Escape of the wealthy:

The unfairness of the English student finance system

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About the Intergenerational Foundation

The Intergenerational Foundation (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

- Intergenerational Foundation (IF) analysis of recent Higher Education Statistics Agency (HESA) data indicates that in the 2016/17 academic year, 10% of UK-domiciled first degree full and part-time undergraduate students studying at English universities are likely to have paid their tuition fees up front and therefore able to avoid taking on student debt – undermining successive governments' rhetoric that the current system is progressive.
- The relationship between undergraduate students being from a privileged socio-economic background and being more likely to be self-funded is particularly strong among the Russell Group universities in England.
- There is a particular group of six Russell Group institutions (King's College London, Oxford, Cambridge, UCL, Imperial and the London School of Economics) which all have very high levels of undergraduate students who are likely to be self-funding; as attending one of these institutions is associated with subsequently receiving a very high graduate premium in the labour market, this raises serious questions about the progressiveness of allowing the wealthiest students to potentially have their tuition fees paid for them up front, and so avoid the higher marginal tax rate which people who have student debt incur.
- Wealthy students will escape the average £5,800 of accrued interest upon graduation.
- While they may be fully aware of the risks and uncertainties associated with taking on student loans, less wealthy parents are unable to provide their children with the financial support required to avoid involvement with the English student finance system.
- Structural injustices within the English student finance system have now been highlighted by the Institute for Fiscal Studies (IFS), the House of Commons Treasury Select Committee and the House of Lords economic affairs committee.
- Recent studies have found that because of the existing design of the English student finance system, disadvantaged students on average will accrue more debt than their more privileged counterparts.
- Recent National Audit Office figures show that 87 of the 90 top universities in the UK charge the maximum tuition fee for all of their courses – and this maximum tuition fee is the highest in the world.

Introduction

The current student loan system is sold as being fair for everyone. The argument rests on the idea that students benefit from Higher Education and should pay for it, not the general taxpayer. Anyone can access the student loan scheme, and students only start repaying the loan when they earn over an annual income of £25,000 a year. If they never earn enough to pay off the loan, the balance will be written off after 30 years. There are many aspects of this that arouse criticism, and the arguments have been well aired.

But there is one group of people who manage to escape the entire system: those with the means to pay for their university education up front – the self-funders. Because they are likely to be wealthy, these students can avoid the 30-year-long burden of student debt. This gives wealthier students a huge financial advantage at the start of their careers, notably by having more disposable income to:

- Save up to move out of home or save for a deposit for a mortgage
- Put money into a pension
- Invest in entrepreneurship (their own enterprises as well as the businesses of others)

The gap between rich and poor students is all the greater because poor students take out even bigger loans than the average student (because they have access to higher maintenance loans to cover living costs).

One could argue that this is primarily an *intra*-generational issue (i.e. between members of the same generation), but it is also an *inter*-generational one (i.e. between different generations). There is an essential intergenerational unfairness in the way that young people today are compelled to pay much higher fees than previous generations in order to go to university; indeed, many of their parents' generation paid no fees at all. This has the effect of compounding intra-generational unfairness between richer and poorer young people because – as is the case with most problems of intergenerational unfairness, including housing, pensions and jobs – living in a more insecure world makes it more valuable to you if your family can afford to give you a financial leg-up.

This paper uses institutional-level data provided by the Higher Education Statistics Agency (HESA) and will look at:

- The background to the current student finance system
- Why paying up front hands advantages to the rich
- What could be done to rectify this and make the system more equitable

1. The student finance system

World-beating - in terms of cost

The workings of the student finance system in England have risen high on the Westminster political agenda in recent times. Undergraduate tuition fees in England have exponentially increased to a maximum threshold of £9,250 (a year) since the 1998 introduction of fees brought in under the Labour government, where students were required to pay up to £1,000 a year (depending on a student's financial circumstances).[1]

The establishment of devolved institutions for Scotland, Wales and Northern Ireland has led to huge variations in tuition fees charged in the UK. Scotland charges no tuition fees for those classified as Scottish domestic students, while university tuition fees in England are the highest in the world by some margin – even above the average cost of a university degree at a public university in the United States. Meanwhile, students in France, Germany, Italy, Austria and Belgium are charged under £1,000 a year, with Denmark, Finland and Sweden joining Scotland in charging no undergraduate tuition fees.[2]

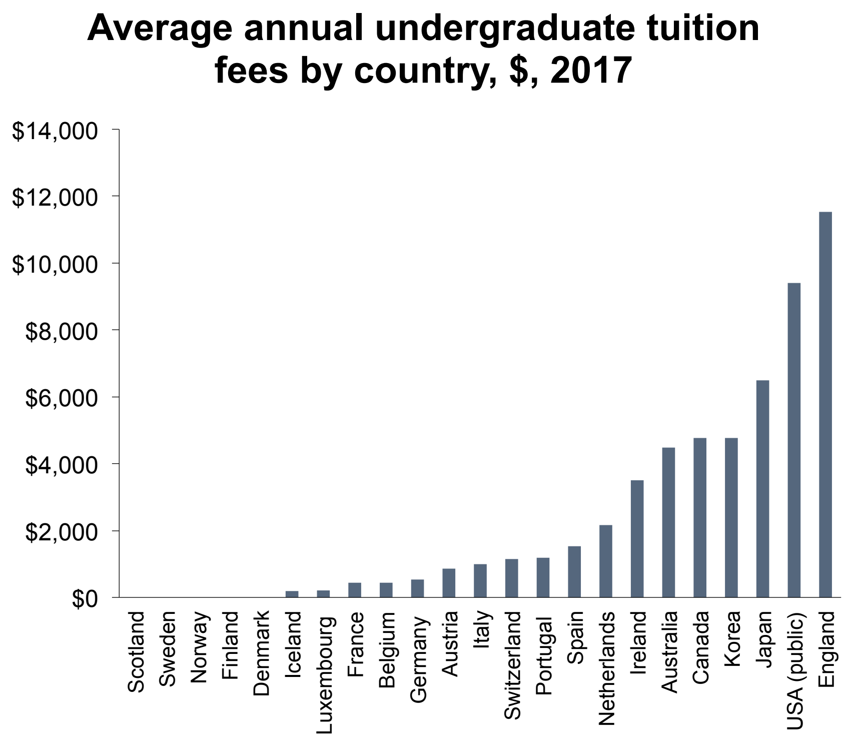
Fig. 1 shows how tuition fees charged in the English higher education (HE) system compare to a number of selected countries. The hike in tuition fees in 2012/3 means that England is indeed in a class of its own in the European context.[3] (Note that while the graph shows that England is above the United States, US-England comparisons need to consider the relatively strong risks attached to education-related debt in the American context, i.e. the legal enforcement of debt recovery.) Although the government expected price competition to stabilise fees at an average of £7,500 following the trebling of tuition fees in 2012/3, 2016 figures showed that 87 out of the top 90 universities chose to ignore that and charged the maximum fee of £9,000 for all courses.[4]

Is it fair?

England's status as the global leader in tuition fee charges has inevitably called into question the fairness and socio-economic inclusivity of the current English student finance system. However, key

[1] "Top-up" fees were introduced under the 1998 Teaching and Higher Education Act, which included provisions for a means-tested payment system for students (based on parental income).
[2] Figures obtained from a Student Loan Calculator blog which relies on a number of national sources. Link: https://www.student-loan-calculator.co.uk/blog/2017/03/tuition-fees-in-england-are-now-the-highest-in-the-world/
[3] While new Welsh undergraduate students will pay £9,250 a year in tuition fees starting from 2018/9, it is important to note that the maintenance system in Wales is relatively generous in comparison to England in terms of grant funding.
[4] National Audit Office Report, 8 December 2017. Link: https://www.nao.org.uk/wp-content/uploads/2017/12/The-higher-education-market.pdf

Fig. 1



Source: Student Loan Calculator (March 26 2017). USA figure is for public universities.

government figures have tried to defend the existing system and provide assurances over its commitment to fairness.

