

# Packhorse Generation:

The long debt tail of student loans

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The Intergenerational Foundation ([www.if.org.uk](http://www.if.org.uk)) is an independent, non-party-political charity that exists to protect the rights of younger and future generations in British policy-making. While increasing longevity is to be welcomed, our changing national demographic and expectations of entitlement are placing increasingly heavy burdens on younger and future generations. From housing, health and education to employment, taxation, pensions, voting, spending and environmental degradation, younger generations are under increasing pressure to maintain the intergenerational compact whilst losing out disproportionately to older, wealthier cohorts. IF questions this status quo, calling instead for sustainable long-term policies that are fair to all – the old, the young and those to come.

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## Executive Summary

This paper analyses the financial status of students embarking on a three-year degree course commencing in September 2017 and tracks their likely earnings over 30 years in order to quantify how much interest current students will accrue over a 30-year loan term based on earnings over time. The figures cover borrowing for university fees and therefore exclude maintenance loans, which will more than double the debt for less well off students. The main findings are:

- **Students fresh out of university will be more than £5,000 worse off before the April following graduation due to punitive ‘interest rates’ charged and compounded monthly (“Charges”) and the tuition fees increase;**
- **Even with earnings increasing over 30 years, a graduate on a salary of £55,000 at the end of a 30-year loan term will have paid back just over £40,000 on £33,000 borrowed and yet will still owe close to £59,000;**
- **£59,000 will still be owed because the Charges increase students’ debt exponentially;**
- **The current student loan system means that the outstanding £59,000 will be “written off” by the government after 30 years;**
- **But “writing-off” really means that future taxpayers will be expected to pick up the bill for the Charges because instead of benefiting from increased graduate spending in the economy, they will be supporting an economy endlessly deprived of cash from graduates’ whose earnings are swallowed by the extortive Charges. Taxpayer support could even encompass paying for quantitative easing measures;<sup>1</sup>**
- **And private buyers of the loan book will have income expectations predicated upon the high Charges. They may well demand more favourable terms to make sure that instead of loans being “written-off”, they are repaid to the buyer who then profits from the graduates. This will mean even more punitive terms for student borrowers and an economy more starved of cash.<sup>2</sup>**

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<sup>1</sup> “Extra private debt can act as a real drag on the economy’s growth rate. We cannot afford to encumber the young.” Professor Sir Keith Burnett, Vice Chancellor of University of Sheffield: <http://www.telegraph.co.uk/education/2017/01/03/taxpayers-should-heap-scorn-governments-loan-book-sell-off>

<sup>2</sup> “Now, the tax payer is paying billions of pounds so that a commercial organisation gets the opportunity to be paid a commercial rate of interest on a loan, and we are selling off the loan at a commercial rate so that a commercial organisation can profit from our children. The government can claim economic good sense. But on the long-term there has been an increase in private debt that is an extra danger to the UK economy.” Professor Sir Keith Burnett, Vice Chancellor of University of Sheffield: <http://www.telegraph.co.uk/education/2017/01/03/taxpayers-should-heap-scorn-governments-loan-book-sell-off/>



- **In a ‘double whammy’, the taxpayer could also foot the bill if loan book buyers’ income expectations are not met.**
- **Removing high Charges would mean graduates repaid their loans earlier so their income is returned to the economy. This would help future taxpayers and stop exploitation of students through their loans.**

This paper questions the already existing punitive levels of interest charged upfront to students. It concludes that the government’s declared intention to attempt to sell-off the loan book to private providers is flawed. It will not reduce the tax burden on future taxpayers.

Moreover, as this paper illustrates, the current levels of non-repayment of student loans make loan sales unattractive to potential purchasers. The government has demonstrated that it is happy to impose retrospective changes on students. It therefore seems likely that the government may choose one, or all of, the following retrospective changes to the student loan book to make a loan book sale attractive to buyers.

