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Student loans in the cost of living crisis

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Economic
and Social
Research Council

Plan for today

- Student loans system and reform
- Students in the cost of living crisis
- Impact of inflation on loan interest rates
- Future post-18 funding: Lifelong Loan Entitlement
- Lots of time for questions (Slido)

Student loans system and reform

Current system

- **Higher education funding in England relies almost entirely on student loans**
  - Students take out loans for both tuition fees and living costs
  - They start paying back these loans after graduation if their income rises above a certain threshold
  - They repay until the repayment period is over after 30 years
  - **Most graduates never earn enough to pay back in full**

- **Main criticism**: system is too expensive for the taxpayer
  - DfE: before reform, taxpayer picked up around half of cost

Announced reform

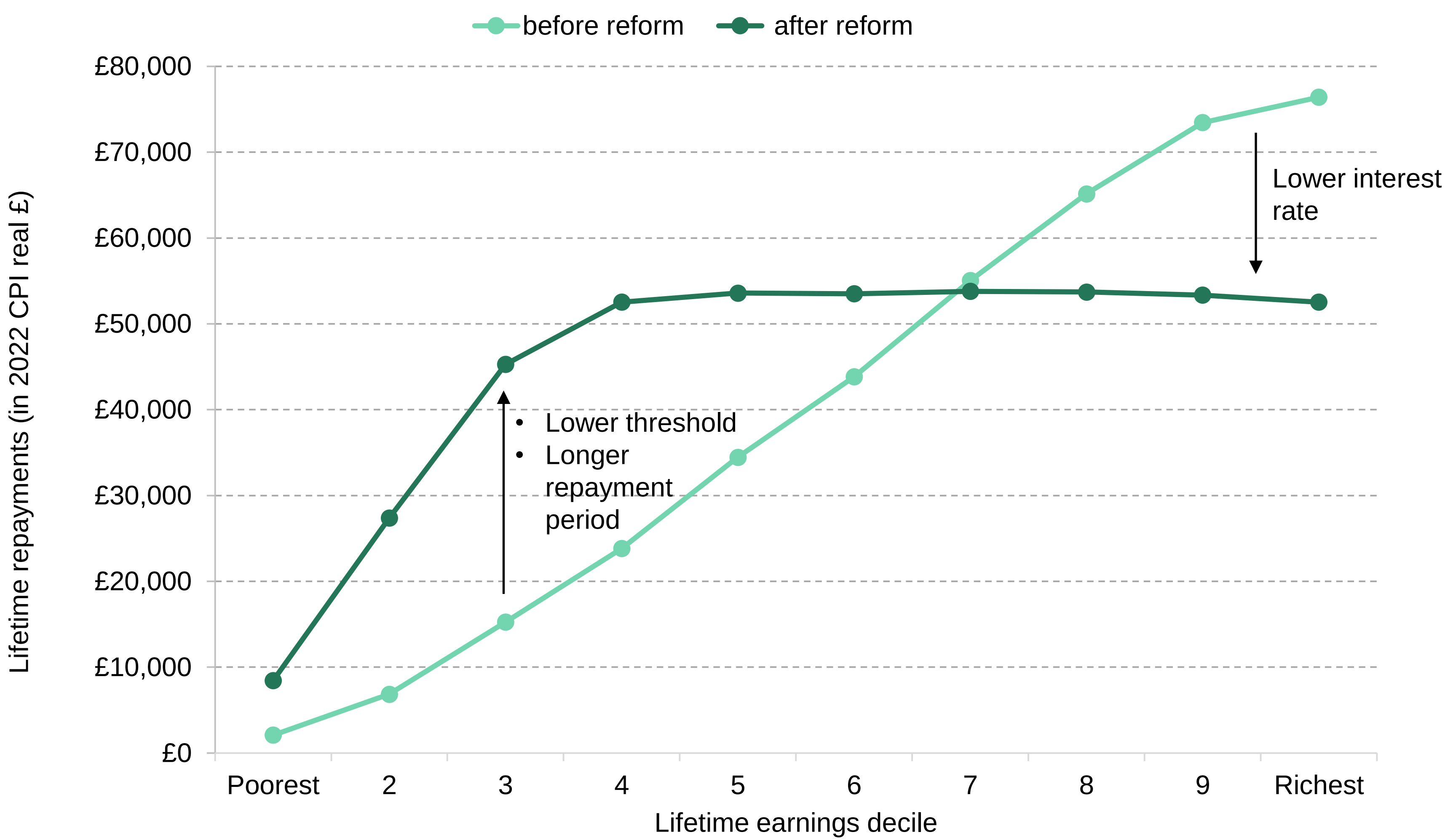
From the 2023 university entry cohort:

- Repayment threshold cut to £25k and frozen until 2026/27
  - Afterwards, the threshold will be increased with RPI inflation rather than average earnings
- Repayment period extended from 30 to 40 years
- Interest rate decreased from up to RPI + 3% to just RPI

Effects:

- Share paying off loans up from a quarter to three quarters
- Higher repayments for lower-middling earners, lower repayments for the highest earners