Former Universities Minister Jo Johnson described the existing system as fair and equitable, arguing that a record rate of students from deprived neighbourhoods, and those who previously qualified for free school meals are attending English universities. Seeking to defend tuition fees in England, the former minister took aim at the Scottish higher education policy, associating the policy of not implementing tuition fees with a fiscal squeeze on university funding and the capping of student places north of the border.[5] Essentially, so the argument goes, if university education is free for everyone, you have to limit the numbers attending to control the costs to government.

[5] Link to *Prospect Magazine* article written by Jo Johnson: https://www.prospectmagazine.co.uk/magazine/tuition-fees-arent-the-problem-failing-to-deliver-value-to-students-is

Despite impassioned defences of the English system and claims that it is "progressive" (i.e. benefits the less well-off), the introduction of £9,000 tuition fees in 2012/13 for English universities has given rise to serious concerns. And the recent increase in tuition fees to £9,250 (which is now widely implemented across the English higher education sector), combined with the conversion of state-sponsored maintenance grants into loans, raises new questions about the cost of higher education for economically-disadvantaged students. A recent study by the Institute for Fiscal Studies (IFS) showed that students from the poorest 40% of families entering the English HE system would emerge with an average debt of £57,000 upon graduation. Students from the richest 30% of families would accrue lower average borrowings of £42,500 (because they take out lower maintenance loans).[6]

The view that the existing loan repayment system is progressive is not shared by all prominent government figures. The Treasury Select Committee, led by former Conservative Education Secretary Nicky Morgan, challenged the fairness of the student loan system on a number of fronts.[7] As well as including a call for the government to justify the near-universal trebling of tuition fees across the Higher Education sector, the committee questioned the need for high interest charges on student loans (consistently over 6% per annum) when the interest rate for government borrowing is far lower at 1.5%. The existing system's commitment to socio-economic inclusivity was also called into question, with the committee suggesting that the withdrawal of maintenance grants may be "pricing out" economically disadvantaged young people from attending university.

Intergenerational unfairness

England's young people are presented with a myriad of social and economic challenges. The policies of austerity which followed the 2008 global financial crisis have disproportionately affected younger people. Bearing much of the brunt of government cuts, young people have seen policies which have directly affected their community support services as well as the scrapping of payments designed to assist their academic endeavours, such as the Educational Maintenance Allowance (EMA).[8] Other key issues affecting younger generations include the shortage of affordable housing, the lack of secure, well-paid job opportunities, a decline in concessionary travel fares, exorbitant rent charges in the private sector, generally declining living standards, and the retrenchment of welfare support. Thus these have all contributed to increasing intergenerational unfairness.

[6] Link to July 2017 IFS press release for report: https://www.ifs.org.uk/publications/9335
[7] Link to February 2018 House of Commons Treasury Committee report on student loans: https://publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/478/478.pdf
[8] Joan Wilson's LSE article provides a detailed examination of how the Conservative-Liberal Democrat coalition went against its stated aspiration of improving social mobility by scrapping EMA in England. Link: http://blogs.lse.ac.uk/politicsandpolicy/scrapping-ema-and-fairness/

It is no wonder then that the issues of university tuition fees and student debt are widely considered to have played an integral part in the "youthquake" at last year's general election. Despite much of the political and media commentariat predicting a handsome Conservative victory, Labour's radical policy agenda commanded record levels of youth support – contributing to the Conservatives' loss of its parliamentary majority. A surge of Labour support in student-loaded constituencies led to surprise results in places such as Canterbury, Sheffield Hallam and Leeds North West.[9] It is difficult to refute claims that Labour's pledge to abolish university tuition fees and to work towards eradicating student-related debt played an important role in generating strong levels of support among younger voters.

Logistics and practicality aside, Labour's other manifesto pledges – such as expansion of affordable housing, raising the minimum wage, strengthening employee rights and introducing rent controls – struck at the heart of the matter: intergenerational unfairness. And intergenerational unfairness is very much at play in the financial cost of obtaining a university degree and getting better-paid employment.

Tuition fees and the student loan system have undergone various changes and reforms. Prior to September 1998, students doing a university or college course could take out a "Mortgage Style Loan". These loans were repayable over a fixed number of instalments, irrespective of the amount outstanding. The structural design of Mortgage Style Loans was onerous in some ways. While the interest rates charged on the loans were relatively low, the loan had to be repaid across 60 fixed instalments over a five-year period. Repayments could be deferred on an annual basis if earnings were below 85% of the national average wage.

When "top-up" fees up to £1,000 a year were introduced under "New Labour" through the 1998 Teaching and Higher Education Act, the charges were means-tested, with the income and earnings of students' parents being taken into consideration. Tuition fees were raised to £3,000 for the 2006/7 academic year under the 2004 Education Act, with the 2010 Browne review[10] leading to the raising of tuition fees to £9,000 a year under the Conservative-Liberal Democrat coalition from 2012 onwards.

Students entering university education from 2006/7 onwards have been subjected to tuition fees of at least £3,000 a year, with the vast majority of these students searching for post-graduate employment in the UK following the 2008 financial crisis and the commencement of austerity.

As well as accruing considerable levels of university-related debt, a substantial proportion of them have had to contend with a labour market where secure, well-paid employment opportunities which adequately meet their living costs are relatively limited.

[9] In the 2017 General Election, Labour won in the constituency of Canterbury for the first time since its creation in 1922. In Sheffield Hallam, Labour defeated incumbent Liberal Democrat MP Nick Clegg. In Leeds North West, Liberal Democrat Greg Mulholland was defeated (with Labour winning and increasing its vote share in the seat by 14 percentage points).

[10] The Browne Review, or Independent Review of Higher Education Funding and Student Finance, was chaired by British businessman Lord Browne of Madingley (former Chief Executive of British Petroleum).

This is against a backdrop of inflated house prices and concomitant high charges in the private rented sector in the more economically productive regions of the country.

Younger people who have entered the student loan system since 2012 are severely disadvantaged in comparison to previous generations – generations who were able to develop their educational capital without accruing sky-high levels of student debt, had access to sizeable maintenance grants, and encountered generally more favourable socio-economic conditions in terms of the availability of affordable housing and general living costs.

As well as being unfair on the current generation of young people, the structural design of the student finance system is contributing to the national debt in a way which is unfair on future generations. In June 2018, the House of Lords Economic Affairs Committee published a hard-hitting report criticising the unfair nature of the English student finance system.[11] Chaired by former Conservative Secretary of State for Scotland, Lord Forsyth of Drumlean, the committee's report accused the government of indulging in "accounting trickery" to conceal the real costs of higher education for young people and the mounting up of huge debt for future generations. Indeed, the cross-party committee (which includes two former Chancellors, a former head of the Treasury and an ex-Cabinet Secretary)[12] concluded that the student finance system was being used to create the "fiscal illusion" of making the UK's budget deficit look smaller. The recent determination by the ONS that the UK government was not recording its expenditure on student loans fairly in the National Accounts brought the extent of this "fiscal illusion" into sharp relief, potentially adding £12 billion to the UK's deficit.[13]

Much of the political justification for austerity has centred on the unfairness of passing mountains of debt on to future generations. However, the committee found that the student finance system is responsible for producing considerable amounts of national debt which future generations will have to pay off. This is because a hefty proportion of students are unlikely to pay off their loans within the current 30-year timeline, and the remaining outstanding repayments will be "written off" – i.e. added to government debt and passed on to the broader population of taxpayers to pay.