Changes the government could want to make:

- **Increase the level of interest and/or inflation charged during university;**
- **Lower the threshold at which graduates face repayment;**
- **Increase the repayment level charged on incomes over £21,000;**
- **Increase the interest charged on outstanding loans during the 30-year term currently RPI + up to 3%; and**
- **Extend the length of the loan term beyond 30 years post-graduation.**

However, these changes would end up indebting younger generations of taxpayers even more – whether they are graduates or not: it could deprive the nation of cash in the economy as graduate workforce spending goes directly to the hands of loan book holders rather than being returned to the nation to feed jobs for all.<sup>3</sup>

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<sup>3</sup> As footnote 2.



## Introduction

Each year around 500,000 students start a full-time undergraduate degree course at an English higher education institution.<sup>4</sup> Most of those starting their degree courses will have taken out a student loan to cover the cost of their tuition fees. The fees are set each year by the government. The government intends that student loans are exempt from many of the consumer protections enjoyed by other consumer borrowers, such as the Consumer Credit Act 2008 (the “CCA”). Loan terms and conditions are changed, including retrospectively, for example, repayment thresholds, tuition fees and loan amounts; and extortionate borrowing costs are charged to students.<sup>5</sup> The Student Loans Company<sup>6</sup> provides the loans, operating in ways that breach the CCA and regulation.

There are a number of different loan systems in operation based on when students studied. This paper will cover the post-2012 income contingent student loans system introduced following the Coalition LibDem/Conservative government decision to permit higher education institutions to treble their fees to £9,000 per year.

Why did this triple increase in fees happen? The thinking within government circles was singularly political. How best could they reduce the amount of money the nation owes (national debt) and the interest occurring each year on the amount owed (the deficit) when the government had promised to balance the books. The ‘ingeniousness’ of the new student loan system was that it allowed student loans to be classed as an ‘asset’ on the government’s balance sheet and thereby ‘off-deficit’.<sup>7</sup>

Like any other loan, student loans require repayment<sup>8</sup>, but the political “sell” to both students and parents was that this new system should be viewed more like a graduate tax than a loan since repayments would be “affordable” and based on earnings. Furthermore, the government promised, while quietly front-loading the debt (as will be demonstrated in this paper), that the terms would not change and that the amount of student debt incurred while at university would not affect a person’s ability to borrow later on in life when they wanted, for example, to borrow in order to buy a home.

The government has already broken their first promise by changing the terms of repayment. The second promise looks likely to also be broken now that new

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<sup>4</sup> HESA Students in Higher Education 2014/2015; <https://www.hesa.ac.uk/data-and-analysis/students> (accessed 4/1/2017)

<sup>5</sup> Student Loans – a guide to terms and conditions: [http://webarchive.nationalarchives.gov.uk/20121015000000/http://www.direct.gov.uk/prod\\_consum\\_dg/groups/dg\\_digitalassets/@dg/@en/@educ/documents/digitalasset/dg\\_200469.pdf](http://webarchive.nationalarchives.gov.uk/20121015000000/http://www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/@educ/documents/digitalasset/dg_200469.pdf) (accessed 4/12/2017)

<sup>6</sup> “Student Loans Company is a non-profit making, government-owned, organisation set up in 1989 to provide loans and grants to students in universities and colleges in the UK.” <http://www.slc.co.uk/about-us.aspx>

<sup>7</sup> “In the national accounts the loans are classified as ‘financial transactions’, not ‘expenditure’, and are excluded from calculations of the deficit.” McGettigan, A. (2013) *The Great University Gamble: Money, markets and the future of higher education* London: <http://www.lrb.co.uk/v37/n05/andrew-mcgettigan/cash-today>  
and Slaughter, S. and Taylor, B. (2016) *Higher Education, Stratification, and Workforce Development*, p134: “... the student loan book is not entered as expenditure on the department’s accounts because it generates annual income from graduate repayments; on the contrary it is counted as an asset... the loan book was ‘off deficit’”

<sup>8</sup> Student loan “interest” costs are RPI plus 3%. RPI used is presently 1.6%



“affordability” tests, introduced in response to the 2008 global financial crisis, have tightened lending by mortgage providers meaning that they must now lend less based on more rigorous assessments of monthly disposable incomes.<sup>9</sup> Student loans impact the ability of borrowers to buy homes.