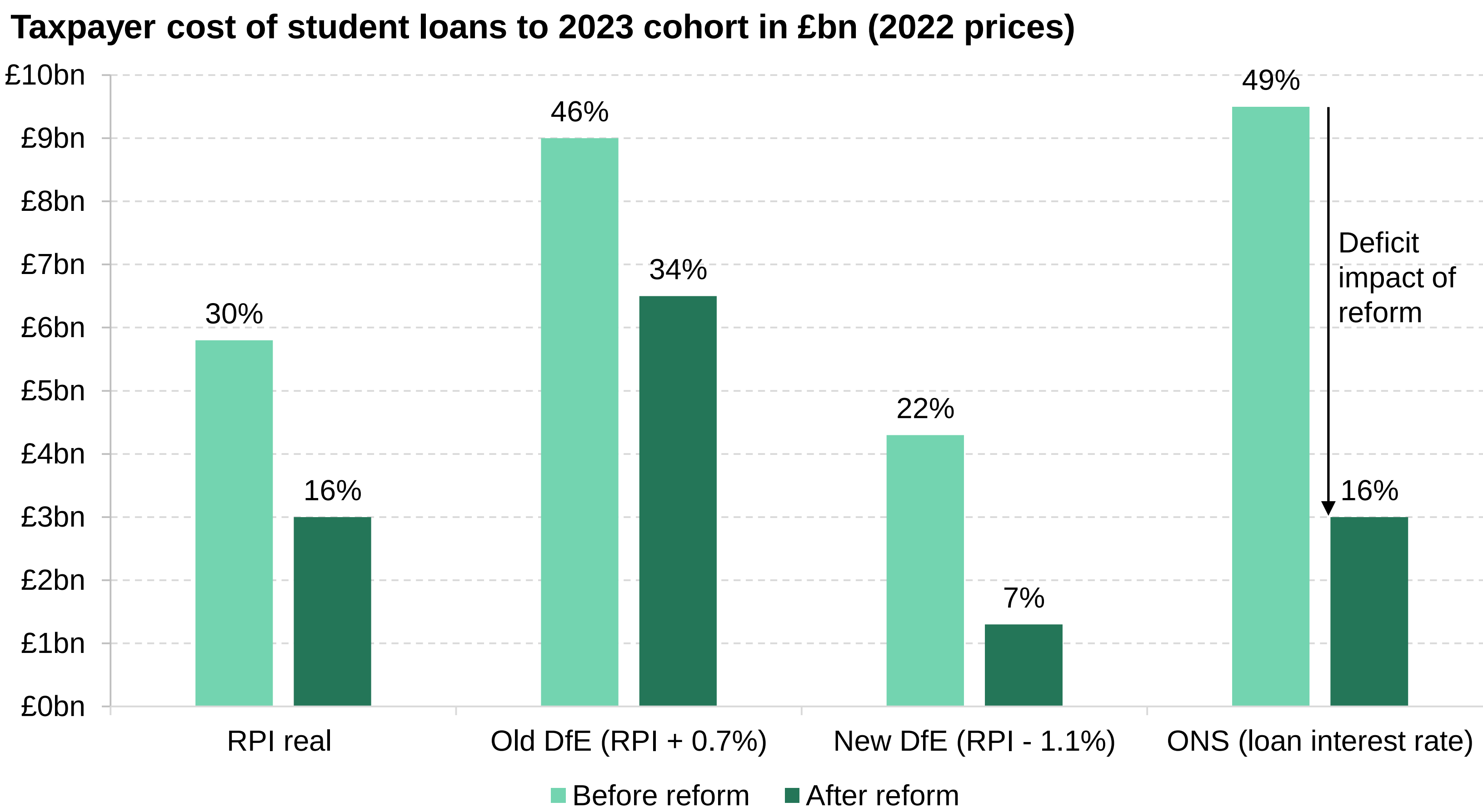
Repayments by earnings decile



Leap into the unknown

- **This is a radical reform**
  - According to the OECD, UK already has the lowest share of public funding in tertiary education among rich countries
  - Unknowable what the effect will be on enrolment numbers
    - *Guardian*: “Student loan changes in England ‘could imperil supply of teachers and nurses’”
- **The long-run taxpayer cost of the system is even more uncertain after the reform**
  - 40-year repayment period: repayments in the 2060s matter!
  - Repayment threshold going up with inflation instead of earnings means future earnings growth matters more
  - Also: a lot depends on the value attached to future repayments

Taxpayer cost of student loans



Note: Percentages represent share of initial outlay. Forecasts as of April 2022. Discount rates are given in parentheses.

Also big changes for past cohorts (2012 – 2022)

- Repayment threshold **frozen at £27k for 3 years**
  - After that, **increased with RPI inflation** rather than average earnings growth

- **Effects:**
  - Lifetime repayments for the 2022 cohort more than £10k higher
  - Middling earners hit especially at ~£20k
  - Big long-run savings for the taxpayer (~£5bn)
  - But again very uncertain: much smaller effects with lower growth

Conclusion

- **Student loans reform will transform the system from a “tax” to a loan system with some subsidies for the lowest earners.**
  - Those who pay off under the new system will repay exactly what they borrowed (in RPI real terms)

- **This is a leap into the unknown**
  - Unclear what will happen to enrolment
  - Taxpayer cost is extremely uncertain

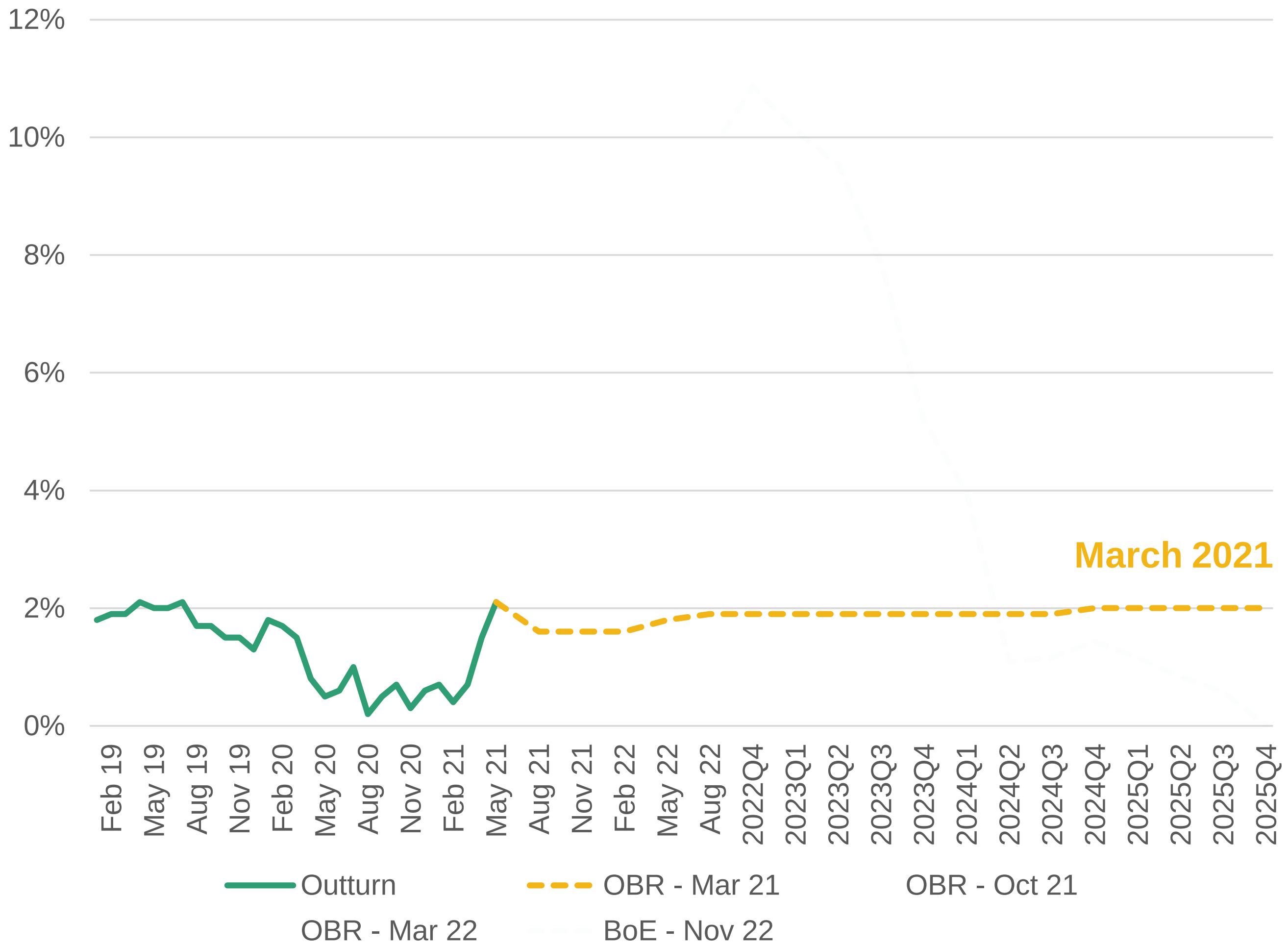
- What we do know: **the system will become a lot less progressive** under the announced policies
  - However: future policy is also uncertain

Students in the cost of living crisis

What is the ‘cost of living crisis’?

- A period of high inflation, with prices rising faster than incomes, squeezing living standards
- Consumer Price Inflation (CPI) measures changes in the total cost of an ‘average shopping basket’ of goods and services bought by households

Very high inflation



Source: March and October 2021 and March 2022 forecasts from OBR Economic and Fiscal Outlook. November 2022 forecast is the modal CPI projection based on market interest rate expectations from the Bank of England Monetary Policy Report, November 2022.

