

2019

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## EQUITY IN HIGHER EDUCATION

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Undergraduate student funding in England: the  
challenges ahead

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# Undergraduate student funding in England: the challenges ahead

Equity in Higher Education  
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- **Effects of 2012 reforms of student funding**
- **Assumed benefits of income-contingent loans**
- **Assessing the assumed benefits of income-contingent loans**

# Changing student funding

# Changing student finances in England

- 1. 1990 Education Act – partially replaced means-tested maintenance grants with loans for all students.**
- 2. 1998 Teaching and Higher Education Act – introduced tuition fees and income contingent loans**
  - means-tested tuition fees of £1,000 – paid up-front
  - maintenance grants abolished, replaced by income contingent student maintenance loans
- 3. 2004 Higher Education Act – introduced tuition fees for all students repaid by income contingent loans**
  - tuition fees of up to £3,000
  - Income contingent tuition fee loans
  - grants re-introduced

# 2012/13 undergraduate student funding reforms in England and beyond



- Money universities received from the government for teaching undergraduates withdrawn = 80% cut in funding
- Income replaced by higher tuition fees.
- Tuition fees raised to £9,000 a year for full-time courses.
- All students pay tuition fees.
- All full-time students qualify for income-contingent loans that cover all their tuition fees.
- All full time students eligible for loans for living costs too.
- Poorer full-time students qualify for means-tested grants BUT Abolished in 2016/17, replaced with higher loans.

# Aims of the 2012/13 reforms

**Our reforms are designed to deliver a more responsive higher education sector in which funding follows the decisions of learners and successful institutions are freed to thrive; in which there is a new focus on the student experience and the quality of teaching and in which [there is]... a diverse range of higher education provision. The overall goal is higher education that is more responsive to student choice, that provides a better student experience and that helps improve social mobility.**

**Higher Education: Students at the Heart of the System, 28 June 2011, para 23.**

# Student loans and student choice

**Putting financial power into the hands of learners makes student choice meaningful (para 6).**

**...we want to ensure that the new student finance regime supports student choice, and that in turn student choice drives competition, including on price. (para 1.19).**

**Higher Education: Students at the Heart of the System, 28 June 2011**

# The benefits of income contingent loans

.....graduates do, on average, earn more than non-graduates...So it is *fairer* to finance the system by expecting graduates to pay, if and when they are in better paid jobs. The proposed repayment system works on a “pay as you earn” basis....graduates will make a contribution based on their actual earnings once they have left their course. ...borrowers will only begin to repay once their income is above the repayment threshold. Repayment will be deducted at nine per cent of any income above this threshold. Linking repayments to a borrower’s income ensures that repayments are based on the ability to repay, rather than the *size of their debt*.

# Debt aversion is irrational, students don't understand how loans work

**...because the current system is poorly understood – many other students and their families are worried by the fact that they run up debt by going into higher education. In these discussions of debt, student loan obligations are still grouped alongside credit card debts and commercial mortgage style loans, as if they are all the same.**

**Independent Review of Higher Education Funding and Student Finance.  
2010. Securing a Sustainable Future for Higher Education p 40**

# **Impact of 2012 reforms (and subsequent changes) in England**

# Student loans in England:

## Rising student debt

- **Majority student have to borrow if want to enter HE**
- **Student loan debt on graduation growing**
  - 2017 funding system - average loan debts of £47,000 up from £24,754 under pre-2012 system.
- **Student loan debt unequally distributed**
  - Students from the poorest 40% of families will graduate with debts of around £56,000, compared with £42,000 for students from the richest 30% of families.
- **Most students will be repaying these debts all their working lives**
  - 83% graduates will not earn enough to repay their loan in full within 30 years, the point at which outstanding debt is forgiven.
- **Debt aversion & debt avoidance strategies**
- **Equity issues**
- **Long-term impact of debt on graduates' lives**

# Student loans in England

## The rising costs to government

- **Loans may be less efficient than anticipated because of the type of loan and the costs of administering, financing, and servicing loans.**
- **Income contingent loans are expensive, large hidden subsidy from non-repayment of loans**
  - 83% of graduates will not pay off their loan in full after 30 years when all outstanding debts are forgiven
  - UK government only gets back £53 per £100 its lends students = a government subsidy of 47%
  - Nearly ½ of all student debt never repaid