The latest government decision to allow institutions to increase tuition fees “in line with inflation”<sup>10</sup> from September 2017 means that the front-loading of debt will be even greater; interest will also increase, and the ability of young people to borrow in the future will be further diminished.

Some commentators may say that the level of debt incurred does not matter but servicing the debt holds on to students’ income, deducting money at source for thirty years. This is what will cripple students, borrowers and the economy going forward unless fairer terms are given to students and stricter conditions are imposed on governments of the day.

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<sup>9</sup> Mortgage Introducer: <http://www.mortgageintroducer.com/brokers-warn-high-student-loan-debt-may-put-off-first-time-buyers/#.WG0iynecZsg> accessed 4/1/2017

<sup>10</sup> The increases in tuition fees are calculated/assumed as 2017: from £9,000 to £9,250, which is equivalent to a 2.8% increase; 2018: from £9,250 to £9,546, which is a 3.2% increase as per Office for Budget Responsibility ref here: <http://www.bbc.co.uk/news/education-37510744>; 2019: from £9,546 to £9,861 which is equivalent to a 3.3% increase as per Office for Budget Responsibility ref page 63: <http://cdn.budgetresponsibility.org.uk/Nov2016EFO.pdf>

## Front-loading interest

While students are at university, and until the end of March in the year following graduation, tuition fees' loans will grow from £28,657 (£9,250 + £9,546 + £9,861) to £32,729, for a three-year course because an estimated £3,915 of interest/costs will be added to the increased loans.<sup>11</sup>

### Study years calculated as follows:

#### Year One, 2017/2018

Payment one by 1<sup>st</sup> October (2017) is  $(9,250 \div 4) = 2,312$  which is then compounded monthly at a rate of 5.8% for first period of the academic year, becoming £2,345 at the end of December (2017). Then payment two is made in January, so costs are:  
 $(£2,312 + 2,345) = 4,657 \times 5.8\%$  compounded monthly for next period of the year (4 months), becoming £4,747 at the end of April.  
 Then payment three is made, so costs are:  
 $(£4,657 + 4,625) = 9,282 \times 5.8\%$  compounded monthly until first payment in second academic year for next period of a year (5 months) becoming £9,508 at the end of September.

#### Year Two, following the same pattern:

Payment one is  $(9,546 \div 4) = 2,386$  which is then added to £9,508 (= 11,894) and compounded monthly at a rate of 6.2% for first period of the academic year, becoming £12,079 at the end of December.  
 Then payment two is made, so costs are:  
 $(£12,079 + 2,386) = 14,465 \times 6.2\%$  compounded monthly at a rate of 6.2% for the next period of the year, becoming £14,842 at the end of April.  
 Then payment three is made, so costs are:  
 $(£14,842 + 4,773) = 19,615 \times 6.2\%$  compounded monthly for next period of the year becoming £20,126 at the end of September.

#### Year Three, following the same pattern:

Payment one is  $(9,861 \div 4) = 2,465$  which is then added to £20,126 (= 22,592) and compounded monthly at a rate of 6.3% for first period of the academic year, becoming £22,949 at the end of December.  
 Then payment two is made, so costs are:  
 $(£22,949 + 2,465) = 25,414 \times 6.3\%$  compounded monthly for next period of the year, becoming £25,951 at the end of April.  
 Then payment three is made, so costs are:  
 $(£25,951 + 4,930) = 30,881 \times 6.3\%$  compounded monthly for the last period of the academic year and until the 1<sup>st</sup> April of the year following graduation (regardless of earnings) becoming £32,729 at the end of the following March (11 months).

