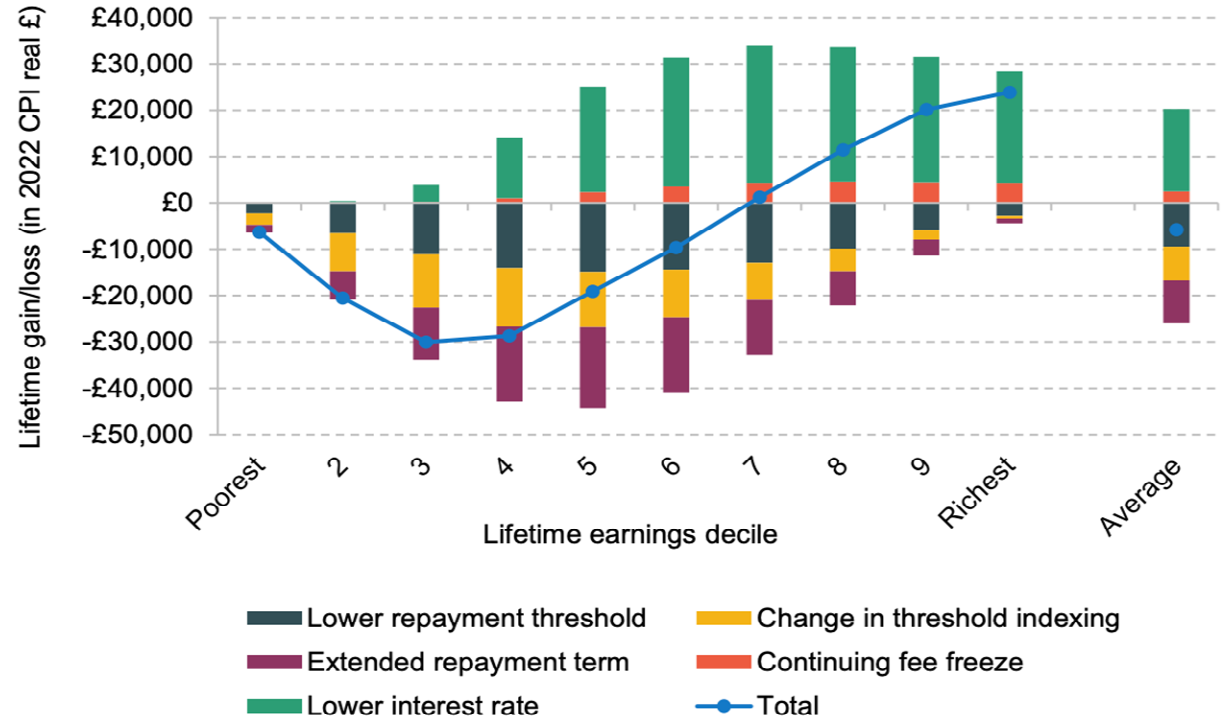
# The burden of student loan debt

- Insights from our interviews with graduates indicate
  - Potential burden increase
    - Lower protection because lower threshold
    - Higher monthly repayment because of lower threshold
    - Extension of repayment period
  - Minimum eligibility requirement threatens the main attraction of student loans: facilitating access to HE
- One positive change for graduates:
  - Reduction of interest rates

# Confronting the reforms

- Estimates show these reforms are regressive:
  - Lifetime repayments higher for bottom 70% of graduate earners
  - Lower for 30% highest earners