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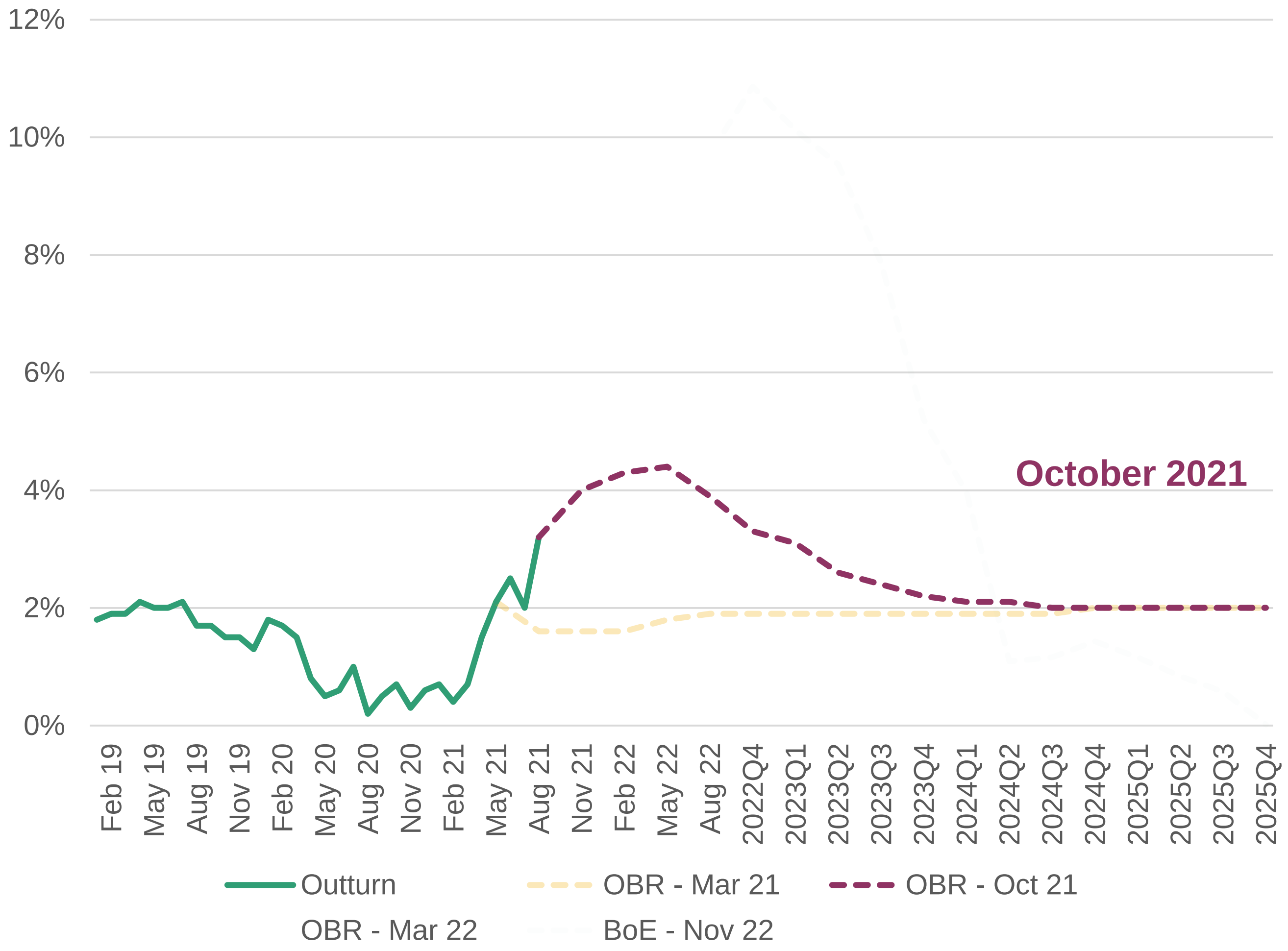

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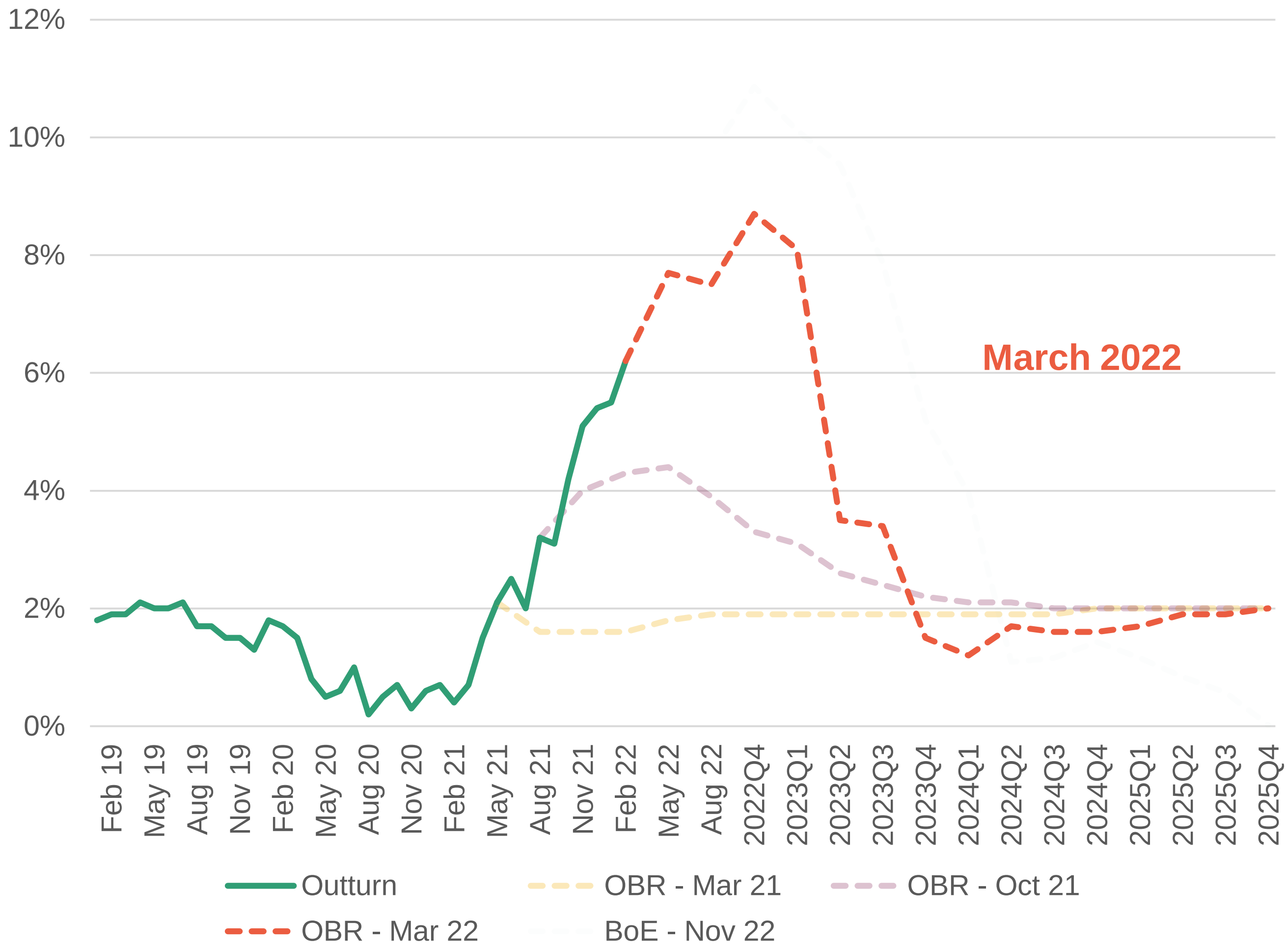