# Assumptions underpinning the benefits of income-contingent loans

# Assumed benefits of income-contingent loans

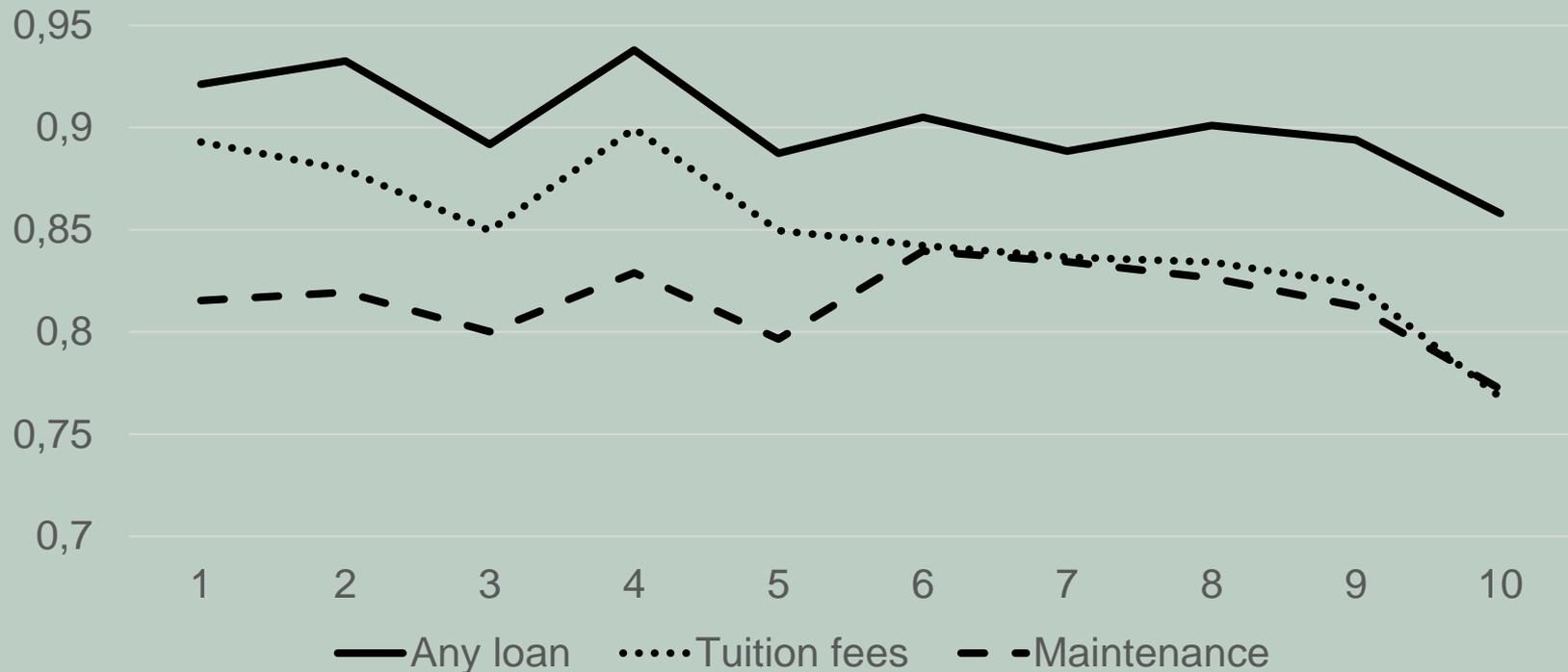
- **Loans are fair and affordable**
- **Loans are risk free**
- **Total amount of student loan debt is irrelevant**
- **Debt aversion is irrational**
- **Loans promote student choice and have no negative impact on students' HE choices**
- **Loans have no or minimal impact on post-graduation behaviour and life choices**
- **Loans promote the economic and social benefits and freedoms associated with HE**

# Assessing the assumptions

# Prospective students' attitudes toward debt and applying to HE

- Prospective students' attitudes to taking on student loan debt are more favourable in 2015 than in 2002.
- Lower class students are more debt averse than upper class students, much more so in 2015 than in 2002.
- Lower class students are far more likely than students from other social classes to be deterred from applying to university because of fear of debt, even when taking account of GCSE results, and differences in gender, ethnicity and type of school attended.
- Lower class students' fear of debt is more likely to deter them from applying to university in 2015 than in 2002.
- Source: Callender & Mason, 2017

# Take up of loans by type of loan and income decile



Source: De Gayardon, Callender & Green, 2019

# graduate labour market outcomes

## Taking out a loan

- No relationship between borrowers and non-borrowers jobs by occupation level, employment contract, and earnings
- The odds of borrowers having a graduate job are 40.4 percent lower than for non-borrowers.