[11] Link for June 2018 House of Lords Economic Affairs Committee report on student finance system: https://publications.parliament.uk/pa/ld201719/ldselect/ldeconaf/139/139.pdf
[12] The cross-party House of Lords Economic Affairs Committee consists of 13 members (4 Conservatives, 4 Labour, 2 Liberal Democrats and 3 crossbenchers). Chaired by Lord Forsyth, committee members include former Labour chancellor Alastair Darling (Lord Darling of Roulanish) and former Conservative chancellor Norman Lamont (Lord Lamont of Lerwick).
[13] Link for 17 December 2017 BBC article explaining the ONS's decision in more detail: https://www.bbc.co.uk/news/education-46591500

Intra-generational unfairness: paying up front

As well as the intergenerational unfairness of how younger generations are dealt a harsher deal in terms of the financial costs of developing educational resources in an era of welfare retrenchment, it is important to understand how and why *intra*-generational unfairness has taken shape within the existing student finance system. Discussions regarding the workings of the student finance system naturally form an important part of the broader debate on the socio-economically exclusive nature of England's higher education system.

The student finance system's structural design, as well as the future risks attached to student loans, mean there is an incentive for parents to help their children pay for tuition fees up front. There are a number of benefits to paying tuition fees up front and avoiding engagement with the student finance system. The interest rates charged on loans within the student finance system are an understandable cause for parental concern. Interest rates for student loans are based on the Retail Price Index (RPI) of the previous March plus 3%, currently 6.3%, while interest rates for graduates are calculated by adding up to 3 percentage points to the RPI figure (on a means-tested basis).

The current Treasury Select Committee,[14] chaired by former Education Secretary Nicky Morgan, recently recommended that the government reduce the interest rates implemented for student loans.[15] This recommendation was echoed by the House of Lords economic affairs committee, which argued that the interest rates charged on student loans should reflect the interest rate for government borrowing (which is currently 1.5%). According to the Institute for Fiscal Studies (IFS), under the current student finance system, undergraduate students on average are projected to accrue up to £5,800 just in interest rate charges before graduation. To put this in perspective, until 2006/7, this sum of money would fall just £200 short of covering the entire tuition fee cost across two 3-year undergraduate degrees.

Extending the point on interest rate charges, there are risks and uncertainties attached to entering the student finance system. The continual marketisation of the English higher education system – under Westminster governments of various party colours – has extended to the management of student loans.

There is a growing trend of student loan "securitisation" – with student loans being sold off by the state to private sector investors. Therefore, it is by no means inconceivable that a future government may decide to "sell off" post-2006 student loans.

[14] Treasury Select Committee is chaired by former Conservative Education Secretary Nicky Morgan. It consists of 4 Conservatives, 5 Labour politicians, 1 Scottish National Party MP and an Independent (Charlie Elphicke).
[15] Link to February 2018 Treasury Select Committee report on student loans: https://publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/478/478.pdf

Indeed, former universities minister Jo Johnson had publicly stated his intention to do so when in office, following the recent sale of the 2002-2006 batch of student loans. It should be noted that this sale was strongly criticised for being poor value for taxpayers, resulting in a loss of roughly £800 million.[16]

Future privatisation of student loans presents risks and uncertainties for all those who have taken on loans to cover the costs of higher education. By transferring the loan repayment scheme to the private sector, an added incentive to create higher returns on student loans is created. Private entities, quite understandably, will not buy student loans from the government unless this is projected to be a profitable exercise in the long term. Loan-buying institutions operating in the competitive private sector, if given the freedom to do so, will charge interest rates which ensure healthy returns – a level of profit considered satisfactory by their shareholders. The potential introduction of profit-maximising incentives presents real future risk for young people who enter the student finance system. While it is important to acknowledge that the government has not reneged on previous loan sale repayment rates, the possibility of private institutions having more freedom over this in the future is not one which is far-fetched. If this were to happen in the future, stubbornly high interest rates would be virtually guaranteed, with private institutions seeking to satisfy shareholders by ensuring handsome returns through student loan repayments. It should also be recognised that future governments may change the terms and conditions attached to student loans. The repayment threshold freeze on post-2012 "Plan 2" loans is an example of how the terms and conditions on student loans are susceptible to government-led changes.

The accruing of large amounts of student debt is particularly a problem for students from deprived backgrounds. As stated earlier, the IFS found that the replacing of maintenance grants with loans resulted in students from the poorest 40% of families accruing on average a total debt of £57,000 – £14,500 more than the corresponding figure for students from the wealthiest 30% of families. This differential, which has largely been produced by the conversion of mean-tested maintenance grants into student loans, gives rise to questions over the fairness of the English student finance system. Along with the IFS, the House of Lords Economic Affairs Committee report also concluded that this "grant-to-loan conversion" disadvantages the most socio-economically deprived students in English higher education.

The accruing of large amounts of debt, currently high interest rate charges, and future uncertainties associated with entering and being part of the student finance system, collectively create a clear, established incentive for parents to pay the cost of higher education up front.

[16] November 2017 *Financial Times* article on the loss booked by the UK Government on the sale of student loans: https://www.ft.com/content/726e3158-d522-11e7-8c9a-d9c0a5c8d5c9

This, however, strikes at the heart of the intra-generational unfairness which has developed within the English student finance system. It is only the well-resourced, asset-rich families who could entertain the option of paying the costs of higher education up front and helping their children avoid involvement with the current student finance system.

The benefits of prepayment are easily identifiable:

- By not being part of the student finance system, such students are not subjected to the exceptionally high interest rates applied to student loans.
- They avoid the uncertainties involved with the management and control of such loans, which could conceivably be sold off and fall subject to the conventional profit-maximising behaviours of the private sector.
- Students afforded this luxury by their families reduce the possibility of developing debt-related psychological stresses in the future.

Such psychological stresses are a real and serious issue, with the growing relationship between young people's mental health and financial problems starting to crystallise. We will come to this in Part 3.

2. The extent of self-funding: data and analysis

HESA data from the last 12 years show a consistently downward trajectory in domestic home self-funders[17], in parallel with tuition fees being increased. The percentage of UK undergraduates at British universities who were self-funded in 2005-6 was around 48% – nearly half of all British undergraduates. To put this in perspective, the percentage of UK-domiciled undergraduate students at English universities who were self-funded in 2016-7 was 15%.[18] This figure includes undergraduates who are studying part-time and pursuing undergraduate qualifications which are not bachelor's degrees (also known as "first degrees"); just over one in ten (10.21%) of all UK-domiciled undergraduates who are studying towards first degrees at English universities appear to be self-funding, although this falls to 7.53% when only full-time first-degree undergraduates are included.

The fact that figures have fallen does not necessarily demonstrate that the English student finance system is fair – but rather, it could indicate that undergraduate self-funding has become a more socially exclusive phenomenon. As tuition fees were considerably cheaper back in 2005/6, it's plausible to suggest that many more students self-funded because they or their families could afford to pay tuition fees up front. The fact that around 1 in 10 UK-domiciled undergraduate students at English universities are now self-funding following the trebling of tuition fees, is likely to demonstrate that self-funding has very much become an option which is only available to students from financially well-resourced families of high socio-economic status.

The central purpose of this report is to examine the socio-economically exclusive nature of the English higher education system, and to explore whether or not students from wealthier, privileged backgrounds are more likely to pay their university tuition fees up front (potentially enabling them to avoid student debt altogether). To explore this hypothesised association between higher socio-economic status and avoiding the student finance system, this report relies on institution-level data provided by the Higher Education Statistics Agency (HESA). With a great deal of recent attention being given to their socio-economically exclusive nature, much of the analysis presented in this report focuses on England's Russell Group institutions.

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[17] Domestic home students are students who are UK-domiciled (officially stated address is in either England, Wales, Scotland, Northern Ireland, Channel Islands and Isle of Man, along with a small number of unspecified UK-domiciled cases).

[18] Note that this point includes two slightly different groups (2005-6 figure refers to UK-domiciled undergraduates at **British** universities, while 2016-7 figures refers to UK-domiciled undergraduates at **English** universities). All of these figures include both part-time and full-time undergraduate students.

