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Response to Review of Post-18 education and funding call for evidence

Introduction and summary by Martin Lewis, founder and chair of MoneySavingExpert.com

We welcome the opportunity to respond to this call for evidence in writing.

This review crosses many areas, and many of the decisions that will ultimately be taken are of a political nature. Perhaps the most important one being where the burden of paying for post-18 education falls – the balance between the individual and the tax payer.

Yet as the terms of reference require the review to maintain "… the link that those who benefit from post-18 education contribute to its costs", so we have kept our feedback focused on improvements that could be made to the current system (Plan 2 student loans). That should not be read as a wider political judgement of the merits of one system or another.

Student loans have become a political football. The current system is widely misunderstood, often because politicians of all parties, and some elements of the media, portray it in a way to gain maximum political point scoring, at the cost of ensuring it's adequately understood by those who take out the finance.

This leads to a danger that policy will be made based on the misperceptions rather than the reality. And while the psychological impact of policy changes are important, it is more efficient and better to fix that by first addressing misunderstandings, so that whatever changes are made will have maximum practical benefit rather than just sugar coating misperceptions.

For example, within the context of the current system, lowering tuition fees by a few thousand pounds or cutting interest rate would undoubtedly be popular and psychologically beneficial.

However, these changes would actually be regressive. This is because, as repayments are based solely on earnings, the only people who would pay any less because of it would be those who clear the debt in full within the 30 years before it wipes – which is the very highest earning graduates – while bringing in less revenue for universities which could impact quality of education for all.

So while there is nothing wrong with making those changes, if it's a question of limited resource they are not the priorities. We should focus on changes that help all graduates, and especially those that encourage and ease the passage for those from non-traditional university backgrounds.

In addition to our expertise in this area, this responses is also informed by our knowledge of students', parents' and graduates' experiences. We have five principle areas of focus.

1. **Student loans are misnamed and misframed as a debt.** This is misleading, off putting and leads to people making perverse decisions such as part overpaying loans after graduation,

even though it doesn't result in lowering what they repay. The system should be improved and re-designated as a 'graduate contribution system' as in other countries.

2. **Students do not have enough money to live off while at university.** Too much political focus is on tuition fees. Yet most students complain to us about the practical cost of living, and high rents in student areas. Maintenance loans need to be increased.

3. **The government must be honest about the parental contribution.** Even though they are independent adults – almost all under 25 year olds' maintenance loans are means tested based solely upon parental income. Some get less than half the full amount. It is implicit that parents are supposed to make up the gap.

   If this system is to continue, then honesty is required. The parental contribution needs to be explicit – parents should be told clearly what their expected minimum contribution is. This would stop friction between students and parents, and allow parents, especially from the 'squeezed middle' to understand that they may need to save for years to have the money ready. There are further issues too for those with multiple children at university.

4. **Student loan statements are misleading and damaging.** Many are rightly frightened by huge interest added each month, even though the reality is few will repay all of it, and some won't repay any of it. Statements should focus on explaining repayments and a predicted total cost – and showing the current 'total debt' figure in its true light as 'the maximum you could ever repay'.

5. **There should be a guarantee of no negative retrospective changes.** When students sign up to their 'loans' those terms should be fixed at outset with no negative retrospective changes allowed by government. An independent panel can be raised to determine if changes are 'negative'.

   If that is not accepted. Then at least it should be transparent which terms of a loan are variable and which are fixed. For example – the date loans wipe could be fixed – but interest rates amendable by government.

Whatever model is chosen, it should be transparent, easy to navigate and understandable. Doing this would provide a fairer experience for students and their parents, and mean that they could reasonably be expected to have faith in the system. The MoneySavingExpert.com campaigns team will now answer in detail the Review's questions.

Detailed MoneySavingExpert.com responses to questions

Q1. This review will look at how Government can ensure that the post-18 education system is joined up and supported by a funding system that works for students and taxpayers. The panel would like to understand your priorities. What, if any, are your principal concerns with the current post-18 education and funding system?

The description and explanation of our concerns are relevant to several themes that the review aims to explore, namely how to support young people in making effective choices around post-18 education and how to ensure that the post-18 education system is accessible to all.

