Consultation Response:
"Consultation on freezing the student loan repayment threshold"

To: Department for Business, Innovation and Skills (BIS)

By: The Intergenerational Foundation

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The Intergenerational Foundation (www.if.org.uk) is an independent think tank researching fairness between generations. IF believes policy should be fair to all – the old, the young and those to come.

Introduction:
The Intergenerational Foundation welcomes the opportunity to officially comment on government policy towards tuition fees. Of the three courses of action which are set out in the Department's consultation document, IF believes that the third option – **making no changes to the current system** – is the most favorable one from the perspective of students, who would be placed at a significant disadvantage if either of the other two options were chosen. IF considers the drawbacks of freezing the student loan repayment threshold to be as follows:

Reneging on the original loan agreement
IF has previously published research – *False Accounting? Why the government's higher education reforms don't add up* – which warned that student borrowers were in danger of being treated unfairly because the terms of the Student Loan agreement which they are compelled to sign allow future governments to unfavorably alter their repayment terms. No commercial lender could do this because of the protections which borrowers enjoy under the 1974 Consumer Credit Act, but student loans have been exempted from this legislation on somewhat dubious technical grounds.

Previous changes to the nature of student loans (for example, the increases in the level of fees which were introduced in 2004 and 2012), have only ever affected new borrowers. It would be unprecedented for a government to retrospectively change the repayment terms of student loans for existing borrowers who have already completed their studies. The impact of such a retrospective change would be to undermine trust in the student loans system, and it may discourage future students from studying at university if they don't believe the government will honour the agreement they are signing up to. This option would also undermine the government's argument that students should accept this change because attending university still represents good value, as they would no longer enjoy any certainty that other aspects of the student loan repayment terms – such as the promise that any outstanding debt will be written off after 30 years, or that repayments will be levied at a rate of 9% of salary above the repayment threshold – will not be unfavourably changed in future as well. Therefore, **Option 1** from the consultation document (freezing the repayment threshold for all current and future post-2012 borrowers) represents poor policy and should be rejected.

Regressive impacts on lower earners

In the consultation document, the government provides a worked example under Section 6 which models how student borrowers would be affected by a freezing of the repayment threshold. Although this modelling demonstrates the effect of adopting Option 1, later on in this document the government explains that it expects the impact of adopting **Option 2** (freezing the repayment threshold for all new borrowers post-2016) would follow "a similar shape to that set out under option 1." The problem with these modelled outcomes is that they indicate the results of adopting either Option 1 or Option 2 would be strikingly regressive towards lower-paid graduates.

Example 1 demonstrates that a graduate who receives a starting salary of £21,000 per year would end up repaying an additional £6,100 more under Option 1 than they would under current policy, whereas Example 3 shows that someone who receives a graduate starting salary of £40,000 per year would only repay £300 more, and Example 4 shows that someone on a starting salary of £50,000 would actually pay £200 *less*. As the government expects that the outcome of adopting Option 2 would be similar, this means that - even though Option 2 would be slightly more favourable than Option 1 in the sense that it would not involve a retrospective change in repayment terms - it would still have economic impacts which are heavily regressive. These regressive impacts could be further exacerbated if the repayment terms are changed again in future, as we suggested under the previous section. Therefore, **Option 2** should also be rejected because it would unfair to the lower-paid.

Conclusion

IF has argued that both of the policy changes which are outlined in the government's consultation document should be rejected, firstly because Option 1 would represent a retrospective policy change which will undermine trust in the student loan covenant, and secondly because the government's own modelling appears to suggest that adopting either Option would have an unacceptably regressive impact on lower-earning graduates.

IF has always maintained that the post-2012 reforms to higher education funding in England were misguided because they transferred an unfair economic burden onto current and future students which previous generations did not have to pay. However, now that the reforms have been established, there is a case for leaving them alone for a period so that all the interested parties – student borrowers, parents, employers and the universities themselves – can have faith in the stability of the system. As the consultation document points out, higher education funding policy has been the recipient of so much government tinkering over recent years that there are now effectively four different categories of borrower. If government expects students to take on such a long-term financial commitment, then it should at least provide them with certainty about how they can expect to be treated in future.

If you would like to learn more about the work of the Intergenerational Foundation please contact:

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