HESA data

The HESA data provide detailed information on the main source of funding for all undergraduate students who were studying at English higher institutions in the 2016/17 academic year. As this report is focussed on examining the role that self-funding plays within the English student finance system, only higher education providers based in England are included in the analysis. HESA classifies each student's main source of funding for their tuition fees into a large number of different categories; this analysis looked at the number and percentage of students at each institution who were classified as having "No award or financial backing" for the cost of their studies, as the most plausible source of funding for these students is that they are either paying the cost of their tuition fees up front or their families are paying for them on their behalf. Those who fall into this category are definitely not borrowing money from the English Student Loans Company or its equivalents in the other nations of the UK, as those students are in a separate HESA category, nor are they receiving armed forces scholarships, NHS bursaries, employer sponsorship or other kind of formal financial support from an organisation. Undergraduate students who fall into this category within the HESA dataset are classified as "self-funded" throughout the rest of this analysis.

The HESA data draw further distinctions between undergraduate students who are studying towards their degrees on either a full-time or part-time basis, and also whether they are studying towards a bachelor's degree ("first degree") or a different type of undergraduate qualification. The types of students who pursue these different types of undergraduate qualifications and different modes of study tend to have different characteristics; in particular, part-time undergraduates and undergraduates who are not studying towards first degrees tend to be older than their counterparts doing full-time, first-degrees,[19] which means that if they fall into the HESA category of "No award or financial backing" they are more likely to be supporting themselves rather than relying upon familial support, so undergraduates who are not doing first degrees were excluded from the data. Part-time undergraduates who are doing first degrees were retained within the dataset, although the differences between full-time and part-time students are noted where necessary.

HESA provides data on the educational background of undergraduate students (i.e. if they are privately or state-educated). This measure can be used as a reliable proxy for social class and family financial status, as non-state-educated undergraduates are likely to be from higher-salary families who are financially well resourced (as demonstrated by the fact that they could afford to send their children to exclusive fee-paying schools and colleges).

[19] HESA data show that 90% of all full-time, first degree undergraduate students studying at English universities are aged 24 or under, compared with only 24% of all part-time undergraduate students and 35% of all undergraduates who are not studying towards first degrees.

It is hypothesised that being non-state-educated is associated with undergraduate self-funding, as these undergraduates are more likely to come from wealthy families who are better-positioned to pay tuition fees up front.

A social class measure is also used to test the relationship between socio-economic privilege and undergraduate self-funding. For undergraduates under the age of 25, their social class is based on the profession of their parents. The small minority of undergraduates over the age of 25 are given an occupational class by HESA which is based on their own personal employment status. The socio-economic class category of interest is "higher professional and managerial occupations" – the highest occupational class in the HESA data. It is expected that undergraduate students with parents working in higher professional, managerial and administrative positions are more likely to be self-funded (having their tuition fees paid up front through family financial backing).

There is also neighbourhood data available for the undergraduate students, with neighbourhoods being ranked in terms of higher education participation. With low participation neighbourhoods[20] tending to be areas which are socio-economically deprived, the neighbourhood participation measures can be used to further explore the relationship between higher socio-economic status and the greater likelihood of being self-funded in higher education.

Analysis: institution-level HESA data

The analysis relies on institution-level HESA data to test the key relationships of interest. This focuses on the relationship between socio-economic background and undergraduate self-funding among UK-domiciled students at English higher education providers. R-squared values will be referred to in order to measure the strength of these relationships.[21]

The main hypotheses of the analysis undertaken in this section are:

1) English higher education providers with a higher proportion of undergraduates who are non-state-educated will have a greater concentration of self-funders within their undergraduate population.
2) English higher education providers with a lower proportion of undergraduate students from "low participation neighbourhoods" will have a greater concentration of self-funders within their undergraduate population.

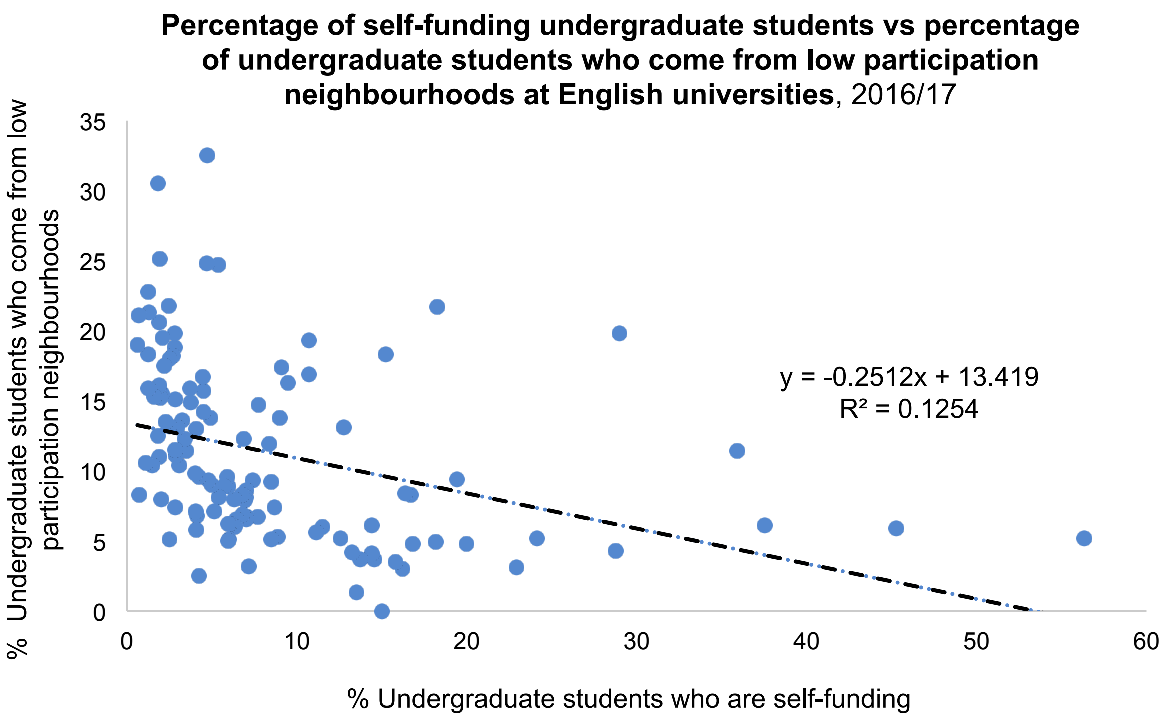
[20] The HESA categorisation of "low participation neighbourhoods" is based on POLAR3.
[21] R-squared is a statistical measure that represents the proportion of variance for a dependent variable that is explained by an independent variable. For example, socio-economic class is an independent variable, with the dependent outcome being proportion of self-funders.

3) English higher education providers with a higher proportion of undergraduates who belong to the highest socio-economic class will have a greater concentration of self-funders within their undergraduate population.

By testing these hypotheses, the report can begin to develop a picture of whether socio-economic privilege is associated with undergraduate self-funding in the English higher education system – in other words, whether wealthier students are less likely to enter the English student finance system.

This section of the analysis has a particular focus on the English Russell Group institutions, on account of the collective long-standing reputation of such institutions for being socio-economically exclusive in nature. With the focus being on the English institutions, Russell Group institutions which are located outside of England - Cardiff University, University of Edinburgh, University of Glasgow and Queen's University Belfast – do not feature in the analysis.[22]