This, together with the increases themselves, will mean that while studying<sup>12</sup>, students are becoming more than £5,000 (£3,915 + £1,657 = £5,572) worse off, (regardless of earnings). This is because relevant compounding monthly rates (interest + RPI) apply to loans throughout this period, e.g. a total of 5.8% for year one – and these rates are expected to rise with inflation.<sup>13</sup>

<sup>11</sup> Figures based on students commencing studies in September 2017 and that 2018 and 2019 fees increase follows inflation with increased fees of £9,546 and £9,861, respectively

<sup>12</sup> Reference here is to the period while at university and until the end of the March following graduation

<sup>13</sup> Loans bear correspondingly increased rates calculated by reference to the higher RPI and charged to students as follows ("RPI interest" + 3%, compounding monthly):

**2017:** 2.8 + 3% = 5.8%    **2018:** 3.2 + 3% = 6.2%    **2019:** 3.3 + 3% = 6.3%





These calculations relate to Plan 2 loans and are on the basis of the payment of tuition fees in three tranches each year of one quarter on 26 September, one quarter on 9 January and one half on 24 April. Therefore interest and costs start at three different points in the year.<sup>14</sup> (Note: some universities demand payment of tuition fees out of synch with the government tranches being paid to the students).<sup>15</sup>

Such rates are punitive. To illustrate just how much interest affects the principal amount borrowed, it is possible to quantify how much a graduate not working for the next 30 years post-graduation would owe. By adding up the monthly compounding interest the initial £32,729 would balloon to £184,644 if interest accrued at 5.8% for 30 years without repayment. Obviously it is highly likely that most students will work above the threshold of repayment for some, or all, of that time, so the figures quoted are the most extreme example of how non-repayment and interest incurred affects the capital sum.

## A tightening stranglehold on graduates' lives

How much students repay of the £32,729 plus interest/costs is presently determined by graduates' incomes. The current threshold for repayment is when earnings pass £21,000. However, just three years after promising not to change the terms of repayment the government recently announced that the threshold of repayment would be frozen until 2021.<sup>16</sup> This means that more graduates will be pulled into earlier repayment.

Realistically graduate incomes are likely to rise over the loan term. The calculations in this report show how much is repaid with earnings of £20,000, £22,000, £30,000, £35,000, £41,000, and £50,000 for 30 years.

In the increasing earnings scenario outlined, a graduate earns £22,000 for 3 years, then £25,000 for five years, £30,000 for five years, £35,000 for ten years and £41,000 or £55,000 for the remaining seven years.

If a graduate earned £35,000 for thirty years, total payments of £37,800 would be made but £54,983 would still be outstanding at the end of the 30-year period, and be written off.

If a graduate earned £50,000 for thirty years, £217 per month would be demanded and £57,288 would be paid over 22 years, when the loan and costs would have been repaid.

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<sup>14</sup> The government says that fees are "paid to your university or college at the start of TERM 1 25% of the tuition fee At the start of TERM 2 25% of the tuition fee At the start of TERM 3 50% of the tuition fee." [http://media.slc.co.uk/sfe/1617/ft/sfe\\_new\\_full\\_time\\_students\\_guide\\_1617\\_d.pdf](http://media.slc.co.uk/sfe/1617/ft/sfe_new_full_time_students_guide_1617_d.pdf)

<sup>15</sup> University College London (UCL): In 2016/17 **new** UCL IOE students must pay their fees in no more than two equal instalments: 31 October 2016 and 1 February 2017 <https://www.ucl.ac.uk/current-students/money/fees-payment/deadlines>; Warwick University: 50% of tuition fees due on the first day of term 1, 25% of tuition fees due on the first day of term 2, 25% of tuition fees due on the first day of term 3: <https://www2.warwick.ac.uk/services/academicoffice/finance/makingpayments/whentopay/>

<sup>16</sup> Student Loans Company: [http://www.studentloanrepayment.co.uk/portal/page?\\_pageid=93,3866911&\\_dad=portal&\\_schema=PORTAL](http://www.studentloanrepayment.co.uk/portal/page?_pageid=93,3866911&_dad=portal&_schema=PORTAL) (accessed 4/1/2017)



Even if a graduate's earnings increase steadily to £55,000 for the last seven years of the loan term, they will not have repaid the loan despite having paid £40,092 towards it; £58,008 will be outstanding and written off.

But what happens if a graduate earns less than the earnings threshold of £21,000, say £20,000 a year for 30 years? This has a cost of "RPI interest" which is assumed to be 2.8%, compounded monthly for 30 years resulting in a final debt of £75,312. The entirety of the £75,312 would be outstanding and therefore need to be written off at the end of the 30-year term.