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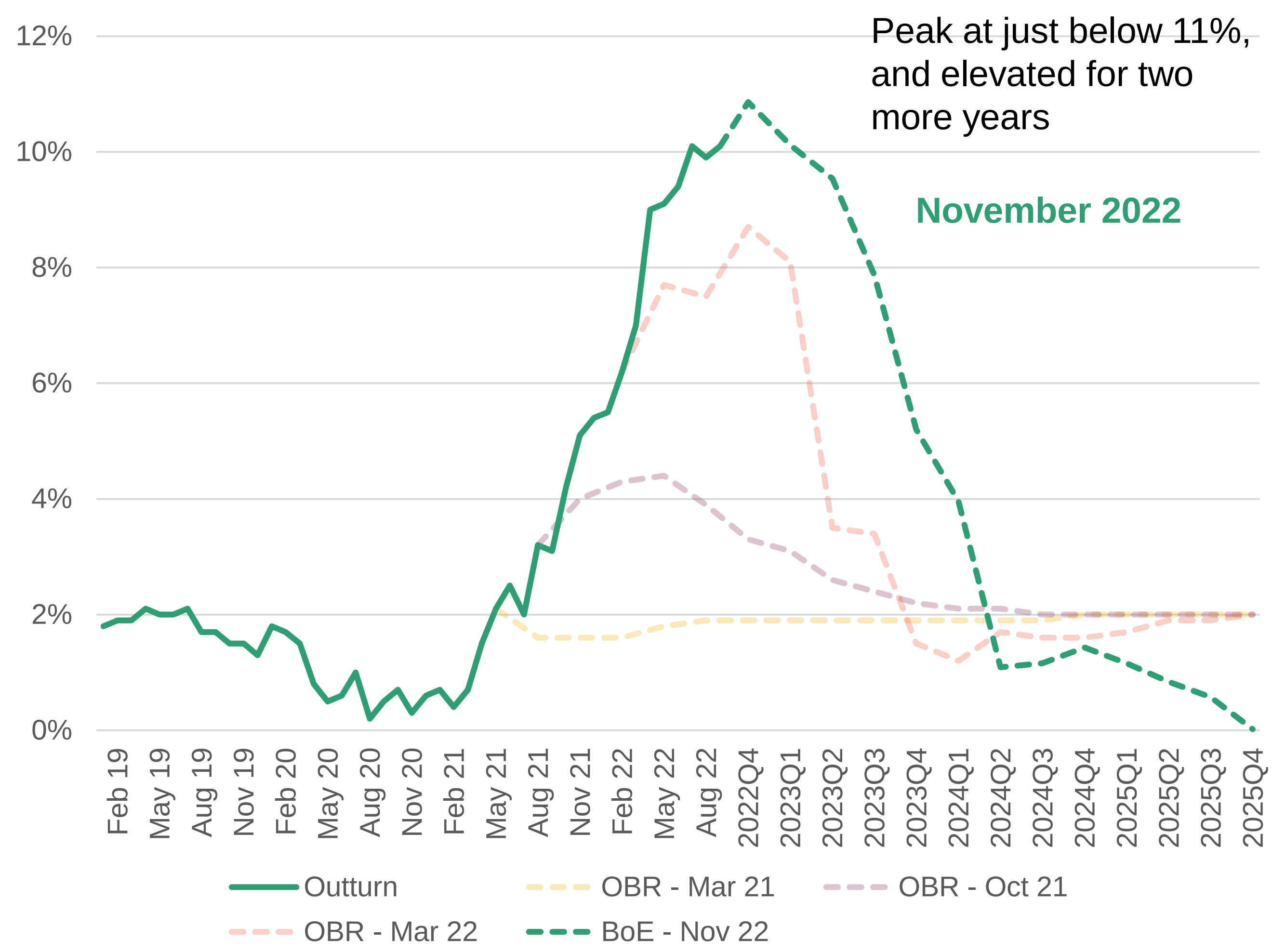

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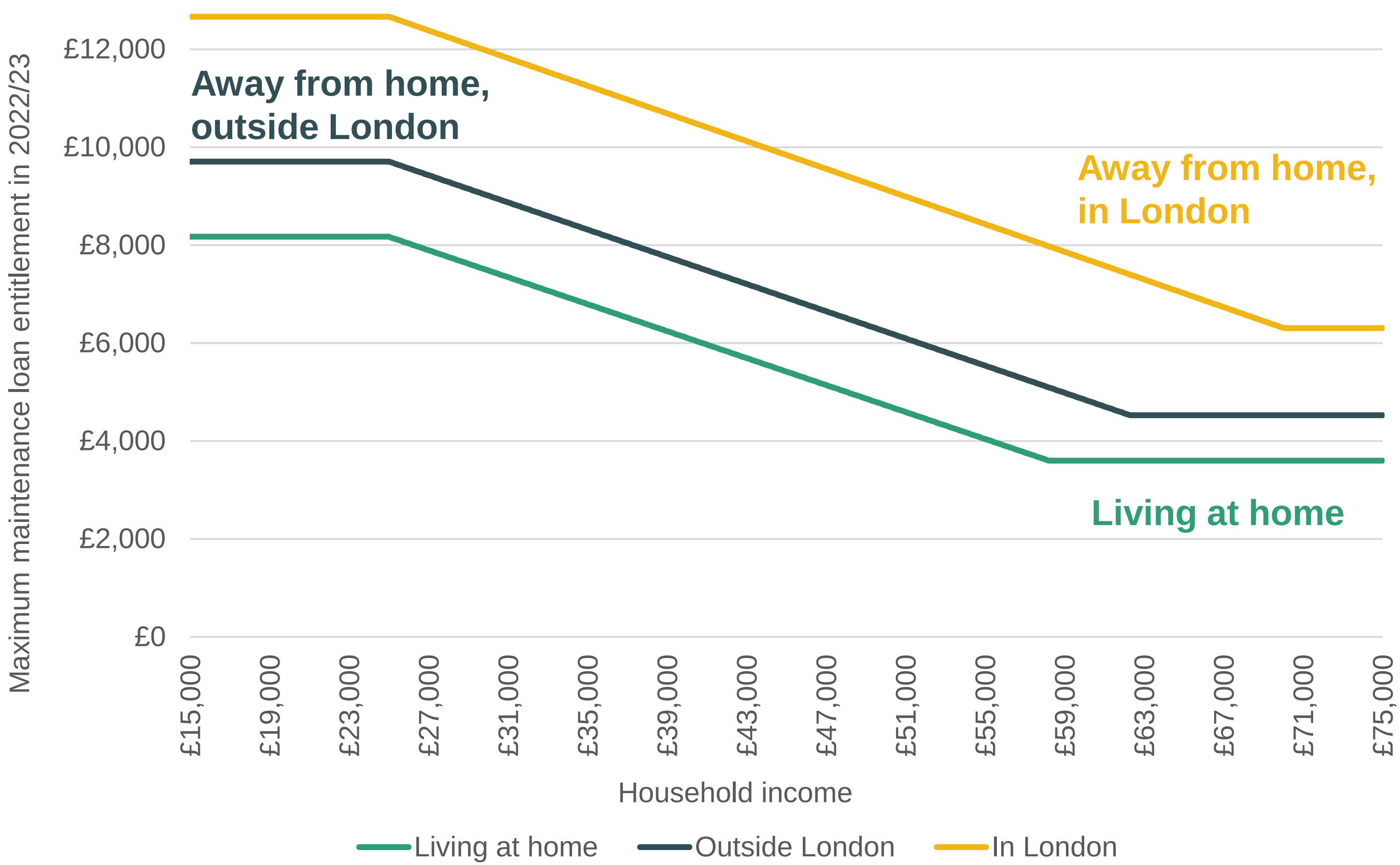
Living costs are rising

- On average, students' largest cost is rent (~40%), followed by groceries (7-13%) and household bills (5-7%)
  - Some will have agreed rental contracts far in advance
- Around 60% have a part-time job during term, and they work an average of 10 hours a week
- Many receive support from family, earn during holidays, or rely on savings
- Around **half** of students' income comes from maintenance loans
  - Amount of maintenance loan you're entitled to depends on where you live and household earnings

Source: NatWest Student Living Index 2022, based on a survey of 2,964 UK university students in June / July 2022. Save the Students' National Student Money Survey 2022, based on a survey of 2,370 UK university students in May-August 2022.

Maintenance loan entitlement depends on household earnings



Note: Maximum maintenance loan entitlement for full-time students in academic year 2022/23, nominal terms.

Maintenance support has become less generous

- Each year, amounts increase in line with **forecast** for RPIX – which should mean the real value of support is maintained