Fig. 2

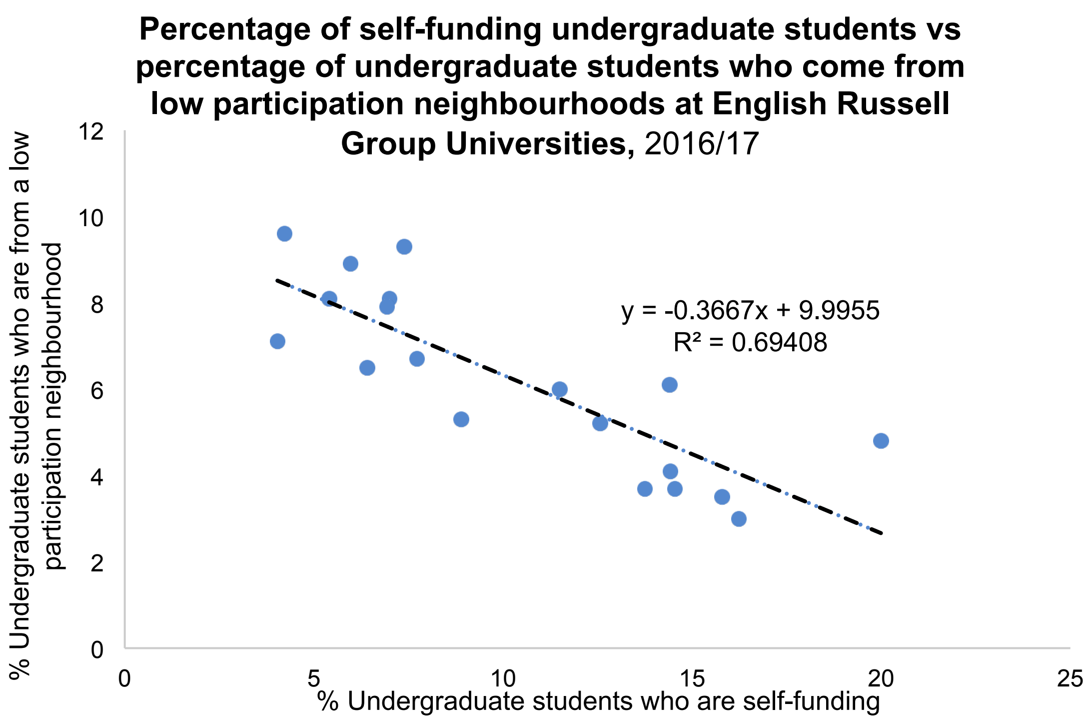


[22] Five other English institutions were also removed from the HESA dataset because they appeared to have unusually high percentages of self-funding undergraduates, which, it is suspected, were incorrect. These five institutions were: The University of East London, Middlesex University, Queen Mary University of London, Roehampton University and St Mary's University, Twickenham. The decision was taken to remove them from the dataset completely, even though this had the effect of reducing the total percentage of self-funding students at English universities.

Fig. 2 presents the relationship between the percentage of full-time, first degree UK-domiciled undergraduate students who were self-funded and the percentage of UK-domiciled young full-time first degree undergraduate entrants who come from low participation neighbourhoods at English universities in the 2016/17 academic year. These data cover a set of 120 English institutions, which altogether had 1.083 million UK-domiciled undergraduate students pursuing first degrees in 2016/17 (including 129,220 part-time students). Among these students, it appears that 110,580 were self-funding altogether (10.21%), of whom 71,845 were studying full-time (7.53%). At the institutional level, the proportion of UK-domiciled full-time, first degree students who are self-funding varies hugely, from 56.35% at the University of Buckingham to less than 1% at Ravensbourne University London, Edge Hill University and Liverpool John Moores University.

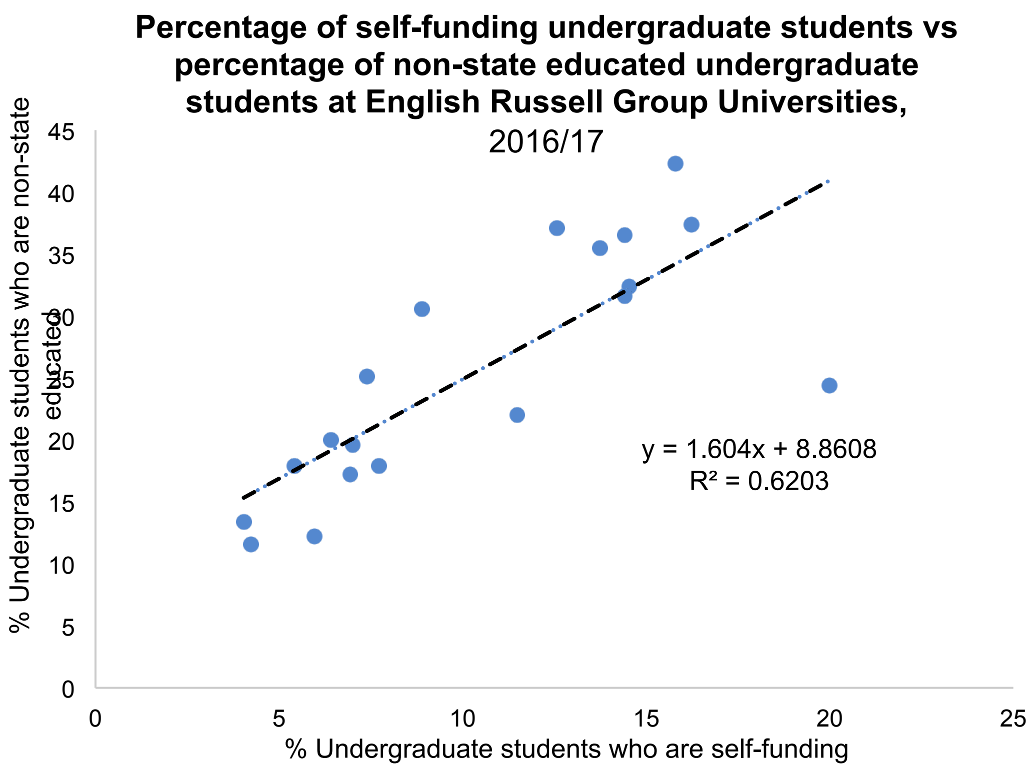
The relationship depicted in Fig.2 goes in the expected direction (universities with a lower proportion of undergraduate students from low participation neighbourhoods also tend to have a higher percentage of undergraduate students who are self-funded), but this association is not particularly strong (R-square = 0.13). This is because the data are quite "noisy"; a relatively large proportion of English higher education institutions have a higher or lower proportion of self-funders among their undergraduate students than you would expect them to, given the social background of their intake. This could be for a number of reasons; however, the relationship is much stronger if you only look at institutions within the Russell Group, as the following figures demonstrate.

Fig. 3



The proportion of self-funding students at English Russell Group institutions is generally higher than among all institutions in general: the average percentage of self-funding full-time, first degree students at an English Russell Group institution is 10.38%, compared with 7.53% among all institutions. However, even among these institutions the range is still quite wide, varying from 4% at the University of Southampton to 19.99% at King's College London. There is a set of six Russell Group institutions which stands out in particular because they all have a percentage of full-time first degree self-funders which is at least twice the national average: LSE (14.41%), Imperial (14.42%), UCL (14.55%), Oxford (15.8%), Cambridge (16.23%) and King's College London (19.99%); given that these are some of the most prestigious institutions in the country, and other research has shown that graduates from these six institutions are likely to enjoy a particularly large graduate premium (the difference between the average earnings of graduates compared to similar non-graduates) once they enter the labour market, it does raise serious questions about the progressiveness of the current student finance system if a large proportion of their students is avoiding being burdened with student debt.

Fig. 4



These institutions are also notable for taking a significantly lower percentage of their students from low participation neighbourhoods compared with the average figure among all institutions (6.2% versus 11%). However, even though we already knew that Russell Group students are more likely to be self-funding and are less likely to come from low participation neighbourhoods, the strength of the association between the two is remarkably strong (R-square = 0.69). In other words, the more socially selective a Russell Group institution is, the more likely its students are to be self-funding. This pattern is further confirmed by looking at two other proxy measures for the socio-economic background of students, which are shown in Figs 4 and 5.

Fig. 4 shows that there is also a very strong association among the Enlglish Russell Group institutions between the percentage of UK-domiciled full-time, first degree undergraduates who are likely to be self-funding and the percentage of UK-domiciled young, full-time first degree undergraduate entrants who are non-state educated (R-squared = 0.62). The Russell Group institutions are noteworthy for having a much higher intake of students who are not state educated than is the case for English higher education providers as a whole (25.5% versus 10.7%), and given that most of the families who can afford to send their children to private schools have already invested a very large amount of money in financially supporting their education by the time they reach university, it would not be that surprising if a certain proportion of them decided to continue paying the cost of their education after that point and could afford to do so.