### Increasing tuition fees seems to have been pointless, so why was it done?

The balance of the Student Loan Book for the UK as a whole in 2014-15 was £73.5 billion and for England £64 billion for 5.5 million borrowers.<sup>17</sup> More than £10 billion a year is expected to be lent to students each year going forward.<sup>18</sup> Previous estimates suggested that 45% of graduates will not earn enough to repay their student loans even before many students' debts were doubled by the maintenance grants being replaced with maintenance loans (which also make students pay the high Charges). According to the BBC, "if the figure reaches 48.6% then the government will lose more money than it gained by increasing fees in England to £9,000 a year."<sup>19</sup>

The question is therefore why did the government increase fees when even existing fees are unlikely to be repaid? A willingness to make retrospective changes (existing students will also suffer the burden of fee increases from September 2017 onwards) suggests that either the government has an agenda or it does not know what it is doing. Given the announced loan sales, the former seems feasible and it appears that loan sales are on the agenda.<sup>20</sup>

However, non-repayment by borrowers of loans and interest (see calculations) will deter loan purchasers. The loans may have to be made more attractive to purchasers including via more retrospective changes to ensure that purchasers get the loans repaid and receive the lucrative compounding interest.

For example:

- Increasing the 9% repayment rate;
- Altering the loan term;
- Increasing non-repayment penalties imposed on students via harsher loan terms.

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<sup>17</sup> Student Loan Repayment for Sustainable Higher Education (2016): [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/499432/BIS-16-8-student-loan-repayment-for-sustainable-higher-education-strategy-February-2016.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/499432/BIS-16-8-student-loan-repayment-for-sustainable-higher-education-strategy-February-2016.pdf)

<sup>18</sup> Bolton, P. (2016) Student Loans Statistics, Briefing Paper Number 1079, House of Commons Library: [researchbriefings.files.parliament.uk/documents/SN01079/SN01079.pdf](https://researchbriefings.files.parliament.uk/documents/SN01079/SN01079.pdf)

<sup>19</sup> BBC News (2104): <http://www.bbc.co.uk/news/education-26688018> accessed 4/1/2017

<sup>20</sup> Money Saving Expert: <http://www.moneysavingexpert.com/news/loans/2016/12/chancellor-cites-future-sale-of-student-loan-debt-as-reason-not-to-unfreeze-repayment-threshold> accessed 4/1/2017



Because graduates' repayments are deducted at source by HMRC, there is a unique opportunity for repayments to be extracted from graduates' incomes. This mechanism makes the loan book potentially most lucrative – if buyers have the ability to increase repayment rates by virtue of the aforementioned changes, deduction at source is the perfect tool for them to get their hands on profit generated by the extorted Charges – regardless of the consequences for graduates and their families and the economy, and irrespective of whether doing so is fair. Graduates could therefore face excessive repayment schedules deducted at source. Such changes would be subject to claims of immorality and illegality, but that has not stopped the government, so far.

### The taxpayer will pay for the sale of the loan book and compounding interest

If the loan book sale goes ahead the taxpayer will ultimately foot the bill directly, and indirectly for example via additional costs<sup>21</sup> and an economy that will suffer because graduates' spare cash will be in the hands of loan book holders instead of oiling the economy<sup>22</sup>. Adverse economic and wellbeing consequences can be expected in such a scenario, perhaps on a national scale. A loan book purchaser will have income expectations from its loan book purchase. If this income is not delivered it may well look to the government for recompense<sup>23</sup>. The government will, in turn, look to the taxpayer.

Because loan book purchasers' income expectations are being set by excessively high "Charges" which students are paying, the recompense required if students default on their loans could be correspondingly high.

### Double inflationary uplift paid for by students

As mentioned previously, not only are tuition fees themselves increased by the RPI<sup>24</sup>, amount, but students will also be charged an RPI uplift in the cost of their loans, which is RPI + 3%. Thus, the students pay at least a double RPI inflationary "uplift" on the tuition loans. Some may describe this as a "double steal". HMRC does not seek "double taxation", yet more than double inflation payments are demanded from students.

