Policy Paper:

Student Finance

Financing higher education by means of student debt creates a number of financial capability challenges. Debt is normalised for students, but in a distorted way that does not reflect the reality of debt in later life. Access to debt for paying living costs, the thirty year write-off and interest holidays on overdrafts combine to create false expectations of the terms of credit. At the same time, student debt repayments are part of affordability checks, so may limit graduates' future borrowing capacity, for example for a mortgage.

What Are the Issues?

The student loan system is complex and different from other financial products, giving rise to misinformation, myths and fear that may cause people to make life-changing decisions based on incorrect assumptions. To avoid debt, some people decide not to go to university without having found the necessary information to make a balanced decision. Others choose to go to university without understanding the financial consequences.

In the last thirty years there has been a huge expansion in access to higher education, with the number of students almost doubling between 1994 and 2018, from 271,000 to 533,000.[1] For young people up to the age of 30, the higher education participation rate reached 49.8% in 2016-17.[2] This is dramatically higher than the 5% rate of 1960 and the 15% rate that prevailed between 1970 and 1990.

Successive UK governments have responded to the financing challenge of higher education by requiring students to pay more of the costs, first by raising tuition fees then by abolishing maintenance grants. Students now borrow to pay for both fees and living costs, except in Scotland where there are no tuition fees for Scottish students. The average debt for the 2017/18 cohort entering repayment was £34,800 in England, £21,520 in Wales and £22,440 in Northern Ireland.[3]

In England and Wales, student loans are charged interest rates of 3.3% or 6.3% depending on whether a person is studying or earning. In Scotland and Northern Ireland the interest rate is 1.5%.[4] Interest is added to the loan principal, increasing the total debt at a compound rate.

Repayments begin when a graduate’s earnings exceed a certain threshold[5] and are set at 9% of earnings above the threshold level. In England and Wales any unpaid balance is written off after 30 years. In Scotland the write-off is after 35 years and in Northern Ireland after 25 years.

Research by The Money Charity has shown that maintenance loans are often insufficient to pay for maintenance costs. For many universities, accommodation costs take more than half the maximum available student support, rising to two thirds in some cases.[6] This requires parents or student earnings to make up the difference, but this fact is not generally understood in advance, nor widely publicised.

The financial pressures of independent living and borrowing mean that students face many financial challenges. They need to arrange loans, open student bank accounts that have different and sometimes more complex terms than other types of bank account, organise and pay for accommodation, learn to budget and pay for living costs including food, travel, clothes, educational materials and contingencies, while resisting the temptations of consumer credit.

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[1] House of Commons Library 2018, Higher Education Student Numbers, Briefing Paper Number 7857, page 18.
[2] DfE Sept 2018, Participation Rates in Higher Education, Academic Years 2006/07 to 2016/17 (provisional).
[3] The Money Charity, The Money Statistics June 2019, page 7.
[4] The Money Charity, The Student Money Manual 2018/19, page 7.
[5] As at May 2019, the thresholds were £25,725 in England and Wales, £18,330 in Scotland and £18,935 in Northern Ireland.
[6] The Money Charity, Set up to fail? The reality of money management at university, page 5.

Because of the under-provision of financial education in schools, most students and their parents have not had the benefit of formal training in personal finance. Students take on financial responsibilities before having the financial experience to manage money confidently and their parents may not know how student finance works.

Research by the Money Advice Service[7] found that only around half of students are financially cushioned or confident money managers. 17% were 'inexperienced and at risk', 21% were 'anxious but spending' and 15% were 'disengaged and overwhelmed.'[8]

The Money Advice Service also found that:

> 'many young adults can't recall receiving any tips or guidance about managing their money… a large majority of young adults (85%) wish they had been taught more about money management while they were at school or university, and feel their life would be better as a result. In particular, young adults wish they had been taught more about credit, investments and budgeting – credit is often viewed with considerable fear and from a position of low knowledge.'[9]

To address these needs, The Money Charity leads school workshops that include the basics of budgeting and student finance. We explain the options for attending higher education. We produce a popular Student Money Manual which shows how to make higher education more affordable.[10] In 2019, we are piloting money management workshops for university students.

From our many years of experience, we have found that financial education works best when it is positive and aspirational, ensuring that young people are not scared off money management. Financial education should be engaging and interactive, using anecdotes, personal stories and statistics to bring money management to life. Young people who wish to go to university should be empowered to manage their money successfully so they can get the most out of studying without money worries, and look forward to a time that is for many their first opportunity to manage money independently.

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[7] Now absorbed into the Money and Pensions Service.
[8] Money Advice Service & YouthSight June 2018, Student Diagnostic Tool.
[9] Money Advice Service 2018, Young Adults and Money Management; behaviours, attitudes and useful rules of thumb, page 3.
[10] See: https://themoneycharity.org.uk/resources/

What Needs to Happen?

Overall

- The system of student finance should be designed to enable as broad a range of people as possible to participate in higher education.
- It should assist those from low income and/or disadvantaged backgrounds.
- Students from low or middle income backgrounds should be able to attend higher education without needing income top-ups from their parents. Until this happens, it should be made clearer to parents what is likely to be required.
- Higher education providers and government should work together to make sure that accommodation costs are affordable for students, whichever part of the UK they are from.
- Maintenance loans and higher education accommodation rent should be paid monthly rather than termly,[11] to make budgeting easier and the transition to renting privately and the world of work smoother.[12]

Managing Student Debt

- The government should keep its promises to students and graduates by not changing the repayment terms for student debt in ways that are adverse to borrowers. This applies to student loan books sold to the private sector as well as to loan books held by the government.
- The income threshold for repayment of student debt should be raised each year by no less than the percentage increase in average earnings.
- Providers of credit cards and other forms of consumer finance should ensure that students do not leave higher education with a large consumer debt.

Money Advice and Guidance

- Financial education and advice should be available early in the decision process, when young people are deciding whether or not to go to university, and involve parents as well as prospective students, so that everyone involved can be fully prepared for the costs of further education. Schools and colleges should take responsibility for this.
- Government and higher education providers should ensure that financial education and advice remains free and available for all students who need it. Such education and advice should be provided by trained financial educators

[11] This already happens in Scotland.
[12] The Money Charity, Set up to fail? The reality of money management at university. Available at: https://themoneycharity.org.uk/media/Set-Up-to-Fail-The-Money-Charity-report.pdf

employed by higher education providers and/or by external agencies such as The Money Charity, contracted by higher education providers.

- Providers of student finance should make clear the future costs and repayment terms so that students can make a balanced judgement about the impact of student debt on other financial goals such as buying a home or starting a family. This information should be easily digestible and engaging.
- Advice should cover the particular products that students access, such as student current accounts and overdrafts, so that the preferential terms and future risks of such products are clearly understood.

See also: TMC policy paper "Financial Education for Young People".

The Money Charity is the UK's financial capability charity providing education, information, advice and guidance to all.

We believe that everyone achieves financial wellbeing by managing money well. We empower people across the UK to build the skills, knowledge, attitudes and behaviours to make the most of their money throughout their lives, helping them achieve their goals and live a happier more positive life as a result.

We do this by developing and delivering products and services which provide education, information and advice on money matters for those in the workplace, in our communities, and in education, as well as through influencing and supporting others to promote financial capability and financial wellbeing through consultancy, policy, research and media work.

We have a 'can-do' attitude, finding solutions to meet the needs of our clients, partners, funders and stakeholders.

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