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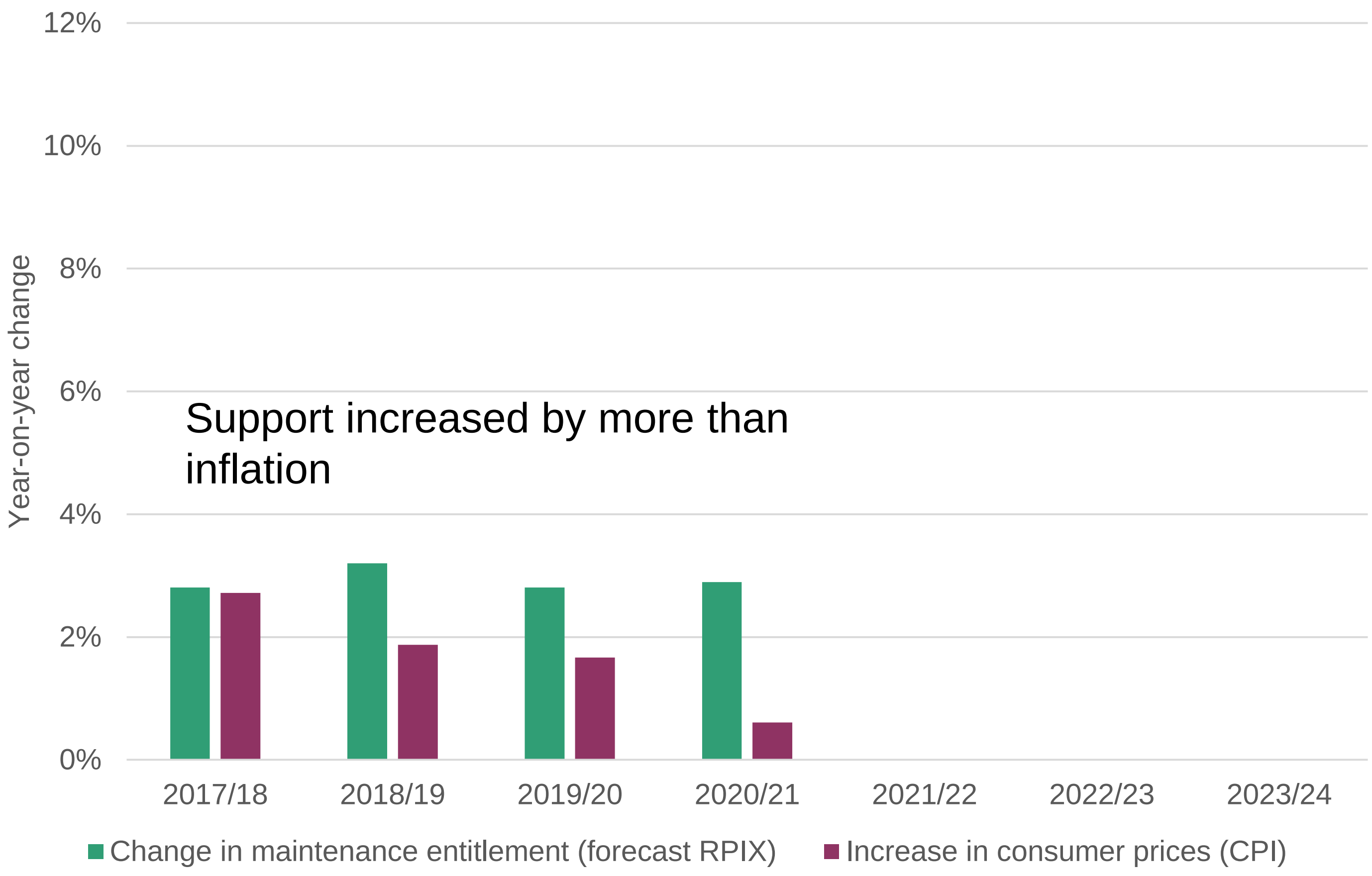

Note: Figures are for academic years. CPI is based on the first quarter (Q1) falling in each academic year; figures for 2022/23 and 2023/24 and from the Bank of England MPC Report – November 2022 central projections for 2023Q1 and 2024Q1 respectively. Maintenance entitlement in 2023/24 assumes rise in line with OBR's March 2022 forecast for RPIX in 2024Q1.

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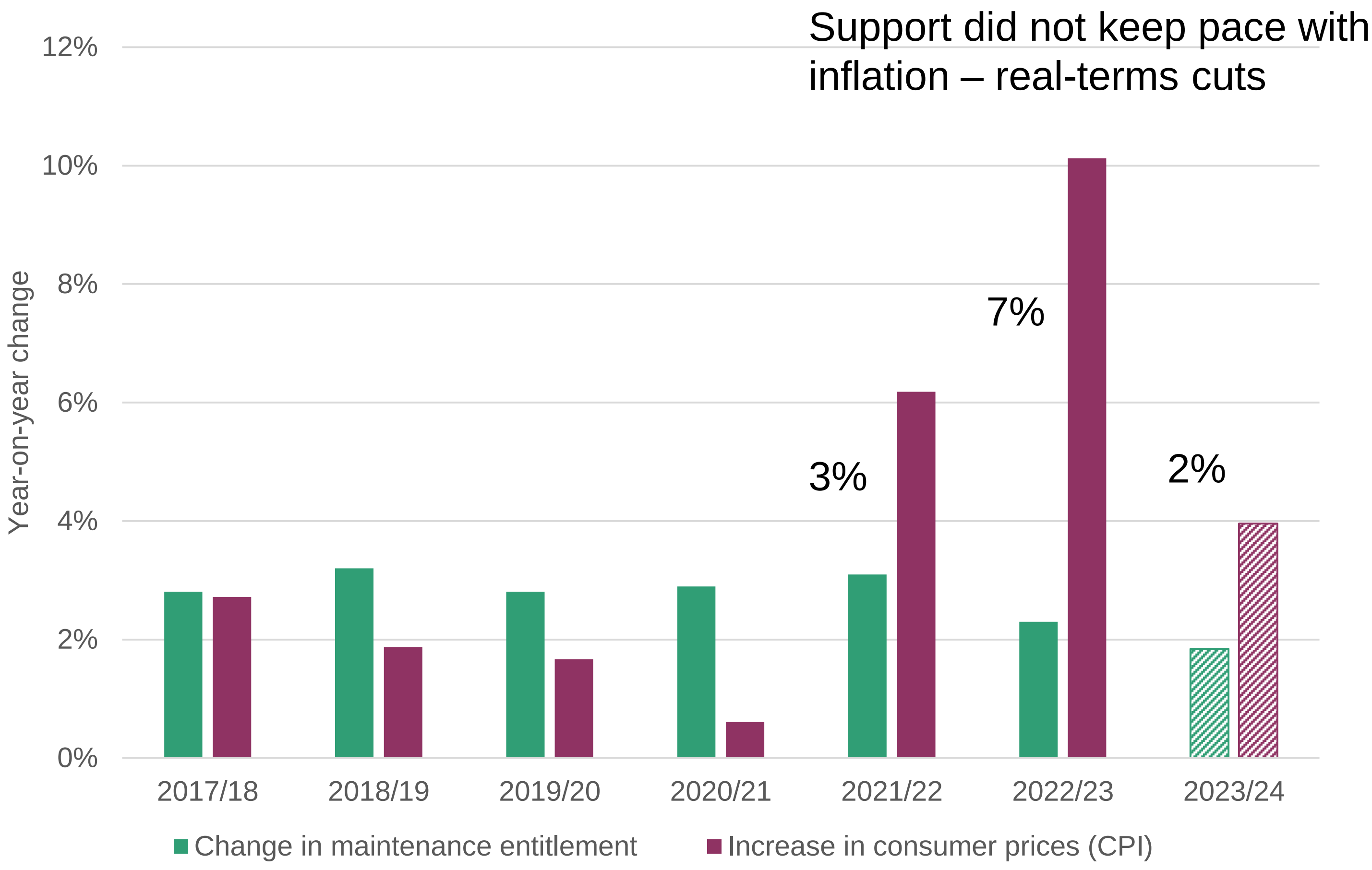

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- Each year, amounts increase in line with **forecast** for RPIX – which should mean the real value of support is maintained
- Errors in inflation forecasts mean maintenance support has been cut in real-terms since 2020/21, and past mistakes are not corrected
    - Support is worth 10% less this year than 2 years ago – a cut of £960 a year

