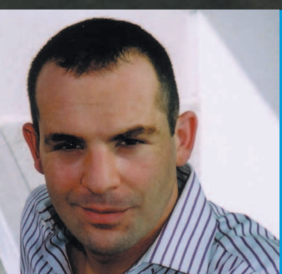
talking money

a parent's guide to student finance in england

INSIDE: STUDENT FINANCE EXPLAINED • MARTIN'S BUDGETING TIPS • NEW PACKAGE FROM AUTUMN 2011



Including top tips from TV's money saving expert, Martin Lewis

"No one should be put off higher education because of worries about student debt"

studentfinanceengland

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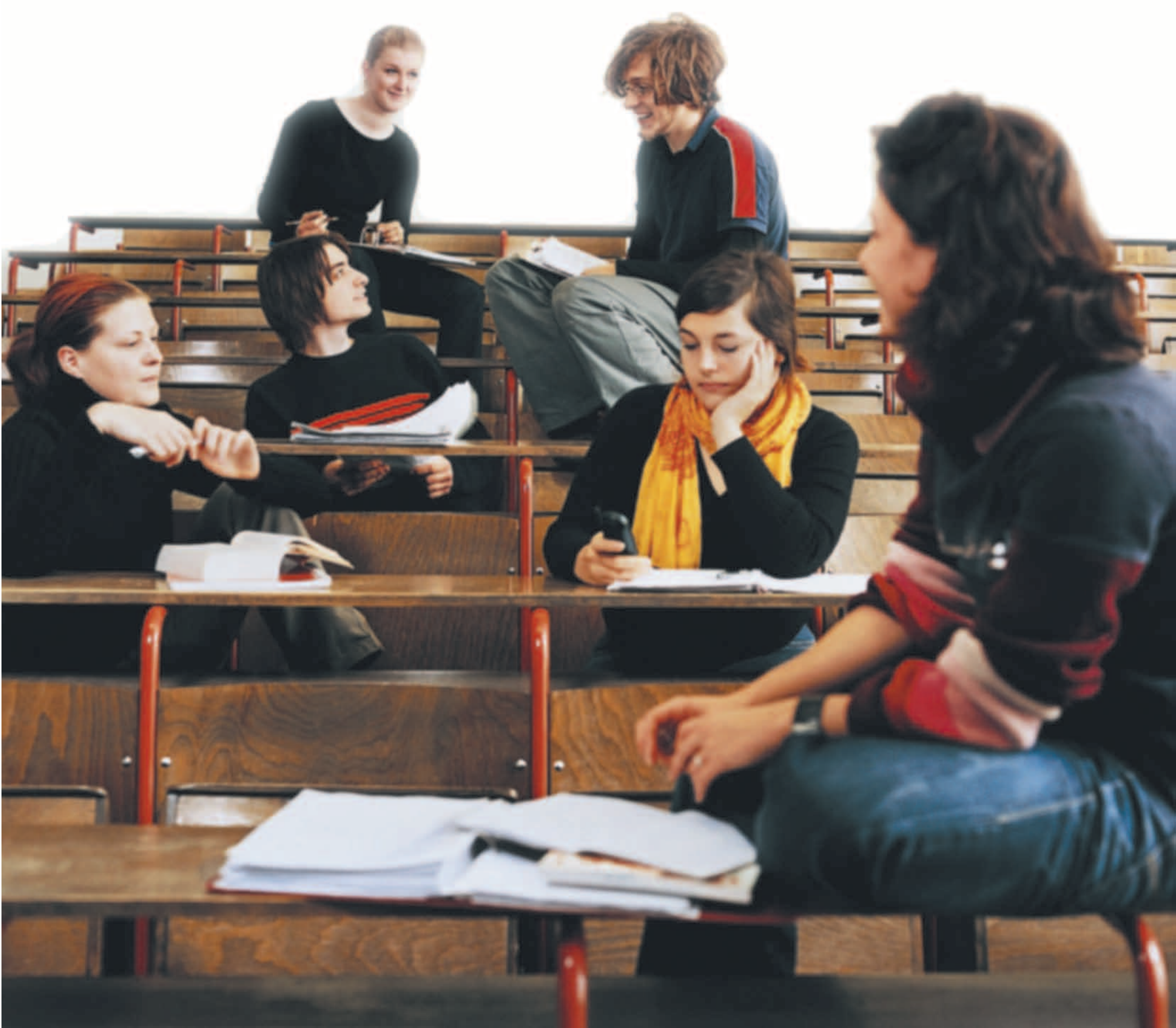


