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Middle-Income Students Hit Hardest by “Willetts Tax”

Middle-income graduates would need to earn an annual salary of £51,000 a year, more than twice the national average wage, in order to be able to begin paying off any capital on an average £40,000 student loan according to new research from the Intergenerational Foundation (www.if.org.uk).

The report, launched today, and entitled “Squeezing Our Students?”, reveals that middle-income graduates in England will be faced with never being able to pay off their student loans during the 30-year repayment period. Instead, students will be forced to pay 9% of all earnings above the repayment threshold (currently £21,000) until the loan term is reached – and they are already charged double the amount of interest compared to the OECD average.

The report compared English student fees and loans internationally and revealed that England already has the highest headline figures for tuition fees of any public university system in the world. England charges students twice as much interest on student loans as the OECD average — 6.6% compared to an OECD average of 3.3%. Even when living costs are factored in, these interest rates are still the third highest in the world.

Angus Hanton, IF Co-founder comments, “Policy-makers are creating an indentured class of future graduates with little protection against further interest rate rises or a lowering of the repayment threshold. Urgent action must be taken to bring student loans within the protection of the Consumer Credit Act. Parliamentary oversight and approval must be guaranteed now that commercial rates of interest are being charged.”

Despite previous assurances from the Universities Minister David Willetts that the current government never intended to use its power to retrospectively adjust student repayment terms, a recent Freedom of Information request revealed that the government was seeking advice to do just that, in order to sell the student loan book to private sector investors.

Josh White, author of the report concludes, “We call on those parents and grandparents, who got their university education for free, to stand united with young graduates demanding better protection. No one would sign an open-ended credit agreement for a luxury car without fixing the terms of repayment, yet this is what young people are being asked to do.”

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Note to Editors:

1. Student Loans fall within the basket of goods that affect the Consumer Price Index which means benefits for older generations rise accordingly.
2. Around £90billion each year is spent on state and public service pensions. The annual increase in that spending resulting from higher tuition fees would be equivalent to roughly £0.5billion annually representing a large transfer from young to old.
3. The 2012/13 loan agreement contains the following clause: "You must agree to repay your loan in line with the regulations that apply at the time the repayments are due and as they are amended. The regulations may be replaced by later regulations."
4. Primary legislation is not required to lower the repayment threshold or increase the interest rate.
5. Source for loan agreement:
http://www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/@educ/documents/digitalasset/dg_200469.pdf
6. The Intergenerational Foundation (www.if.org.uk) is a vehemently independent, non-party-political think tank that researches intergenerational fairness on behalf of younger and future generations.

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