Fig. 5

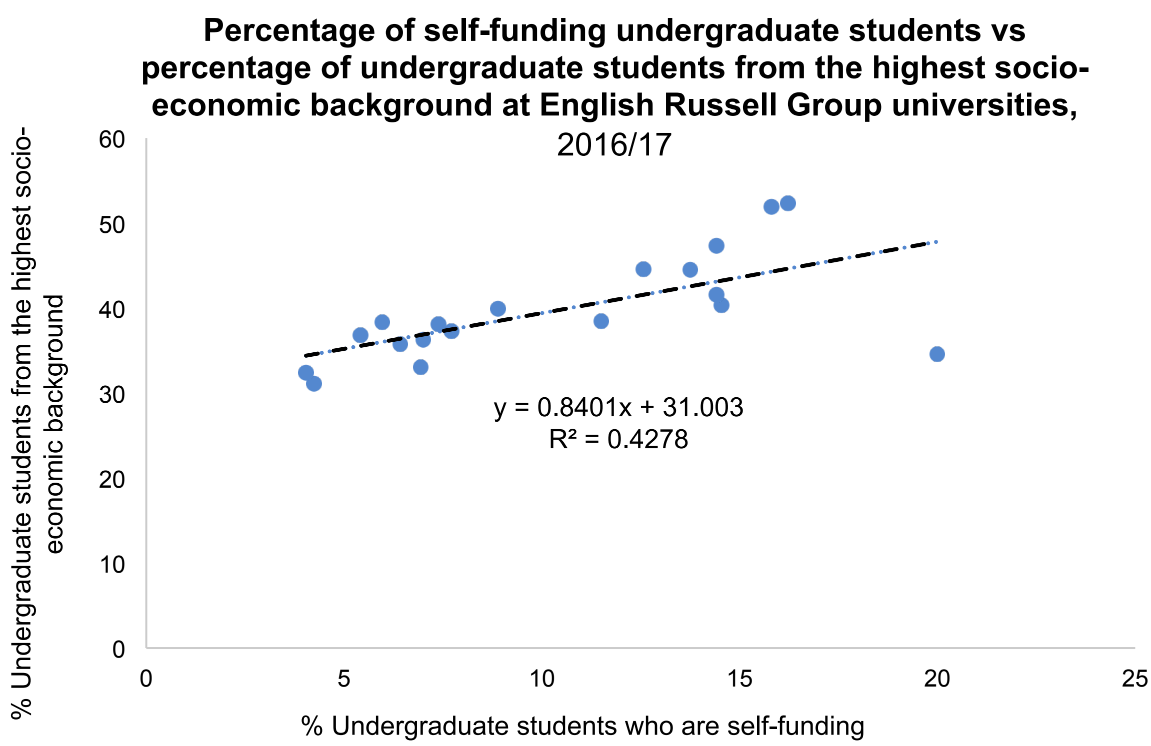


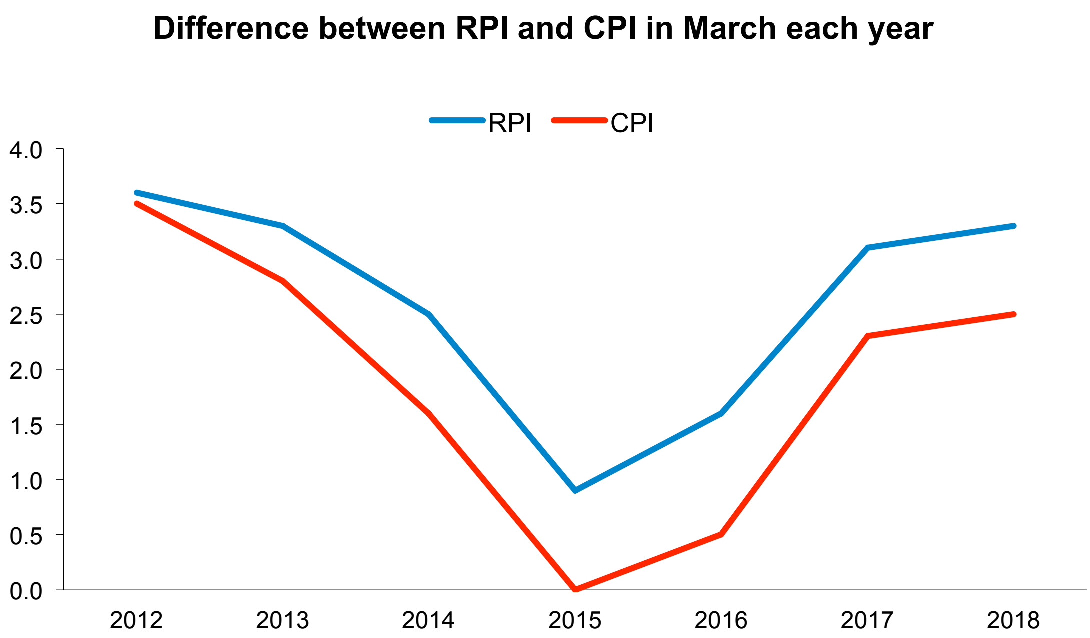
Fig. 5 depicts the relationship between the percentage of UK-domiciled full-time, first degree undergraduate students who are likely to be self-funding at English Russell Group universities and the percentage of all UK-domiciled undergraduates at each of these institutions who belong to the highest socio-economic classification according to HESA. It's important to note that the independent variable in this case includes all types of undergraduate students, regardless of whether they are full-time or part-time and studying first degrees or other undergraduate qualifications, which may help to explain why the relationship is slightly weaker than it was for either of the other independent variables which have been included in this analysis. Nevertheless, there is once again a strong positive relationship (R-square = 0.43). Across the English Russell Group institutions, 39.7% of full-time first degree undergraduates belong to the highest socio-economic classification, although the proportion is above 50% at both Oxford and Cambridge.

In conclusion, all three of the hypotheses which were outlined at the beginning of this section have been satisfied; self-funding undergraduate students are disproportionately likely to attend universities which have a more socially selective undergraduate intake, particularly among the Russell Group, which strongly suggests that this is another way in which students who come from wealthier backgrounds gain an advantage in comparison to their less well-off peers.

3. The impact of the student finance system on most graduates

We have looked at some of the key ways that the current student loans system disadvantages students and graduates. Here we look at these in more detail, to shine further light on what might persuade many of those who can afford it to avoid loans altogether by paying up front – and why the option to do is so unfair.

Fig. 6



Source: Office for National Statistics. RPI and CPI measures are both all-item.

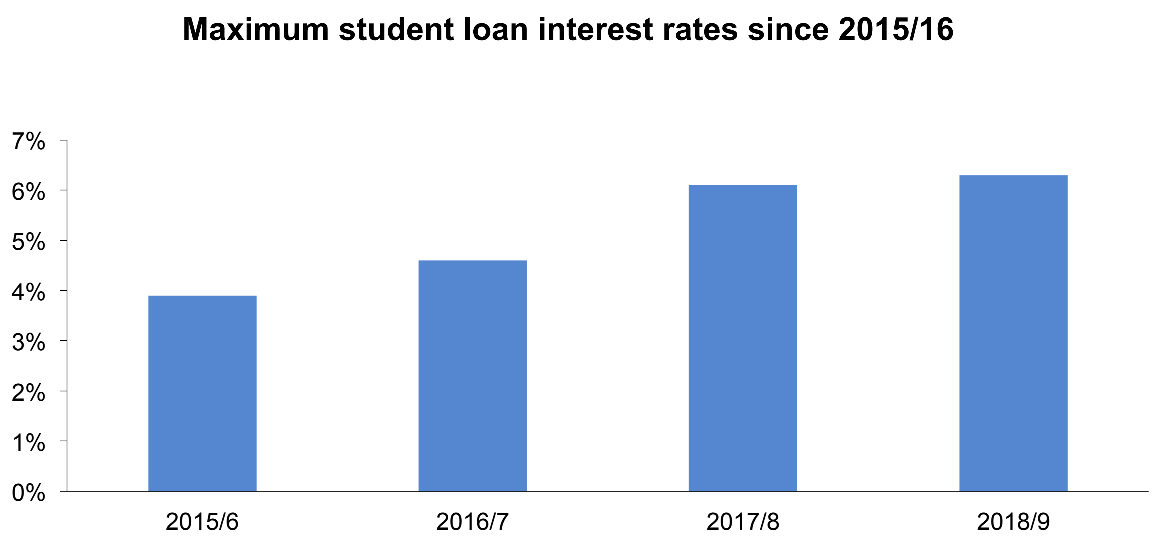
Interest rates

It is not difficult to argue that one of the most prominent iniquities of the current student loan system is the interest charged. The fact that the RPI is used by the government to calculate student loan interest rates is itself a source of contention.