If something similar to the current system is ultimately opted for, at its core, one of the greater outcomes would be to make the system more understandable.

Principle concern: student loans should be renamed as a 'graduate contribution system'

The language of debt must be removed from student finance. It is simply misleading. Referring to 'loans' makes the system difficult to explain and puts off potential students.

Couching student finances in the language of debt means that many obsess over the total borrowing amount and interest rates. However, this is a distraction from the *rate* of repayment, which is normally the most important factor to consider.

For many, the current Plan 2 model works in practice as a graduate tax: they pay 9% increased taxation on what they earn above £25,000 for a fixed 30 years. It's predicted only 17%[1] of graduates will repay in 30 years, therefore this is the only group for whom it will not work like a tax.

However, the system differs in some important ways from a tax; the key difference being that all graduates would pay the same rate, regardless of course choice, and the money wouldn't be hypothecated to an individual university. In addition, graduates who live abroad cannot be taxed, complicating repayment by foreign students.

In other countries, for example in Australia, the existing student finance system is referred to as a 'graduate contribution system'. Martin Lewis and MoneySavingExpert have long called for the system to be renamed in this way, because that's what is it.

Last year, then Universities Minister Jo Johnson MP himself agreed that the system should be seen as a graduate contribution, saying:

> *"…this should be seen best as a graduate contribution. It is clearly a time-limited graduate contribution, because it only lasts 30 years and it's also an income-linked time-limited graduate contribution.*
>
> *"So I think we do need to work on the language and cease to use the terminology of debt and*

[1] Research from the Institute of Fiscal Studies, 3 October 2017. For more information see https://www.ifs.org.uk/publications/9965

> *loans, and it has to be understood as a time-limited and income-linked graduate contribution that people are making."* [2]

In addition, when giving oral evidence to the Education Committee in April 2018, the current Universities Minister, Sam Gyimah MP said about the student loans system:

> *"… it's a graduate contribution system" [and later] "… [the] size of the loan is not the material thing"*

While ministers seem to accept that the system operates as a graduate contribution system, until it is renamed and reframed as one, it won't have the impact that is needed.

Reforming the language to that of a graduate contribution system is essential for ensuring that people are informed about how it works.

This would help to prevent people being put off from studying, or from making ill-informed financial decisions, such as parents using savings to pay off their children's tuition fees upfront to "save them from a lifetime of debt".

However, renaming the system is not a panacea

While it is a vital step, only changing the name of the system is not enough to counter the false perception held by so many.

To do this, other important practical changes must be made, which logically should come with the name change. For example, removing the word 'interest' and focusing on an 'annual repayment uprating' instead would refocus attention on the rate of repayment rather than the total sum owed.

If the public is to understand the reality of student finance, these must also be implemented alongside the name change, as a relaunch of the system.

Principle concern: student loans statements need to be changed

Student loans statements are misleading and dangerous.

Students and graduates receive annual statements telling them the total that they owe, with the interest they've accrued. We have heard from many students who overpay because they are scared of seeing huge amounts of interest being added to their statement each month, even though, in effect, they will likely never have to fully pay this off.

If there are going to be statements, they need to be reframed so that they are meaningful. The total outstanding balance is not necessarily what is repaid. Statements should distinguish between the total loan (which is the maximum amount that would have to be repaid to clear everything immediately) and the sum that a graduate would actually repay, based on their current salary (which would likely be lower, if not nothing at all).

An entire redesign of the statementing system is important because otherwise it pushes graduates and parents into making perverse decisions.

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[2] This was at the MoneySavingExpert.com Conservative Conference Fringe event on 3 October 2017. For more information see https://www.moneysavingexpert.com/news/loans/2017/10/student-loans-must-no-longer-be-called-a-loan-universities-minister-says and https://blog.moneysavingexpert.com/2017/10/06/student-loans-broken-told-uni-minister-jo-johnson/

For example, we heard from a mother and her recently graduated daughter.[3] The mother explained that her daughter had been struck down with a severe disability, leaving her unable to work and potentially unlikely ever to be able to work again.

They were watching the interest increase each month – and were petrified as none was being paid off.

