UCFB WEMBLEY

UCFB BURNLEY

Student Finance Myth Busting

Student Finance Mythbusting

It’s now three years since student finance in England was radically overhauled, yet myths, panic and confusion are still widespread. So forget the politics, it’s time to focus on the practical impact on students pockets.

It is important that you as a student are not put off from going to university thinking you can't afford it. All applicants need to understand the true cost so that a decision can be made. Below we list the areas where there is confusion and misunderstanding, and we aim to deliver the correct information in a simple, common-sense, no-nonsense fashion.

1. **Trebling of tuition fees doesn't necessarily mean trebling of costs**

   All institutions are now allowed to charge up to £6,000 a year and many will charge up to £9,000 (nearly three times 2011's fees), providing they make extra provisions for bursaries for poorer students. The max for part-timers is £6,750 a year.

   You will no doubt have read headlines like "students to be £50,000 in debt when they leave". Yet the big confusion with tuition fees is that everyone talks about the price tag and the amount you borrow, whereas what really counts is how much you will need to repay. This depends far more on how much you earn once you graduate or leave university. Those who earn a lot will repay a lot. Those who don't gain too much financially from going to university will repay little or nothing. Some have even called this 'no win, no fee', although of course, winning at higher education is about far more than just how much you earn afterwards.

1. **You don't need the cash to pay for university**

   It ISN'T a case of 'pay up or you can't go'. Once your application has been processed, tuition fees are automatically paid by special Student Loan Company loans which full-time students only need to start repaying in the April AFTER graduation (or leaving) at the earliest, no matter how long your course.

   Of course you don't have to take the loan for tuition fees, you could opt to pay it directly.

3. **Earn under £21,000 and you'll never repay**

   You only repay 9% of everything you earn annually above £21,000 of pre-tax salary once you've left university. Therefore if you've started repaying the loan, but then lose your job or take a pay cut, your repayments drop accordingly.

   If you earn £22,000 in a year, what do you repay?

The answer is £90, as twenty two thousand is one grand above the threshold and 9% of £1,000 is £90.

And if you earn £31,000, what do you repay?

£900. Thirty one thousand is £10,000 above the threshold and 9% of that is £900.

"How on earth will my child be able to afford to repay these debts if they get a poorly paying job?"

It's really important to examine this in the light of the required repayments.

Someone on a low wage will be required to repay little or nothing at all. In fact, only higher earners will be shelling out large amounts.

It's important to note that not repaying much because you're just over the threshold isn't being bad. The system is, in reality, a graduate contribution, designed so that, in the main, those who gain the most financially out of university contribute the most.

The £21,000 threshold is set to change

The £21,000 threshold is scheduled to rise in line with average earnings. This will start in April 2017 (a year after the first graduates under the new system - 2012 starters - are eligible to repay).

No debt collectors with student loans

Student loans are repaid through the payroll just like income tax. What this means is that once you're working, your employer will deduct the repayments from your salary before you get it. So the amount you receive in your pay packet each month already has it removed.

This means no debt collectors will come chasing as you don't have a choice in the matter and will have paid it automatically.

The main exemption to this is for the self-employed (people who work for themselves or are freelance).

2. **After 30 years, any and all remaining debt is wiped**

You stop owing when you've cleared the debt or when 30 years (from the April after graduation) have passed, whichever comes first. If you never get a job earning over the threshold, you'll never repay. For those who started university before 2012, there was no 'real' cost to borrowing money via student loans, as the interest rate was set at the rate of inflation (RPI). So borrow a shopping trolley worth of goods and you'll repay enough to buy the same, even though the actual cash amount may increase. Yet for those starting in or after September 2013 that's all changed. The interest is as follows:

- **While studying:** Accrues RPI inflation plus 3% on the outstanding balance. This continues until the first April after graduation when it changes to…
- **After studying, earning under £21,000:** Accrues RPI inflation.
- **After studying, earning £21,000 - £41,000:** The interest rate will gradually rise from RPI to RPI plus 3% the more you earn (the interest rises 0.00015% for every extra pound you earn or, put another way, if you earn £1,000 more, you accrue 0.15% extra interest). These thresholds are likely to rise with average earnings from 2017.
- **After studying, earning over £41,000:** Accrues RPI inflation plus 3%.

It's worth noting all the above scenarios assume inflation is positive (prices rising). It's not yet known what would happen in a period of deflation (prices falling).

The rate expected to be used is the previous March's RPI inflation rate, though this will be confirmed in due course. March 2012's inflation rate was 3.6%. March 2013's inflation rate was 3.3% meaning interest charged on new-style student loans in 2013/14 will be 6.3%.

4. Repayments are £417/year LESS than for current graduates

Many people worry that with the much higher levels of student debt, cash will be too tightly squeezed to live on once post-2012 starters graduate. Yet actually, today's university starters will have MORE cash in their pockets each month than those students who've just graduated.

Graduates who started their course *before* Sept 2012, repay 9% of everything earned above £16,365. Those starting in 2012 and beyond see that increased to £21,000.

That means those earning above the £21,000 threshold have £417-a-year more in their pockets than now. A chart should help.