## Attitudes towards debt

1 additional point on the debt attitude scale (more positive attitude) is associated with

- 5.2 percent increase in the odds of being in a graduate job
- 5.3 percent increase in the odds of being in a high-level occupation compared to an intermediate occupation
- 0.8 percent increase in earnings

# Assumed benefits of income-contingent loans

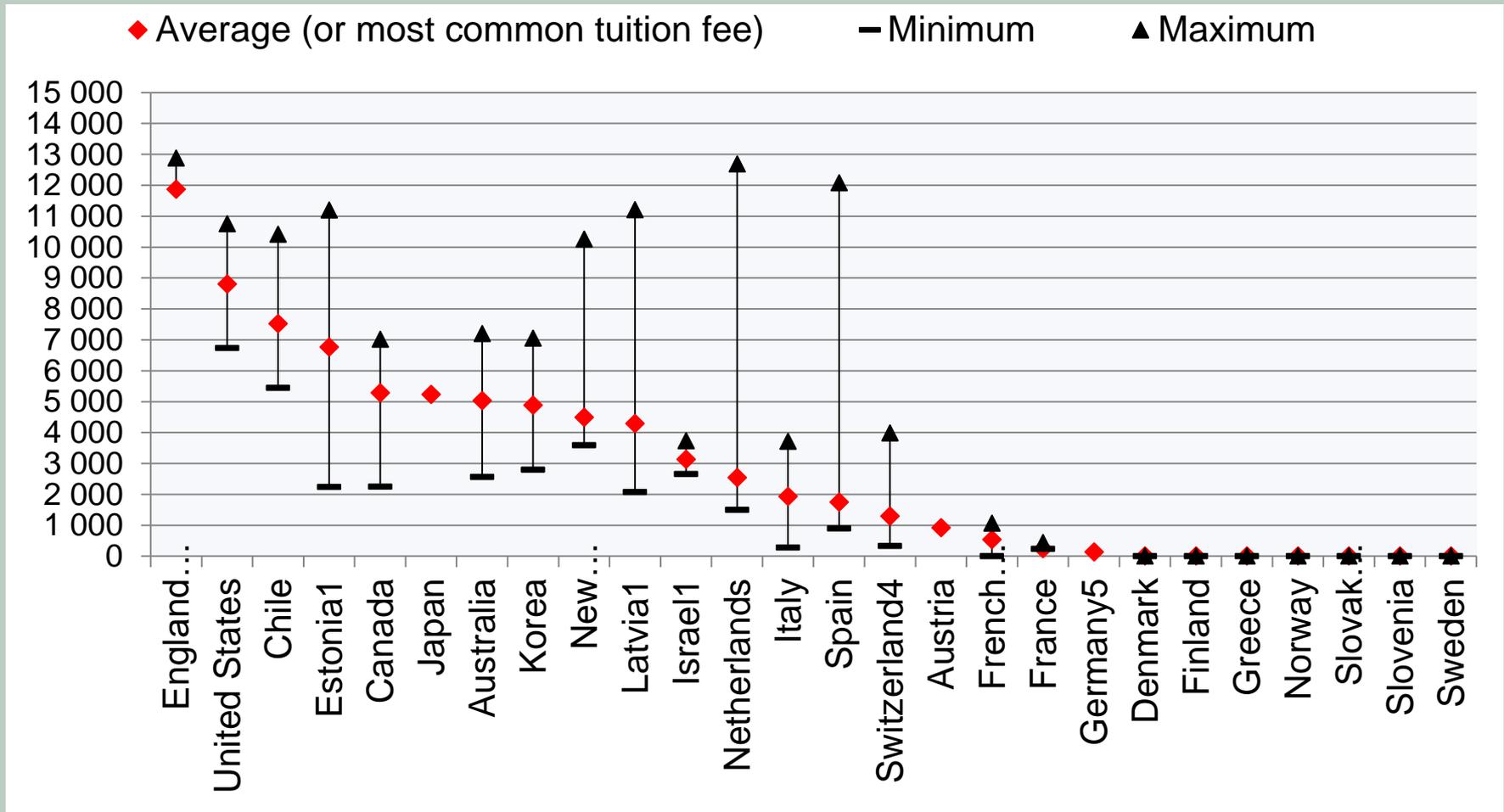
- **Loans are fair, affordable & risk free ✘**
- **Total amount of loan debt is irrelevant ✘**
- **Debt aversion is irrational ✘**
- **Loans promote student choice – have no negative impact on students' HE choices ✘**
- **Loans have no or minimal impact on post-graduation behaviour and life choices ✘**
- **Loans promote the economic and social benefits and freedoms associated with HE ✘**