Worse still, apparently (we have no independent confirmation) the Student Loans Company had advised them to volunteer to pay more, as that would help reduce the interest.

This is an outrageous situation. If someone is never going to earn over £21,000, they will not have to repay a penny. Therefore, whatever the statement says is the size of their account, is totally irrelevant. And overpaying unless they can clear the whole amount would not reduce their costs.

Of course, if the name is changed to 'graduate contribution system' this statement redesign would be much easier. But even without changing the name of the system, changing the name of the 'statement' would be very helpful.

Principal concern: there is disproportionate focus on the interest rate

Students are asked to contribute towards the funding of their education. But on principle, MoneySavingExpert objects to students also being asked to pay for the *financing* of their education, by paying interest on their contributions. Despite this objection, if there are to be interest rates, these should not be more than the rate of inflation.

But, in practice, interest rates are a red herring for many. Graduates on Plan 2 loans will simply pay 9% of everything they earn above £25,000 for 30 years – and this will not necessarily be enough to include the interest.

Again, there is great confusion in language. Graduates mistakenly refer to the interest which is added to their statements as the interest that they are 'charged'. However, the real interest that graduates are *charged* is dependent on how much they repay in the 30 years.

The vast majority of students will not pay the full interest added on their statement. Many of them will pay less interest than the rate of inflation. Some will not earn enough to pay back even the capital which they originally borrowed, and others won't repay anything at all.

Additionally, cutting the interest rate is regressive. It would most benefit the highest earners, the top 17% who earn enough to repay their whole loan and interest, rather than helping the lowest earners.

It would be preferable to obey the principle of not adding interest above the rate of inflation, but in terms of prioritising the use of money, it would be wrong to prioritise cutting interest rates. The priority should be on increasing maintenance loans, which is certainly a progressive gain and would enable people to have a better quality of life while at university.

[3] For more information see Martin Lewis' blog, July 2016, https://blog.moneysavingexpert.com/2016/07/panicked-about-interest-on-your-student-loan-statement-for-many-its-nonsense/

Principle concern: maintenance loans should be enough to cover student living costs

In the current system, students often can't afford to live on their maintenance loans.

The £50,000 price-tag a student faces on leaving university makes eye-catching headlines, due to the fact that (as already explained) repayments are often not properly communicated or understood.

However, in reality, the greater issue that students can face is affording to live while studying: the size of maintenance loans are not enough. In some cases, the maximum maintenance loan amount barely covers just the accommodation fees of a student, let alone other costs. Students are struggling, even with part-time jobs, help from parents, university grants or maximum loans.

It is possible to say that no student needs to pay upfront to go to university. However, for some, studying is becoming increasingly unaffordable, as their costs of living continue to rise but their income does not.

However, support for increasing the maintenance loan should not be conflated with support for reinstating the maintenance grant

The effects of bringing back maintenance grants would be similar to those of lowering interest rates.

While it is psychologically beneficial under the current mis-explained system, the practical benefit of the change is only for higher earners, who would earn enough repay the total owed in the 30 years. Otherwise, re-instating maintenance grants does not actually cost any less for a graduate because it wouldn't actually affect what they will repay.

Therefore, if there are limited resources in student finance, these would not seem well targeted on bringing back maintenance grants. For the reasons explained above, resources would be better spent on increasing the total amount of maintenance loan given to students.

Principle concern: the parental contribution must be explicitly communicated to parents

Another area that is poorly communicated with students and parents is around the implicit parental contribution expected to supplement some students' maintenance loans.

Many students do not get the full maintenance loan, and parents are expected to fill the gap, however this is not explicitly stated anywhere in the Student Loans Company communications. There is only a vague hint that "depending on their income, parents may have to contribute towards the living costs of their student children".

It is the duty of the Government and its agencies to communicate as clearly as possible the features of the system to those who they expect to be active participants in it. A necessary part of this duty is to explicitly communicate to parents whether they are expected to contribute to their child's living costs, and if so exactly how much.

By not clearly communicating the parental contribution, the Government risks causing rifts in families where parents do not make up the gap in loan, as well as budgeting problems which are sometimes so severe that students are forced to leave university.