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<sup>21</sup> Hillman, N. (2015) "... because student loans appear in the main measure of the nation's debt, selling off the loan book now looks good even if it leads to less government revenue in the future":

<http://www.hepi.ac.uk/2015/05/21/student-loans-government-accounting-binding-hands-policy-makers/>

<sup>22</sup> Please see footnotes 1 and 2

<sup>23</sup> E.g. Sale of Student Loans Act 2008 clause 2 (4)

<sup>24</sup> Student Loans Company:

[http://www.studentloanrepayment.co.uk/portal/page?\\_pageid=93,6678755&\\_dad=portal&\\_schema=PORTAL](http://www.studentloanrepayment.co.uk/portal/page?_pageid=93,6678755&_dad=portal&_schema=PORTAL)



## Appendix 1: Flat earnings over time

### Earnings of £22,000 for thirty years:

This has a cost of “RPI interest” which is assumed to be 2.8%, plus interest calculated as [no. of pounds over 21,000 X 0.00015 %]<sup>25</sup>, i.e.  $2.8\% + (1,000 \times 0.00015\%) = 2.8 + 0.15\% = 2.95\%$  compounded monthly for 30 years = £78,770

At the moment, earnings of £22,000 are eligible for repayment as surpassing the threshold and monthly repayments of £7.50 would be demanded.

#### Outcome:

In this case, total payments of  $360 \times 7.50$  would be demanded – a total of £2,700 over 30 years. These repayments would reduce the amount owed and £74,716 would still be outstanding at the end of the 30-year period, and need writing off.

### Earnings of £30,000 for thirty years:

This has a cost of “RPI interest” which is assumed to be 2.8%, plus 1.35% interest ( $9,000 \times 0.00015\%$ ) i.e.  $2.8 + 1.35 =$  a total of 4.15% compounded monthly for 30 years = £112,784

At the moment, earnings of £30,000 are eligible for repayment as surpassing the threshold and monthly repayments of £67 would be demanded.

#### Outcome:

Total payments of  $(360 \times 67) = £24,120$  would be required over 30 years. These repayments would reduce the amount owed but £64,853 would still be outstanding at the end of the 30-year period, and need writing off.

### Earnings of £35,000 for thirty years:

This has a cost of “RPI interest” which is assumed to be 2.8%, plus 1.35% interest ( $14,000 \times 0.00015\%$ ) i.e.  $2.8 + 2.1 =$  a total of 4.9% compounded monthly for 30 years = £141,122

Earnings of £35,000 are eligible for repayment as surpassing the threshold and monthly repayments of £105 per month would be demanded.

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<sup>25</sup> This assumption is based on a telephone conversation between Estelle Clarke and the Student Loans Company



**Outcome:**

Total payments of  $(360 \times 105) = £37,800$  would be demanded over 30 years. These repayments would reduce the amount owed but £54,983 would still be outstanding at the end of the 30-year period, and need writing off.

**Earnings of £41,000 for thirty years:**

This has a cost of “RPI interest” which is assumed to be 2.8%, plus 3% interest – a total of 5.8% compounded monthly for 30 years = £184,644

Earnings of £41,000 are eligible for repayment as surpassing the threshold and monthly repayments of  $((41,000 - 21,000) \times 9\%) \div 12 = £150$  £150 per month would be required.

**Outcome:**

Total payments of  $(360 \times 150) = £54,000$  would be demanded over 30 years. These repayments would reduce the amount owed but £38,903 would still be outstanding at the end of the thirty-year period and require to be written off.

**Earnings of £50,000 for thirty years:**

This has a cost of “RPI interest” which is assumed to be 2.8%, plus 3% interest – a total of 5.8% compounded monthly for 30 years.

Earnings of £50,000 are eligible for repayment as surpassing the threshold and monthly repayments of  $((50,000 - 21,000) \times 9\%) \div 12 = £217$  £217 per month would be demanded.

**Outcome:**

Payments of  $((12 \times 217) \times 22) £57,288$  would be made over 22 years, when the loan would have been repaid.