Earnings	**Current system**		**New 2012 system**	
	Annual repayment	**Monthly pay packet reduction it's equivalent to**	**Annual repayment**	**Monthly pay packet reduction it's equivalent to**
£16,000	Nothing	Nothing	Nothing	Nothing
£17,000	£57	£4.80	Nothing	Nothing
£21,000	£417	£35	Nothing	Nothing
£22,000	£507	£42	£90	£7.50
£30,000	£1,227	£102	£810	£67.50
£40,000	£2,127	£177	£1,710	£142.50

Earnings		Current system		New 2012 system
£50,000	£3,027	£252	£2,610	£217.50

Actually a fairer comparison will be with 2011 starters – the last on the old system. While it's likely those repaying under the new system will still have more disposable income in the years following graduation, the gap will be substantially reduced due to the inflation. There will still almost certainly be a gap, read more on why inflation decreases the difference.

	Repayments in 2016		
Average annual inflation (2013-16)	**Current system**	**New system**	**Increase in disposable income under new system**
No inflation	£16,365	£21,000	£417
2.5% (A)	£17,625	£21,000	£305
4%	£18,410	£21,000	£230
6.5%	£19,765	£21,000	£110
9%	£21,190	£21,000	(£17)

3. You WILL owe money for longer than current graduates and MAY pay a LOT more

The flipside of people repaying less due to the higher £21,000 threshold than current graduates is that it will take *much longer* to pay off the loan. And this is compounded by the fact the original debt is bigger and the interest rate higher.

This is because under the new system the cost is effectively being spread over a much longer period. Initially, graduates will be able to keep more of their income to spend than now. Though later on when they would've paid off the loan under the current system, they'll have less as they'll still be repaying.

4. Monthly repayments are the same, whether fees are £6,000 or £9,000

Whether you choose a course that costs £6,000 or £9,000, you'll repay the same amount each month, as that purely depends on what you earn (9% above £21,000).

In other words, whatever your tuition fees (and maintenance loan) if you earn £22,000, and haven't cleared the debt, you repay £90 a year.

Of course, the more you borrow, the longer you'll be repaying. Yet it's worth noting that, as many people won't finish repaying before the 30 years is up, unless you're a higher earner, picking a course with higher fees won't actually cost you more. See the min, max and average fees planned to be charged by each university.

5. **Student loans also cover living costs**

Full-time students can also take a loan to pay for their living costs, e.g, food, books, accommodation and travel. They are known as maintenance loans, and are usually paid in three termly installments direct to students' bank accounts.

The amount is dictated by two elements:

- **The guaranteed bit.** Up to 75% of the maximum living cost loan will be available to everyone, regardless of their parental income.
- **The income assessed bit.** The amount you can borrow is means-tested, in other words it depends on you or your parents' residual income (pre-tax income minus pensions
-
- If income is higher, then you or your parents are expected to fill this financing gap.
-

Maximum maintenance (living) loan

Academic year	**Living with parents**	**Living away from home**
2013/14	£4,375	£5,500

One big concern is student loans aren't big enough

While most headlines rant about the size of student loans, actually for many the problem is living loans aren't actually large enough. With student rents rising and costs increasing, for some, living off these amounts is tight. There are few signs of the government looking to increase these amounts.

So it's crucial to ensure that there is a real focus on budgeting, and the money isn't spent in the first few weeks of term. Extra funds from parents and part time jobs will help.

Deadlines to apply for maintenance loans

To get these loans in time for the start of the autumn term/semester, students resident in England need to apply by 31 May 2013. In Scotland, prospective students have until 30 June, but for Welsh & Northern Irish students, the deadline has passed.

Missing the deadline doesn't mean you can no longer apply for a loan, it just means the cash might not arrive until a few weeks into term.

Under £50,000 income households' students get maintenance grants

In 2013/14 full-time students with residual income under £25,000 get a grant of £3,250 for living costs (increased slightly to £3,387 in 2013/14) – in other words, it never needs repaying (unless you leave your course early, when you may be asked to pay it back).

If you're entitled to a full grant the maximum loan you'll be entitled to is reduced though by less than the amount of the grant.

So at £25,000 income or less, in 2013/14, a student living away from home (outside London) would get a grant of £3,250 and a maximum loan of £3,875 (not the full £5,500).

Those from households with income between £25,001 and £50,000 get smaller grants, though the maximum loan amount increases to make up for it.

	Support package 2012/13			**Support package 2013/14**		
Household income	**Non-repayable maintenance grants**	**Maintenance loans**	**Total**	**Non-repayable maintenance grants**	**Maintenance loans**	**Total**
£25,000 or less	£3,250	£3,875	£7,125	£3,354	£3,823	£7,177
£30,000	£2,341	£4,330	£6,671	£2,416	£4,292	£6,708
£35,000	£1,432	£4,784	£6,216	£1,478	£4,761	£6,239
£40,000	£523	£5,239	£5,762	£540	£5,230	£5,770
£45,000	£0	£5,288	£5,288	£0	£5,288	£5,288
£50,000	£0	£4,788	£4,788	£0	£4,788	£4,788
£55,000	£0	£4,288	£4,288	£0	£4,288	£4,288
£60,000	£0	£3,788	£3,788	£0	£3,788	£3,788
Over £62,500	£0	£3,575	£3,575	£0	£3,575	£3,575

For students living away from home and studying outside London

6. **Student loans DO NOT go on credit files**

When you borrow from a bank for a credit card, loan or mortgage, to evaluate whether they'll make money from you lenders look at three pieces of information – your application form, any previous dealings they've had with you and crucially, the information on your credit reference files. Most normal financial transactions and credit relationships you have are listed on these files - yet student loans are not included (with the exception of students who started university before 1998 under the original loans system and defaulted).