It should be noted that the design of the Retail Price Index (RPI) has been criticised by a number of economists, with the measure of inflation losing its status as a national statistic in 2013 after the Office for National Statistics advised against its use.[23]

The Director of the IFS Paul Johnson described the RPI as an "overstated measure of inflation", and indeed it is typically higher than other measures of inflation such as the Consumer Price Index (CPI) (see Fig. 6). This gives rise to the cynical, yet understandable view that the government has deliberately pegged student loans to RPI in order to "front-load" debt and ensure a longer-term repayment as a percentage of earnings over the current threshold of £25,000. It has also been advantageous for the government's finances to charge a high level of interest because it can treat loan interest which accrues on its portfolio of outstanding student loans as income in the National Accounts, which artificially appears to reduce the government's deficit in accounting terms, even if a large proportion of that accrued interest will ultimately be written off after 30 years without being repaid (although the recent decision by the ONS should change this in future).[24]

Fig. 7



Source: Student Loans Company (Repayment section)

[23] Link to ONS article which explains the flaws of the RPI: https://www.ons.gov.uk/economy/inflationandpriceindices/articles/shortcomingsoftheretailpricesindexasameasureofinflation/2018-03-08

[24] Link to IFS article where this is explained in more detail: https://www.ifs.org.uk/publications/13773

RPI in March 2015 was 0.9%, which meant that the maximum student loan interest rate was 3.9%; RPI then increased to 1.6% in March 2016, 3.1% in March 2017 and 3.3% in March 2018, which is why student loan interest has risen so rapidly.

The yearly increases demonstrate the unpredictable nature of the loan repayment system, with interest rate charges being hugely contingent on the RPI rate for a particular month of the year. With the Bank of England issuing a warning of higher inflation in post-Brexit Britain, a close eye will be kept on the RPI figure next March – the month where the current UK-EU negotiations are scheduled to conclude.

Increased tax burden

As well as the high interest rates applied to student loans, graduates are obliged to pay 9% on earnings at and above an annual salary threshold of £25,000. This will inevitably prove to be a massive burden for graduates across their life-course. Jonathan Clifton of the Institute for Public Policy Research (IPPR) stated that, under the student loan repayment system, young graduates would "end up with massive effective tax rates" at a stage of their lives when they would look to get on the property ladder or enter marriage.[25] Placing further emphasis on the increased tax burden, PA Consulting Group higher education expert Mike Boxall concluded that when examining the rising costs of higher education, what "really matters" is the 9% tax on graduate earnings.[26]

Pensions

The existing student finance system could have serious implications for the long-term wealth and pension savings of graduates. Analysis by mutual insurer Royal London found that recent graduates are facing pension savings which are "tens of thousands of pounds smaller" than those accumulated by previous generations – largely as a result of steep student loan repayments. Prudential's recent Intergenerational Retirement Study found that 45% of 21–30 year olds felt that existing debts prevented them from contributing towards a pension scheme.[27] While the current state of affairs is very much in favour of wealthy retired households, the country's young graduates face a future pensions crisis which the existing student finance system is contributing towards.

[25] Link to *Financial Times* article quoting Jonathan Clifton of IPPR: https://www.ft.com/content/abf3e598-8f66-11e5-8be4-3506bf20cc2b
[26] Link to *Financial Times* article quoting Mike Boxall of PA Consulting Group: https://www.ft.com/content/b184dae0-6317-11e7-8814-0ac7eb84e5f1
[27] Link to Prudential Intergenerational Retirement Study press release: https://www.pru.co.uk/pdf/press-centre/generation-debt-face-threat-to-retirement-dreams.pdf

Home ownership

The Centre for Global Higher Education study also identifies the role of student debt in restricting home ownership among Britain's younger people. Against a backdrop of limited affordable housing and well-paid job opportunities, student loan repayments mean that young graduates living in England have less income to save towards a housing deposit.

If fortunate enough to be in the position to entertain getting on the property ladder, younger graduates also have to factor in student loan repayments when applying for mortgages. The combination of student loan and mortgage repayments means many younger people can only aim for lower-value properties – homes which may not be particularly suitable if they aspire to start a family of their own.

Entrepreneurship

The costs of higher education could have negative consequences for entrepreneurship – and therefore the future economy of the nation. In the American context, high levels of student debt have been identified as a major factor in declining entrepreneurship, with outstanding student loans restricting graduate confidence in starting a business.[28] This issue has now been highlighted in the UK, with recent research produced by the Centre for Global Higher Education suggesting that student loan debt has deterred graduates from launching entrepreneurial ventures. Therefore, the high levels of personal debt created by the costs of English higher education is preventing aspirational individuals from investing the finances required to start up their own businesses – enterprises which could stimulate much broader economic activity.

Mental health

Burdening many of Britain's young people with large-scale debt carries potentially grave social and economic implications for society as a whole. The psychological effects of holding large-scale debt is a growing area of research. For example, a recent study of 1,000 respondents conducted by charity UK Youth found that the top concern for young adults was money.[29] The top twenty concerns included other finance-oriented worries such as "finding a job which pays enough money", "paying bills", and "student debt".

[28] David Jolley, Americas Growth Markets Leader of EY, provides an informative account of how student debt is hampering entrepreneurship in the United States. Link: https://work.qz.com/1311712/student-debt-is-killing-entrepreneurship/

[29] Article by *The Independent* which covered the study conducted by UK Youth on young people's mental health and their main sources of stress. Link: https://www.independent.co.uk/life-style/mental-health-young-adults-stress-depression-anxiety-ocd-study-a8233046.html

Recent research by the Centre for Global Higher Education found that, as well as leading to lower job satisfaction, holding large amounts of student debt harmed young people's mental and physical health. [30]

These recent studies support the findings of a study published in the Community Mental Health Journal, which found that experiencing financial difficulties and worrying about university-related debt increased the risk of developing mental health conditions such as depression.[31]

Finance-related stress, anxiety and depression among Britain's younger people is a genuine cause for concern, particularly when one considers the various problems being experienced by the NHS. A recent study conducted by charity YoungMinds found that young people faced "unacceptable barriers" in receiving mental health support.[32] Rising debt-related psychological illness and inadequate young people's mental health provision makes for an extremely toxic combination – one which ought to be a major concern for practitioners and policy-makers interested in the workings of the existing English student finance system.

Productivity

The broader economic implications of higher education costs and the accruing of large-scale debt also need to be taken into greater consideration. With finance-oriented grievances being increasingly associated with negative mental health outcomes among younger people, the English student finance system's role in creating the raft of young people who are psychologically consumed by financial worries should not be underestimated. This could have fundamentally detrimental effects on the nation's productivity, which has been far from impressive for some time.[33] Young people, who would usually be expected to be at the peak of their mental and physical powers and be the "engine" of Britain's economic activity, are increasingly overwhelmed by financial insecurities related to the heavy costs of higher education. The inter-relationship between large-scale personal debt, young people's mental health and national productivity is certainly deserving of more attention from a general policy perspective.