What's worse, the parental contribution issue has the potential to make meeting university living costs harder for students

It is often difficult for parents to fill the gap in maintenance loan, especially in families where more than one child is attending university.

This can lead to a situation where both parents and students are struggling – especially given the lack of clear communication around the parental contribution. Parents have insufficient information to be able to plan and save, and therefore could struggle to find extra unexpected contributions to give to their student children, resulting in them having difficulty meeting basic living costs while at university.

The impact on students could be especially severe because there is no way to force parents to provide the contribution that the Government expects. The amount of loan a student receives will begin to be reduced as household incomes increase past £25,000, regardless of whether their parents agree and/or are able to make up the difference or not.

This is made all the worse by the fact that, as the Government does not explicitly communicate the existence of the parental contribution, students may find it even harder to justify to their parents that they need financial help to get by.

To ensure that a student is able to afford basic living costs while studying, the parental contribution must be clearly communicated to students and parents. If Government communications do not explicitly state the sum expected, they must at least explain that the loan has been reduced by an undefined amount, and inform parents what the maximum loan amount is (i.e. the amount given to students whose parents are not expected to contribute).

Moreover, if parents are unwilling to pay a contribution, their finances must be removed from the student loans means-testing mechanism for their student child, or there should be some way to force them to comply.

Principle concern: retrospective changes are possible, and can be deeply unfair

The current system, and its terms and conditions, are vulnerable to retrospective changes by the government of the day.

The most preferable system is one where there can be no retrospective changes, and ideally this is what would be implemented. However, if this is not brought in, the second preference is one in which the Government and its agencies are open and upfront about what is changeable and what is unchangeable. While new primary legislation could always change features of the system, what is susceptible to change via secondary legislation should be clearly communicated to students.

For example, the 30-year period after which a loan is wiped off, and an interest rate in line with the rate of inflation (allowing for changes in the rate of inflation) should be fixed in statute, and this should be communicated. At the same time, it should be stressed that the repayment threshold is variable and so could be altered via secondary legislation, just like a tax threshold.

There needs to at least be transparency around delineating between the two levels (fixed and changeable), because everything being potentially variable reduces faith in the system.

The impact of recent negative retrospective changes to terms and conditions

In 2015, the Government's U-turn on a promise to students by freezing the student loans repayment threshold was an abomination. It was a breach of trust which went against the principles of fair government.

The Government used Parliament as the vehicle to tell students about raising the threshold – this commitment created a bond of trust between the Government and students. Going back on this promise by altering the threshold undermined the faith of students, in both the loans system and the political system.

The impact of recent negative retrospective changes to the operational practices

Trust in the system was similarly undermined by the sale of pre-1998 loans to companies including Erudio in 2014. In that instance, it was the operational practice around the loans which changed, such as the ways graduates were communicated with, and the fact that their loans were now listed on their credit files. Understandably, such changes caused great concern among graduates, which was only compounded by the fact that Erudio was plagued with complaints about its poor customer service.

Sales of student loans should not affect students or leave them worse off

Any sale of student loans should be seamless for the individual students. Not only should there be certainty in the terms and conditions but also in operational practices too; for example, the repayment mechanism must not change.

A particular concern in this area arises from evidence the Chancellor of the Exchequer, Philip Hammond, gave to the Treasury Committee on 12 December 2016. When asked about the planned retrospective freezing of the student loans repayment threshold, the Chancellor responded:

> *"I would have to be frank with you and say I do not see scope for reversing that decision. It is an important part of our overall fiscal consolidation and, of course, it is also about preparing the student loan book, ultimately, for sale as an asset sale."*

The Chancellor's response begs the question: does the Government prioritise the rights of investors to have confidence in what their rate will be, or the rights of students to have confidence in what they will repay?

Negative retrospective changes to student loans should be banned, and positive changes approved by an independent panel

To ensure that students and graduates trust the loan system, negative retrospective changes to the terms and conditions and operational practices of student loans, which leaves student worse off, should be banned. This is regardless of whether loans are sold or securitised. Positive retrospective changes should be possible, but only after being reviewed and approved (as positive) by an independent panel.