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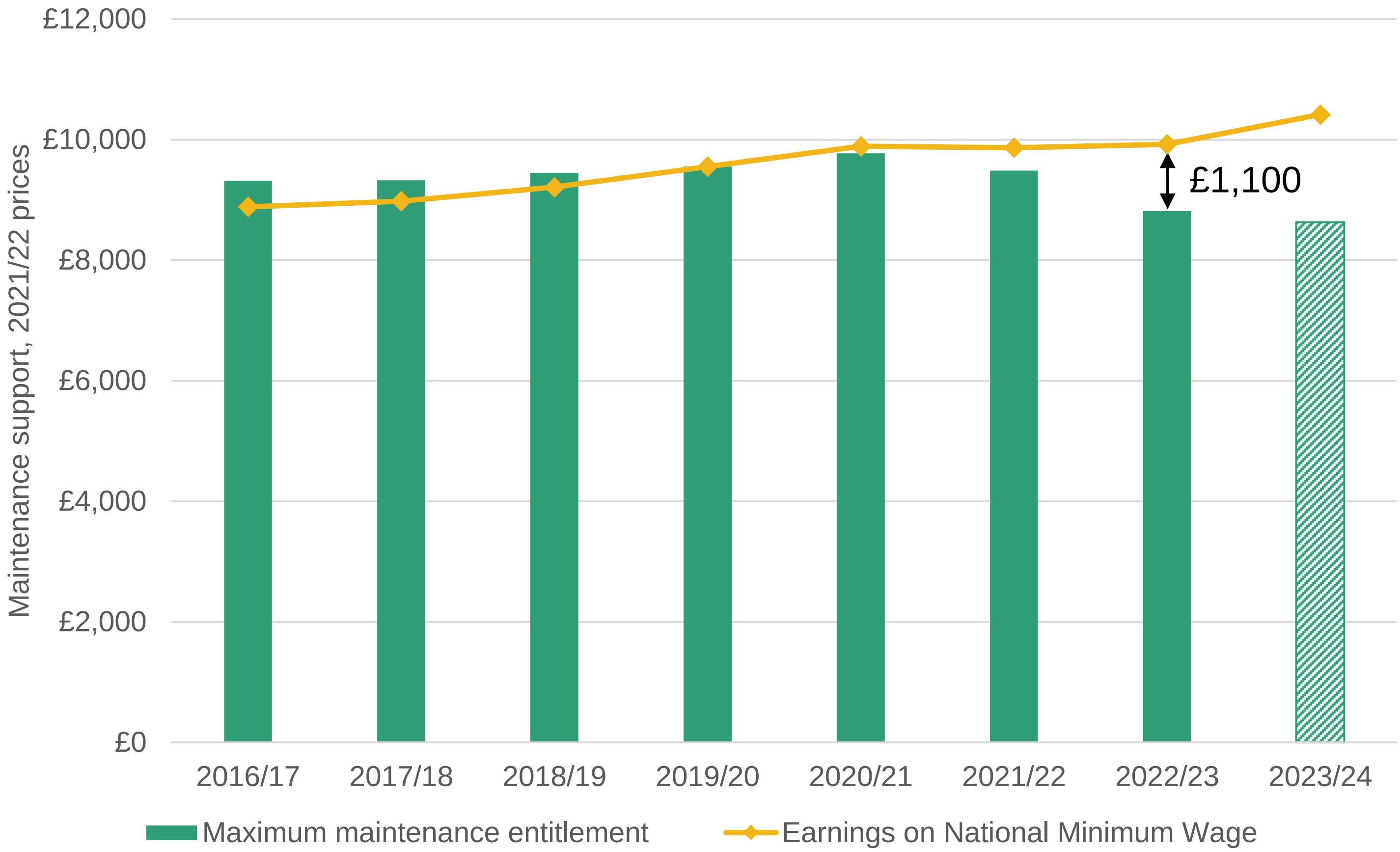

Note: Figures are for academic years, and are CPI real, expressed in 2021-22 prices using the price level in the first quarter of each academic year. Maximum maintenance entitlement for a student living away, outside London. Earnings are calculated by multiplying the hourly minimum wage for a 22-year old by the expected study time for a full-time undergraduate (37.5 hours per week over 30 weeks).

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- Errors in inflation forecasts mean maintenance support has been cut in real-terms since 2020/21, and past mistakes are not corrected
  - Support is worth 10% less this year than 2 years ago – a cut of £960 a year
  - Now outstripped by earnings at the minimum wage
- Lower parental earnings threshold has been frozen at £25K since 2008 – would be £35K if increased with average earnings
  - Half as many students are eligible for the maximum entitlement

What support is available?

- Parents may be **less** able to contribute towards living costs
- Most aren't eligible for benefits or £650 'cost of living' payments
- If pay energy bills, should get £400 off between October and March
  - If bills are included in rent, landlords must pass this on
  - Those living in halls may miss out
- May be able to find part-time work or increase hours
  - Would take 4 hours a week during term at NMW to make up for cut in maintenance loan since 2020
  - Holiday work may be easier to balance with studies
  - Rising unemployment may make finding work harder
- Universities may offer 'hardship funds' or other support

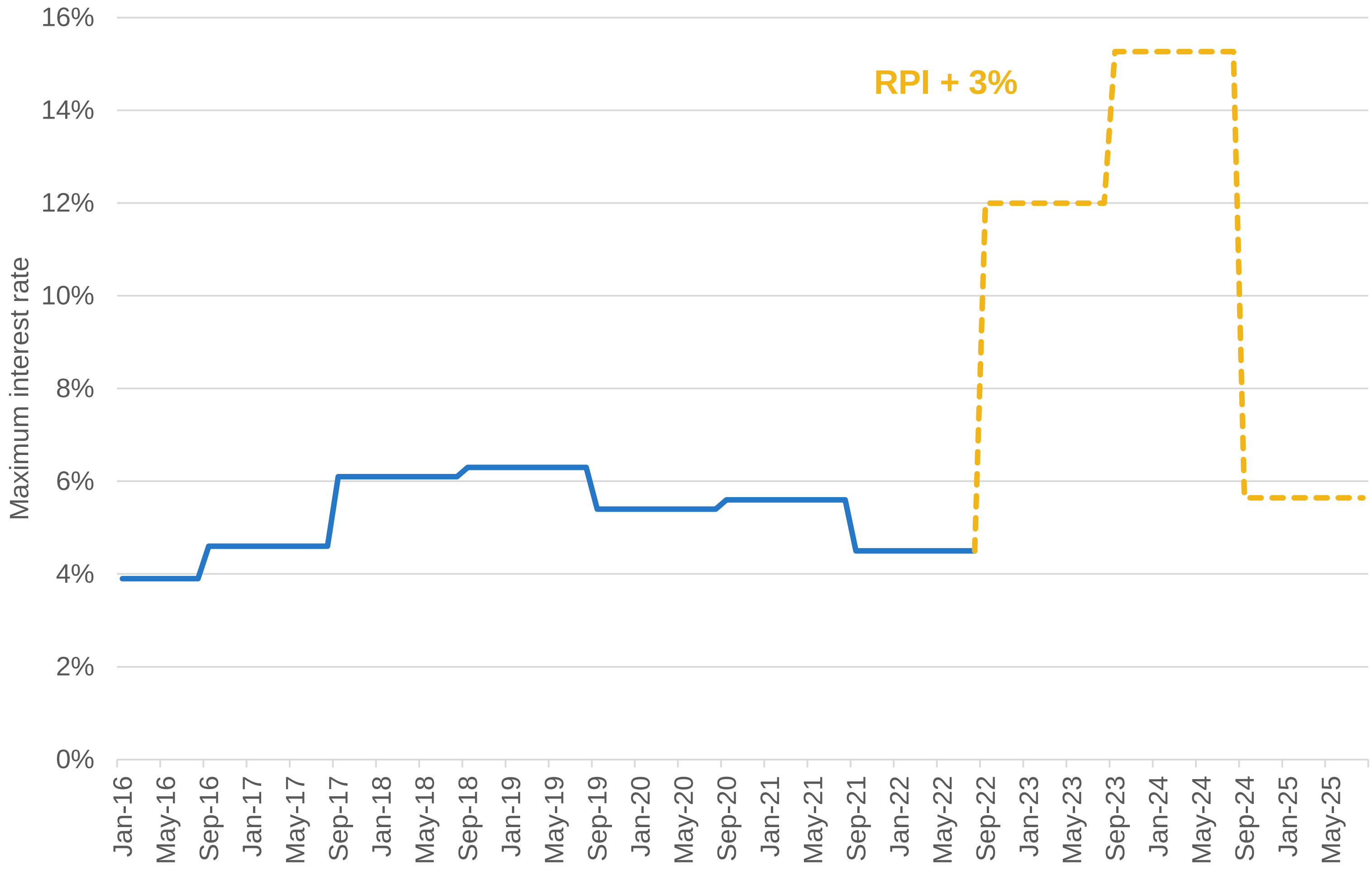
Note: See https://wonkhe.com/blogs/some-good-news-and-some-astonishingly-bad-news-for-students/ for recent news relating to students' eligibility for the Energy Bill Support Scheme.