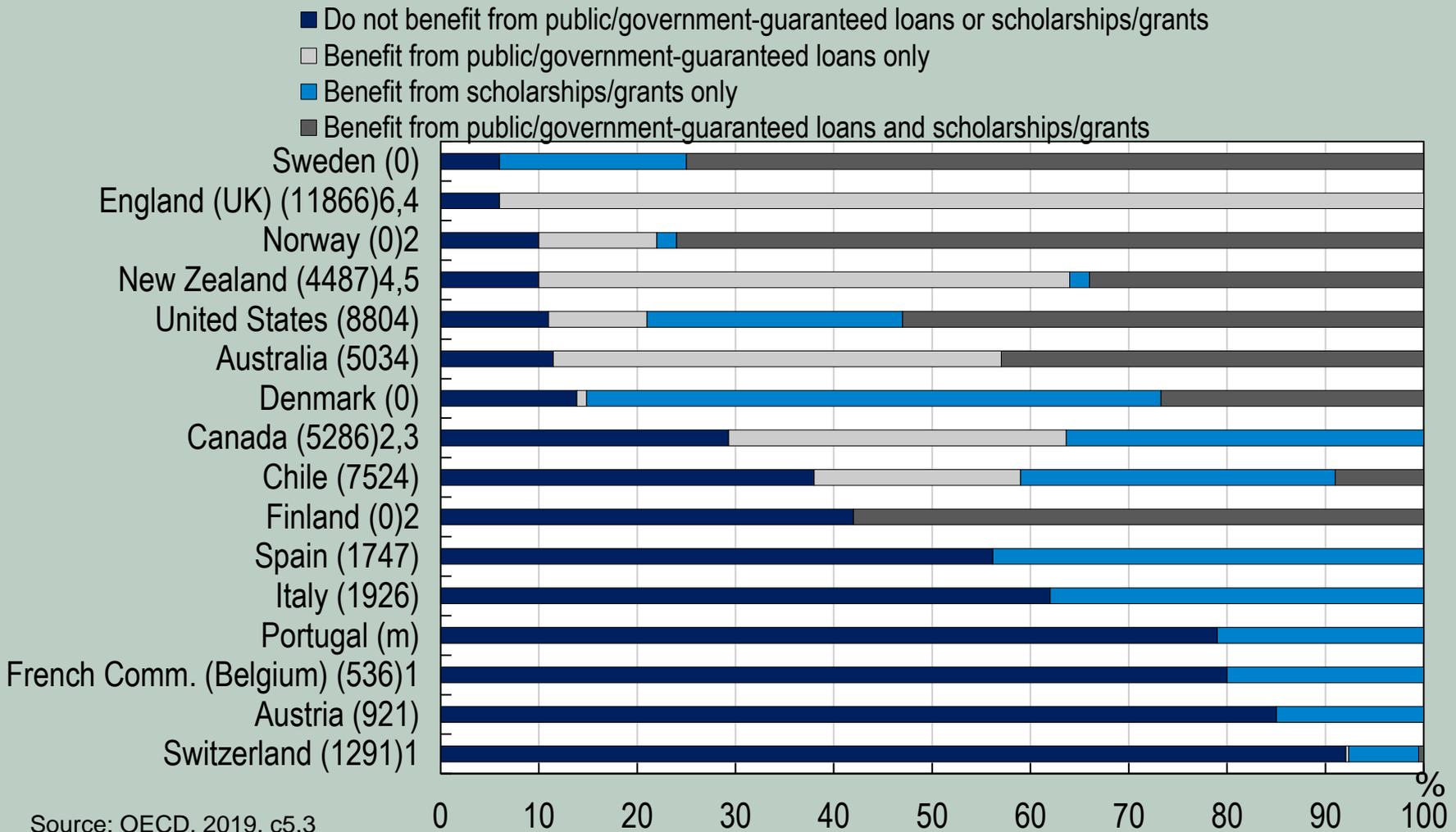
"Wow! You must be really well educated!"

# England's student funding system is an outlier

# Annual tuition fees charged by public institutions for national students at bachelor's or equivalent level, 2017/18, (\$)



## public/government loans and grants in bachelor's and master's long first degrees, 2017/18 (%)



Source: OECD, 2019, c5.3

# What percentage of public student loans are repaid?

- Repayment of outstanding loans issued in previous years received in the reference year (cash accounting basis), as a percentage of gross disbursement of loans in the reference year
- Discounted expected repayments of loans issued in the reference year (net present value), as a percentage of gross disbursement of loans in the reference year