Figure 3.2. Impact of reforms on 2023 entry cohort

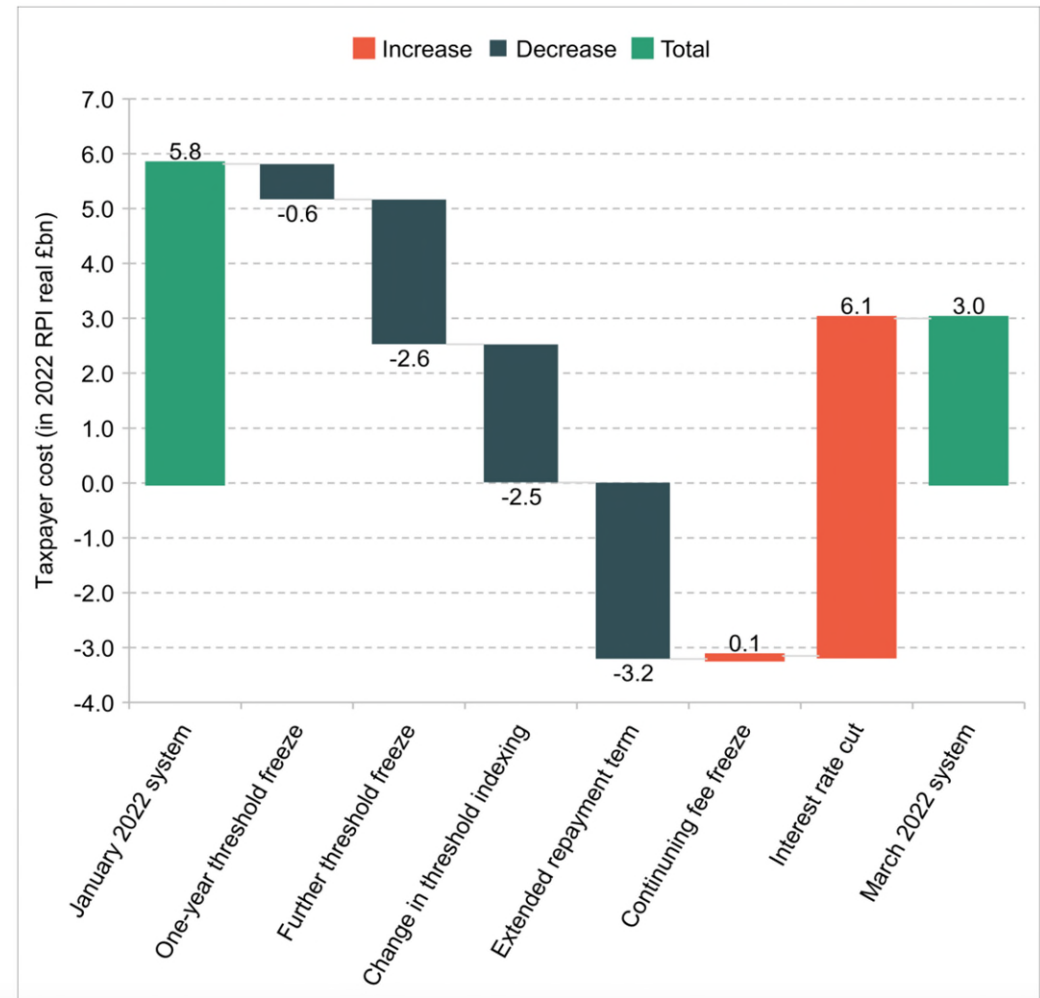


Source: Ben Waltmann (2022) Sweeping changes to student loans to hit tomorrow's lower-earning graduates, IFS.

Biggest winner is the taxpayer

- IFS estimates £2.8bn saving for the 2023 cohort alone

Figure 4.2. Taxpayer cost of student loans in undiscounted RPI real terms, 2023 cohort

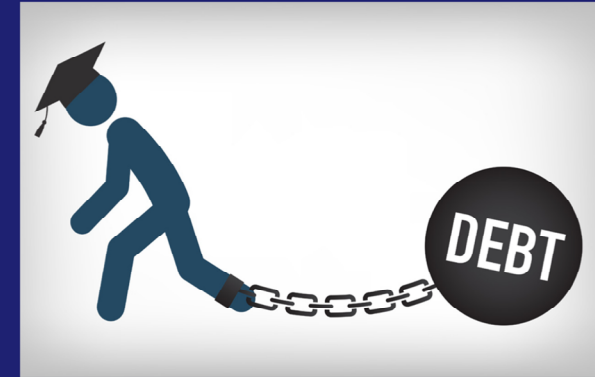


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EDUCATION

HEPI Report 145

# Thank you

Report (*published before the new reform announcement*) available at  
<https://www.hepi.ac.uk/wp-content/uploads/2021/11/Hidden-Voices-Graduates-Perspectives-on-the-Student-Loan-System-in-England.pdf>

# Student Loan repayment

	2006-2011	2012-2022	2023/24+
Tuition fees (pa)	£3,000-£3,375	£9,000-£9,250	£9,250
Repayment threshold	£20,195 (Apr 2022)	£27,295 (Apr 2022)	£25,000
Repayment rate over the threshold	9%	9%	9%
Repayment period	25 years	30 years	40 years

# Student Loan repayment

	2006-2011	2012-2022	2023/24+
<b>Interest rates</b>	<p>The lowest between:</p> <ul style="list-style-type: none"> <li>• RPI in the preceding March</li> <li>• previous Bank of England base rate plus 1%</li> </ul>	<p>While studying: RPI +3%</p> <p>After leaving higher education:</p> <ul style="list-style-type: none"> <li>• RPI if income &lt;£27,295</li> <li>• RPI + up to 3% if income between £27,295 to £49,130</li> <li>• RPI + 3% if income &gt;£49,130</li> </ul>	<b>RPI</b>
<b>Current interest rate</b>	1.5% (March 2022)	RPI +3% = 4.5% (March 2022)	??
<b>Average debt at graduation</b>	2010 repayment cohort: £14,670	2021 repayment cohort: £45,060	??