Impact of inflation on loan interest rates

Higher interest on student loans

- Interest is added from the day you take out a loan, and the rate depends on RPI (another measure of inflation)
- RPI + 3% while studying, then between RPI and RPI + 3%
  - RPI if earning £27,295 or less
  - RPI + 3% if earning £49,130 or more
- Interest rates for an academic year reflect RPI in the year to the March of the previous academic year
  - The interest rate is capped at the ‘prevailing market rate’
  - This used to kick in with a lag, but govt has now fixed this, so we expect maximum interest rates of ~7.5%

Student loan interest rollercoaster



Source: Authors' calculations using IFS-Citi forecasts for RPI from September, and 12-month rolling average of series CFMZ6LI and CFMZ6K9 to September 2022 from the Bank of England Database.

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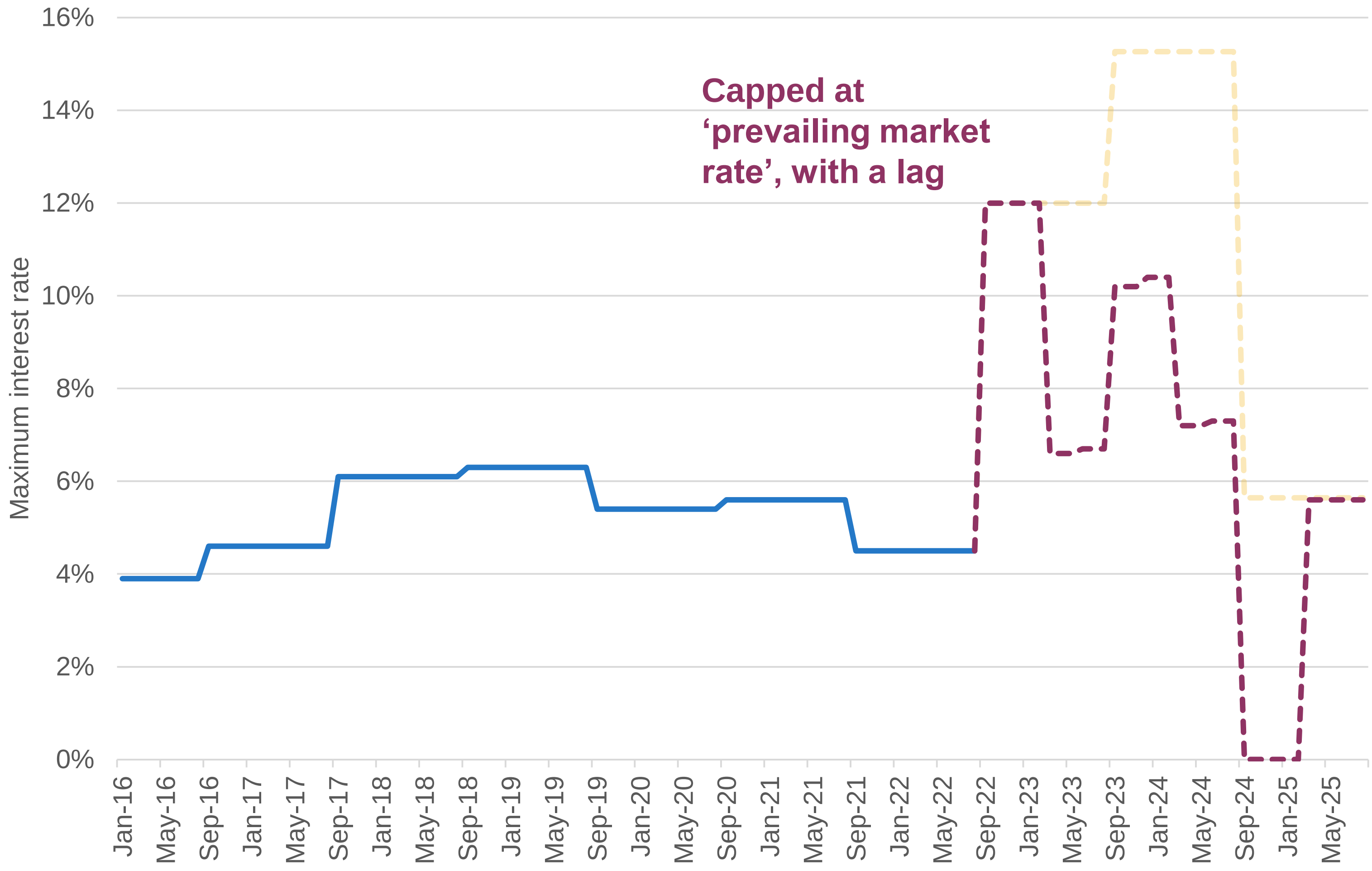

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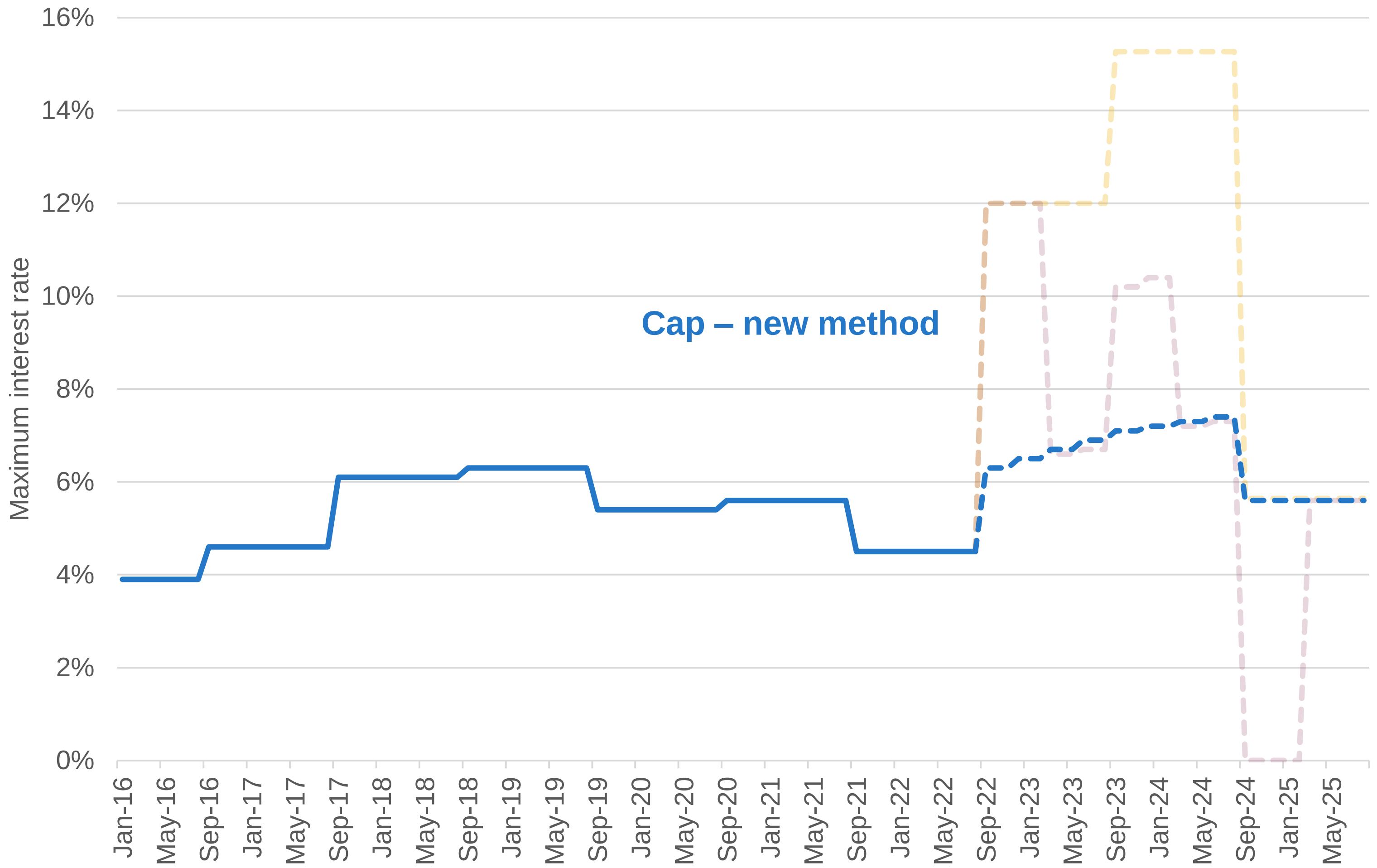