So the only way loan, credit card or mortgage providers know if you've got a student loan is if they choose to ask on application forms. They can do this and it happens, but in general it's only for bigger value transactions such as mortgages.

7. **Bigger tuition fees are unlikely to impact the ability to get a mortgage**

We know many parents worry that the much higher level of tuition fees, and subsequent 'debt', will hit their child's ability to get a mortgage after studying.

Of course, having a student loan is worse than not having one when it comes to getting a mortgage. Though going to university often results in earning a higher salary, which will usually easily cancel this out.

Here's what the Council for Mortgage Lenders (the mortgage company trade association) has said, sadly in less than plain English: "A student loan is very unlikely to impact materially on an individual's ability to get a mortgage, but the amount of mortgage available may depend on *net income*."

To explain this, it's more relevant to compare the impact of the system's change to those who are currently graduating.

Students starting in 2013 and beyond are likely to have HIGHER disposable (net) income than current graduates. This makes saving for a deposit and repaying a mortgage in the years after graduation easier. However, they will be repaying long after current graduates, so at that point they will have less disposable income. Overall, it's likely to even out.

You can repay early

In the early days, the Government was consulting on penalties to stop people repaying early - but the mass of feedback was against - and thankfully it decided to scrap the idea.

Yet this doesn't mean you *should* pay off early, just because it's allowed. While in general we'd encourage people to repay their debts as quickly as possible, student loans are one of the rare cases where that will be a bad decision for a good number of people. This is because, under the new system many won't fully repay before the debt's wiped after 30 years. Overpaying each month could actually be pointless, as the overpayment's not reducing the amount you'd need to pay back at all.

Even if you have enough cash to clear the loan in full it may not be worth it as your repayments primarily depend on what you earn, not what you borrowed. It could mean you need to repay less than what you owed.

8. **Many people will never pay it all back**

By running the numbers on some typical situations using the Student Finance Calculator (www.direct.gov.uk/studentfinance) it looks likely only those towards the higher end of the income scale will ever repay what they borrowed. In one way it's good, as it means the level of the tuition fees is irrelevant to most - they'll just keep paying the same proportion each month and if they don't earn enough, they won't come close to paying back what was borrowed (never mind the interest).

But it's also means the loan won't be cleared until it's wiped after 30 years.

9. **Think of it like a graduate tax, not a loan**

The maximum possible loan combining tuition fees and maintenance is £16,675 a year; £50,000 over a three-year course. This is a frightening amount, and indeed many are frightened of it. Yet it's important to not just jump at this figure, but look at it in regards to how much of that you'll actually have to repay.

In fact, when you examine this debt, it's far more like an additional tax than a loan for the following reasons:

- It's repaid through the income tax system
- You only repay it if you earn over a certain amount
- The amount repaid increases with earnings
- It does not go on credit files
- Debt collectors will not chase for it
- Bigger borrowing doesn't increase repayments
- Many people will continue to repay for the majority of their working life

In many ways it has many of the features of a tax, but one that simply ends once you've repaid what you borrowed, plus interest. So if you examined it as a tax on current thresholds, a typical graduate will face the following deductions from their payroll, while they still have an outstanding student loan.

Assumes current tax thresholds remain

Annual earnings up to £9,440	No tax – as this is the typical 'personal allowance', the amount earnable before income tax starts.
Earnings over £9,440 up to £21,000	32% tax and national insurance
Earnings above £21,000	41% due to addition of student loan repayments
Earnings above £41,450	51% due to addition of higher rate tax, but drop in national insurance
Earnings above £150,000	56% due to higher rate tax

10. Student loans should be counted as part of students' income

Without knowing your income, you can't budget. Your income is defined as the student loan, any grant, and any income from working and any money given by parents or relatives. Total that up, and this is what you should budget not to spend more than.

It's important to note while this does include the student loan, it doesn't include 0% overdrafts, which at best should be seen as aids to cashflow but not income.

11. Can the system be changed once I've started?

It's important to understand Parliament is omnicompetent. In other words, it's completely free to make and change rules made in the past. This means there is no 100% guarantee the system will remain unchanged for the 30 years until you're clear. It's worth being aware this is a risk factor.

Yet once the system is finalised and you've started university any negative changes in the future are unlikely, as policymakers are generally adverse to retrospective change.

Looking at the history of student loans, any major changes to the system have only affected new students. Those who have already started remain on the system in place when they started university (with minor positive changes, such as uprating due to inflation).

While nothing is impossible, the best that can be done is to plan that the system in place now will continue throughout your repayments.