While some changes will clearly be positive or negative for students/ graduates, some changes could be less clear cut. It would be for the independent panel to judge whether the change should be permitted.

At the very least, students should be told which elements of their loans could be altered

If the above delineation between positive and negative retrospective changes, with the latter banned and the former approved by a panel, is not opted for, then surety of what *can* change should be given as a minimum. For example, student should be clearly told that the length of their loan will not change, but the interest rate might do.

Q9: What particular barriers (including financial barriers) do people from disadvantaged backgrounds face in progressing to and succeeding in post-18 education and training?

As described, using the language of debt to define student finance is a significant cognitive barrier to post-18 academic education, as students and parents feel overwhelmed contemplating the total borrowings as opposed to the repayment rate.

This is especially so for those from disadvantaged backgrounds, for whom the £50,000 "price tag" of university might seem especially daunting.

The feeling that university might be an unaffordable or a financially risky route to take could be further exacerbated by the sense of uncertainty created by the possibility of retrospective changes to the system, as explained above.

Q13: How should students and graduates contribute to the cost of their studies, while maintaining the link that those who benefit from post-18 education contribute to its costs? What represents the right balance between students, graduates, employers and the taxpayer?

Whatever way the Government decides to balance the costs of post-18 education, it is vital that the resulting system is properly communicated to the public.

How the costs of the system will be communicated to potential students, current students, parents, graduates and the wider general public, should be a key consideration while designing the system itself.

As explained, proper communication of how the student finance system works is especially crucial for those that are expected to actively participate and contribute to the system, i.e. students and parents.

Q14: What are the most effective ways for the Government and institutions to communicate with students and graduates on the nature and terms of student support?

How student finance is communicated needs to be separated from the politics. It needs to be accepted that achieving proper and widespread understanding of the system is a significant but vital task. Substantial budget needs to be allocated to ensure the communications are understandable, impactful and far reaching. This would be an efficient use of resources, particularly in the context of the amount of money allocated to student finance.

Official communications about student loans often overload students, graduates and their parents with information, without having adequate explanation. They often lack real-life examples of how the system works and how the different decisions of students, graduates and parents within the system play out in financial terms. This needs to change.

At every point throughout their journey students should receive targeted, easy to understand communications. These should enable them to make informed decisions, such as on whether to borrow, or whether to over-pay. There should be clear guidance as to when some decisions are appropriate and when they aren't.

As part of the financial education curriculum, regardless of its position of the national curriculum, it should be incumbent on every school to teach student finances and how other post-18 education is paid for, and the practical financial impact on the student of each of those educational opportunities. Universities must have a pastoral duty to ensure that students understand the statements (or other communications) that they will receive and how repayment will work before they start their education. Prior to students leaving university, their universities must again re-explain the system and the decisions they'll have to make upon graduating.

On top of targeted communications, the Government and its agencies must provide high quality mass communication to the general public about how the system works, to ensure maximum exposure of potential students to correct messaging, and to ensure that parents are reached by communications too.

Q16: What are the ways that Government can increase the value for money of post-18 education?

When it comes to universities, value for money is a very difficult question.

The price tag that is often put on university is farcical. Students do not pay £9,250 a year; they contribute back in proportion to what they earn. Value for money can only be seen once the cost of university is defined, and this is nebula for each student until they leave university.

Questions such as "Is it a good course?" or "Are you getting enough teaching hours?" can be answered, however, to start trying to link these factors to tuition fee cost is risible under the current system, because the two things are simply not linked.

The only way to conceivably judge a university on value for money would be to assess how much graduates earn afterwards. However, this has significant shortcomings; higher earning graduates will repay more of their student loans, and in any case, simply looking at earnings is an over-simplification of the "value" students get from university; there are also social, wellbeing and cultural advantages too, although, these are much more difficult to quantify.

About Martin Lewis

Martin Lewis is the founder and executive chair of MoneySavingExpert.com and former head of the Independent Taskforce on Student Finance Information.

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MoneySavingExpert.com is the UK's biggest consumer website dedicated to saving people money on anything and everything by finding the best deals, beating the system and campaigning for financial justice. It's based on detailed journalistic research and cutting edge tools, and has one of the UK's top 10 social networking communities.

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