[30] Article by *The Independent* covering the research conducted by the Centre for Global Higher Education on the negative effects of student debt. The research faculty is based in the UCL Institute of Education and the University of Michigan. Link: https://www.independent.co.uk/news/education/education-news/student-loan-debt-harms-mental-health-careers-home-ownership-years-a8392326.html

[31] Research conducted by the University of Southampton and Solent NHS Trust. Dr Thomas Richardson, a University of Southampton academic and Principal Clinical Psychologist at Solent NHS Trust, led the study. Link: https://www.southampton.ac.uk/news/2016/08/debt-mental-health.page

[32] Survey conducted by YoungMinds included 2,700 people up to the age of 25 who had experiences of mental health issues. Only 9% of these respondents felt that it was easy to get the support they required.

[33] The Mental Health Foundation has issued a statistics report stating that "someone's mental health can have a significant impact on their ability to perform well in their job". Link: https://www.mentalhealth.org.uk/statistics/mental-health-statistics-mental-health-work

4. How the unfairness of self-funding can addressed

There is a growing tumult of voices calling for the reform of the current student loan system. Lord Adonis, the "architect" of education policy under New Labour during Tony Blair's prime ministership, has called for tuition fees to be scrapped.[34] The former education minister, who has admitted that he is "largely responsible" for the existing system of fees and loans, described the costs of English higher education as a "Frankenstein Monster". Following the last General Election, Conservative MP Damian Green (at the time PM Theresa May's most senior minister) called for a "national debate" on tuition fees as students voted in their droves for the Labour Party. With former Conservative education secretary Justine Greening labelling the current student finance system as "broken" and Tory-chaired cross-party committees in both Houses delivering damning reports on the costs of English higher education, the existing system of tuition fees and loans is increasingly being viewed as unsustainable and regressive.

It is indeed hard not to conclude – as plenty of other politicians, academics and commentators have done – that the current student loan system is broken. The myriad of social and economic challenges already faced by young graduates are further compounded by the student finance system and the costs of higher education. Poorer students have no choice but to enter a punitive student finance system which can be avoided by those who have their tuition fees paid for up front by their financially well-resourced families. This is clearly unfair, and only serves to reinforce inequality in society as a whole. This gives rise to the central question: what are the alternatives?

Scrap the loan system

The government could return to fully grant-based higher education funding (i.e. abolishing tuition fees and student debts completely, more or less as Labour has offered to). This return to the status quo ante would be widely welcomed, but there are counter-arguments. For one thing, it would be colossally expensive for the government – even before it decides whether or not to write off the debts of graduates who took out student loans over the previous decade or more. Secondly, the number of students attending university would have to be limited, simply to limit costs (as Scotland has found).

Lastly, this might be considered an unjustified bung to the middle classes, who – for better or worse – disproportionately make up the majority of student numbers.

[34] Lord Adonis argues that tuition fees should be abolished in their entirety: https://www.theguardian.com/education/2017/jul/07/tuition-fees-should-be-scrapped-says-architect-of-fees-andrew-adonis

Replace loans with a graduate tax

The introduction of a "graduate tax" or graduate contribution scheme has been viewed as an alternative to tuition fees for some time. Former Education Secretary Justine Greening previously outlined plans for a "higher education fund" in which all graduates earning at least £25,000 would pay a 9% tax on income over a period of 30 years.[35] In 2017, Dr Madsen Pirie of the Adam Smith Institute proposed a graduate tax in the think-tank's publication "A Millennial Manifesto".[36] This proposed graduate tax would see a 5% levy on annual incomes over £22,500, which would rise to 8% for those earning above £30,000 a year. In contrast to the current student loan system, no interest would be charged. Rather, the amount would be indexed each year in line with inflation.

There are however logistical and moral issues with administering a graduate tax designed to fund higher education. It is possible that some English graduates would emigrate and find employment in countries where it could be difficult to collect graduate tax. When considering the current economic state of affairs, which includes a lack of well-paid, secure job opportunities, a limited supply of affordable housing and exorbitant rent rates in England's more economically productive regions, the prospect of English graduates resettling abroad in order to avoid paying a graduate tax is very real indeed. Recent proposals made also mean that socio-economically disadvantaged graduates entering higher-paid salaries may pay back more in tax receipts than their socio-economically privileged counterparts who may enter a lower-salary position but be more likely to be able to rely on parental finances for other personal endeavours such as getting on the property ladder or starting a business.

Adjust the current system of loans

There are a number of reforms which could be made to provide an intergenerationally fairer higher education system in England. Tuition fees could be reduced back to the levels they were before the 2012/3 hike following the Browne Review. The government could reintroduce comprehensive means-tested maintenance grants to reduce the costs of higher education for England's poorest undergraduates. The interest rates charged on student loans could be dramatically reduced if they are pegged to the interest rate for government borrowing (which is currently 1.5%).

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[35] *Times Higher Education* article, which covered Justine Greening's plans for a "higher education fund" financed by a tax on graduates with annual salaries at and above £25,000.
[36] "A Millennial Manifesto" offers twelve ideas to help the current government improve its electoral popularity among younger voters. Link: https://static1.squarespace.com/static/56eddde762cd9413e151ac92/t/599c6c0eff7c506564f87a60/1503423503665/A+Millenial+Manifesto.pdf

Another, more radical idea involves greater state investment in funding tuition fees. Dr Kevin Albertson (Professor of Economics at Manchester Metropolitan University Business School) has provided a compelling case in favour of this, using statistical data to demonstrate that the cost-benefits of higher education to both individuals and the nation accrue in such a way that clearly favours the latter.[37] Based on a series of "public benefit" calculations, it has been asserted that the government should cover 58% of the debt currently accrued by the average English undergraduate student. From this perspective, the current state of affairs makes the nation an actor which is "free-riding" on the personal investment made by individual graduates.

Make loans obligatory

The only other option would be keeping the current system but forcing everyone to take out student loans, although to achieve this objective there would need to be a penalty on early repayment (to stop wealthy families just paying off their kids' debts after they've graduated), which the government has previously ruled out. A further objection would be that this essentially locks all higher education students into a broken system: a system which carries risks and uncertainties – and one which is exacerbating problems surrounding mental health, home ownership, pension savings and economic productivity.

[37] Dr Kevin Albertson authored a higher education funding report on behalf of Intergenerational Foundation in April 2017, discussing the economically inefficient nature of higher education student fees. Link to report: http://www.if.org.uk/wp-content/uploads/2017/04/The-Economic-Inefficiency-of-Student-Fees_Final.pdf

5. Conclusion

Politicians of different stripes are implicated in the development of an English student finance system which has evolved into one which is fundamentally unfair – in both an inter-generational and intra-generational sense. The current system is unfair on many of England's young graduates, in effect demanding them to take on large-scale student debt which can compromise their mental well-being, dent their aspirations of home ownership, restrict their ability to save towards a pension pot, and dampen their enthusiasm for starting up their own business. These obstacles faced by many of England's young people mean that they have been dealt a particularly harsh deal in comparison to previous generations, who were able to fulfil their educational ambitions without mounting crippling levels of student debt. The design of the existing student system also means many graduates will not be able to pay back their student debt within the 30-year period. The amount outstanding will be added to the country's debt, being unfairly passed on to future generations.

As the 2017 "youthquake" demonstrated, in the strongest terms, the current student finance system has contributed to the political awakening of young voters who are completely disillusioned. Those young people in England, who live in a country which charges the highest tuition fees in the world, only have to look north of the border to find a Scottish higher education system which charges no tuition fees for domestic students. On mainland Europe, France and Germany's more "social" model of "Rhine-Alpine" capitalism includes a firm political commitment to low tuition fees and comprehensive state investment in developing the educational skills and resources of their young people.

The crisis surrounding England's student finance system requires big thinking from practitioners and policy-makers alike. Much of the country's economic performance and broader social well-being rests on the financial security and mental condition of its young graduates. The country – particularly its young people – deserve more than political game-playing, such as using the student finance system as an instrument to create "fiscal illusions" for short-term electoral gain. It deserves a fairer higher education system which prioritises and invests equitably in its young graduates of all socio-economic backgrounds – young people who hold the key to the nation's long-term prosperity.