## Appendix 2: Increasing earnings scenario

Whereby the graduate earns £22,000 for 3 years, then £25,000 for five years, then £30,000 for five years, £35,000 for ten years and £41,000 or £55,000 for the remaining seven years, here is how much the increased tuition fees will cost (RPI used is a constant low 2.8%):

### **Years 1 – 3: Earnings £22,000:**

This has a cost of “RPI interest” which is assumed to be 2.8%, plus interest calculated as [no. of pounds over 21,000 X 0.00015 %], i.e.  $2.8\% + (1,000 \times 0.00015\%) = 2.8 + 0.15\% = 2.95\%$  compounded monthly for 3 years. The £32,545 becomes £35,552, reduced to £35,288 by monthly repayments of £7.

Interest/costs paid: £252

### **Years 3 - 8: Earnings £25,000:**

This has a cost of “RPI interest” which is assumed to be 2.8%, plus interest calculated as [no. of pounds over 21,000 X 0.00015 %], i.e.  $2.8\% + (4,000 \times 0.00015\%) = 2.8 + 0.6\% = 3.4\%$  compounded monthly for 5 years, the £35,288 becomes £41,816 reduced to £39,852 by the required monthly repayments of £30.

Interest/costs paid: £1,800

### **Years 8 - 13: Earnings £30,000:**

This has a cost of “RPI interest” which is assumed to be 2.8%, plus interest calculated as [no. of pounds over 21,000 X 0.00015 %], i.e.  $2.8\% + (9,000 \times 0.00015\%) = 2.8 + 1.35\% = 4.15\%$  compounded monthly for 5 years, the £39,852 becomes £49,024 reduced to £44,549 by the required monthly repayments of £67.

Interest/costs paid: £4,020

### **Years 13 - 23: Earnings £35,000:**

This has a cost of “RPI interest” which is assumed to be 2.8%, plus interest calculated as [no. of pounds over 21,000 X 0.00015 %], i.e.  $2.8\% + (14,000 \times 0.00015\%) = 2.8 + 2.1\% = 4.9\%$  compounded monthly for 10 years, the £44,539 becomes £72,629 reduced to £56,345 by the required monthly repayments of £105.

Interest/costs paid: £12,600



### **Years 23 - 30: Earnings £41,000:**

This has a cost of “RPI interest” which is assumed to be 2.8%, plus 3% interest = 2.8 + 3% = 5.8 % compounded monthly for 7 years, the £56,345 becomes £84,480 reduced to £68,908 by the required monthly repayments of £150. At the end of the thirty-year term, this £68,908 will have to be written off, under present arrangements.

Interest/costs paid: £12,600

**Outcome:** grand total repayment is £31,272 and £68,908 is still outstanding.

**OR**

### **Years 23 - 30: Earnings £55,000.**

This has a cost of “RPI interest” which is assumed to be 2.8%, plus 3% interest = 2.8 + 3% = 5.8% compounded monthly for 7 years, the £56,345 becomes £84,480 reduced to £58,008 by the required monthly repayments of £255. At the end of the thirty-year term, this £58,008 will have to be written off, under present arrangements.

Interest/costs paid: £21,420

**Outcome:** grand total repayment £40,092 and a debt of £58,008 is still outstanding.

**NB**

If a student earns £70,000 pa, £367 per month goes in loan repayments and at £120,000 pa the amount is £742 per month.

### **Notes**

(i) Student loans are cancelled 30 years after “eligibility to repay” This means that loans will have a term exceeding thirty years where eligibility to repay (i.e. reaching 21,000 salary) is delayed.<sup>26</sup>

(ii) Inflation predictions: some, such as the National Institute for Economic and Social Research said it expected inflation to quadruple to about 4% in the second half of next year.

Figures used follow the more conservative predictions of the Office for Budget Responsibility. Increasing inflation will have a dramatic effect on the cost to students.

(iii) Amounts have been rounded down because that is the calculating principle stated by the Gov.org loans site.

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<sup>26</sup> Students Loan Company:  
[http://www.studentloanrepayment.co.uk/portal/page?\\_pageid=93,6678775&\\_dad=portal&\\_schema=PORTAL](http://www.studentloanrepayment.co.uk/portal/page?_pageid=93,6678775&_dad=portal&_schema=PORTAL) (accessed 7/1/2017)