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Interest rates are high, but also misleading

- Still higher than government borrowing costs, or the Bank Rate
  - For new students from 2023, the interest rate will be just RPI
  - Scotland, NI and Plan 1: the lower of Bank Rate + 1% and RPI
- RPI is a bad measure of inflation and the method is confusing

- For many, the interest rate **won't affect how much they repay**
  - Only repay in months when earning over a certain threshold
  - Monthly repayments <u>don't depend on the amount you owe</u>
  - Only people who repay at least what they originally borrowed before the loan is wiped will repay <u>any</u> interest

Future post-18 funding: Lifelong Loan Entitlement

Lifelong Loan Entitlement (LLE)

- **Lifelong loan entitlement (LLE)** is the government's term for the future post-18 funding system
  - Consultation announced along with HE reform
  - DfE: "**From 2025, the lifelong loan entitlement will provide individuals with a loan entitlement to the equivalent of 4 years of post-18 education to use over their lifetime**."
- Puzzling: learners on nearly all post-18 routes **are already entitled to at least four years'** worth of loans
- This really isn't one policy, but an **umbrella term for various ideas** on reforming the post-18 student loans system

Lifelong Loan Entitlement (LLE)

Central planks:

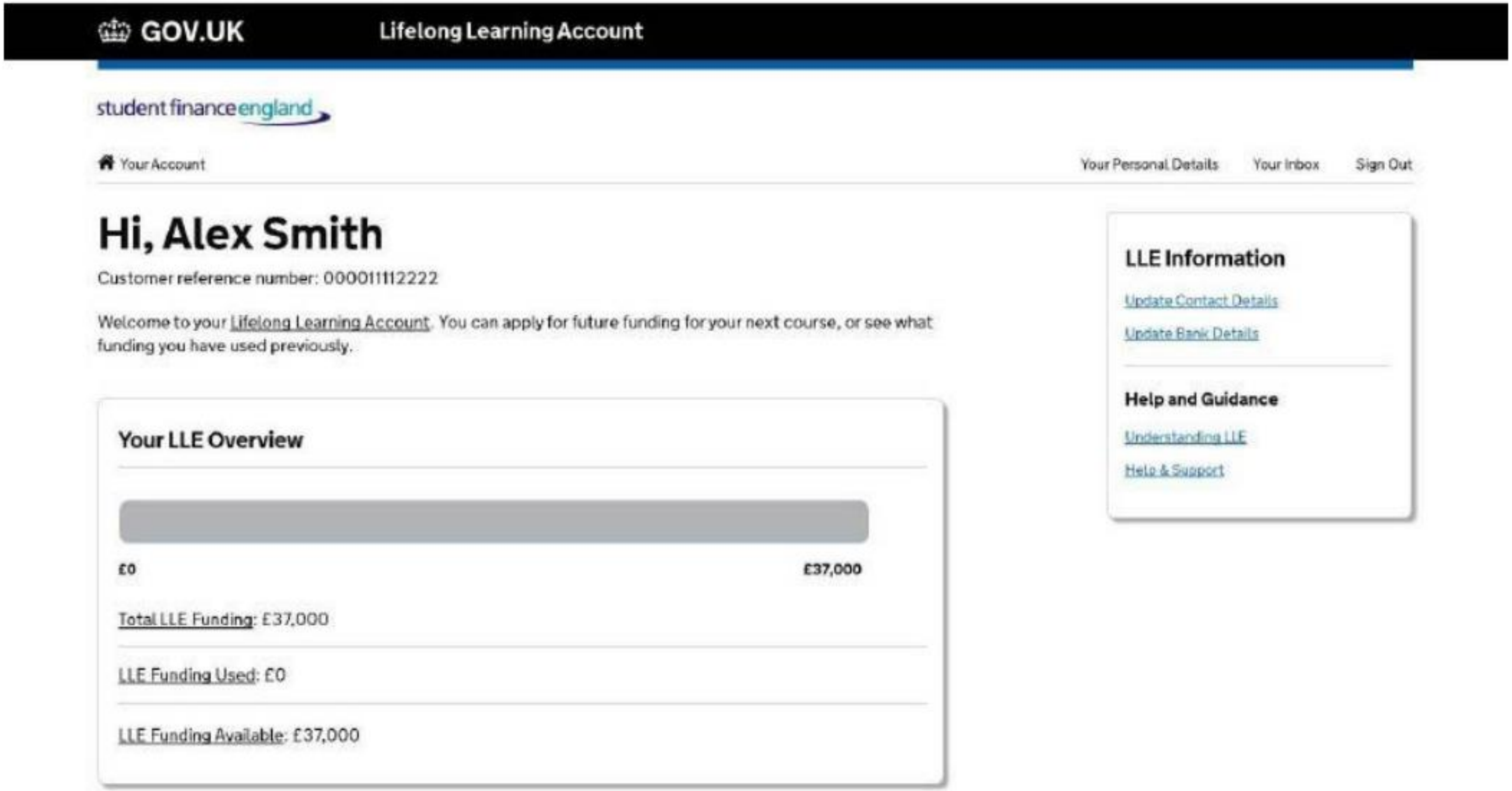
1. **Creating a unified student finance system** for higher education and post-18 further education
2. **Making it possible to study for separate modules** rather than whole degrees
3. **Relaxing Equivalent or Lower Qualification (ELQ) rules** about the order in which level 4-6 qualifications can be studied

These are in order of the government's degree of commitment.

A unified post-18 finance system

- **Extend higher education funding system** to qualifying further education courses and abolish separate FE loans (ALLs)
  - This would **level the playing field between HE and FE**
  - FE providers could charge higher fees
  - FE students on qualifying courses could get living cost support through maintenance loans

- **Limit the loan entitlement to four years** of post-18 study
  - Taken literally, this would mostly be an entitlement cut
  - For example, could no longer get a loan for:
    - A further education qualification after a four-year degree
    - A four-year degree after one year on a different course


GOV.UK
Lifelong Learning Account
student finance england
Your Account
Your Personal Details
Your Inbox
Sign Out
Hi, Alex Smith
Customer reference number: 000011112222
Welcome to your Lifelong Learning Account. You can apply for future funding for your next course, or see what funding you have used previously.
Your LLE Overview
£0
£37,000
Total LLE Funding: £37,000
LLE Funding Used: £0
LLE Funding Available: £37,000
LLE Information
Update Contact Details
Update Bank Details
Help and Guidance
Understanding LLE
Help & Support

A unified post-18 finance system

Major outstanding Issues

- Still substantially **unclear which courses will be eligible**
  - Definitely *Higher Technical Qualifications*
  - Probably all “standard” undergraduate HE courses
  - Non-standard HE (PGCE, Integrated Master’s, long courses…)?
  - Other FE probably largely ineligible

- Four year limit would actually **make lifelong learning harder**
  - What exemptions will the government put in place?

Modular provision

- Government **commitment to funding for separate *modules***
  - Modules are parts of courses that do not in themselves lead to a qualification (but may lead to a certificate)

- **Outstanding questions:**
  - How many providers will offer these modules?
  - To what extent will they in fact be transferable?

- **Is this a good idea?**
  - Flexibility versus dragging out higher education

Relaxing ELQ rules

- **ELQ rules**: Students are only eligible for loans when studying courses at a higher level than their highest qualification
  - Partially relaxed for particular subjects of study (patchwork)
  - Augar Review recommended to scrap these rules
  - **Relaxation seems crucial to enable retraining**
- The government's position on this is unclear, but the **default seems to be no restrictions**
  - Trade-off: flexibility versus "recreational" qualifications
- **Mooted new restrictions**: age, full course, time since qualification

Verdict on LLE

- A **unified post-18 finance system** is a good idea
- **Limiting loans to four years** risks serious cuts in entitlements
- The **arguments for and against modularity** are finely balanced
- **ELQ rules** are crucial yet the government seems undecided

A lot is still unclear on how the LLE will work.

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