martin's letter

Don't be scared... it is affordable!

For many parents the loud and proud cheer given when your son or daughter gets into university, is soon followed by a sharp intake of breath when thinking about paying for it. Yet much of the fear comes from myths and misunderstandings about how student finance works. It has never been more important than now, to try and bust these myths and misunderstandings.

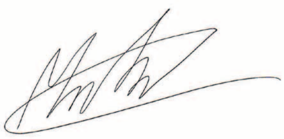
Even in the current climate, I genuinely believe no one in the UK should be put off going to university because of student debt or finding the money to go to university or college. This isn't a flippant "don't worry" about money, but actually understand there's funding available and there's no reason not to take it.

You may be shocked to learn I'm tempted to wag my finger a little at those who start from a perspective of keeping your child out of debt. In the same way as most people need mortgage debt to get a home, in the era of tuition fees most need a student loan to pay for their education.

More important than debt avoidance is learning when and how to borrow and the right way to do it, so that it doesn't hurt or impact their studies or hit their life choices afterwards. With the official student loans, if they don't earn enough, they won't have to repay it... ever, no one will come chasing, and it doesn't hit their credit score meaning that it doesn't diminish their ability to get a mortgage later on.

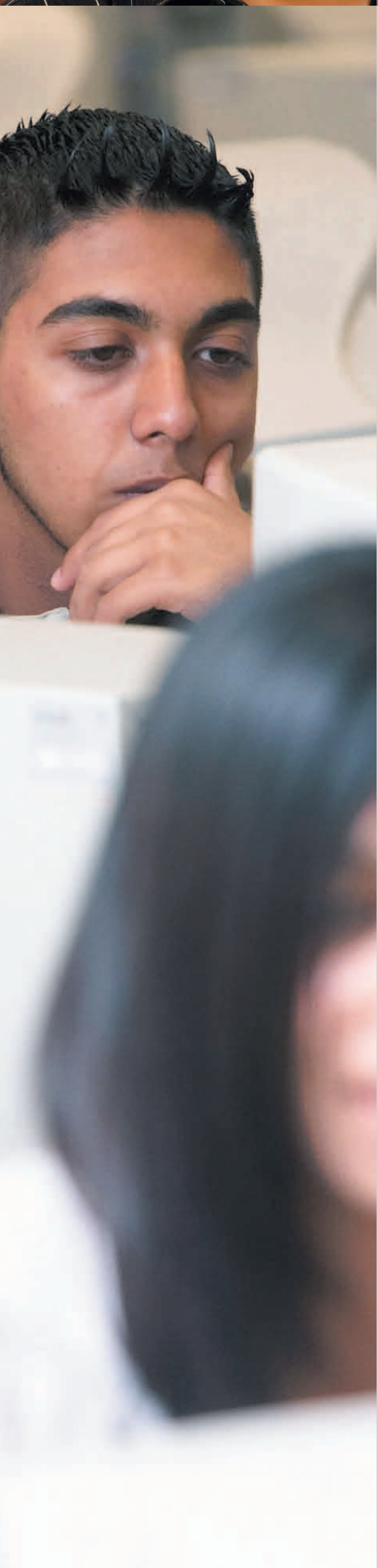
And let me be blunt here. If your finances aren't what they were and you're thinking how on earth can I afford to send them to uni – stop it. If you don't earn much, they get more support , and if they budget well, they can eat, study, have a roof over their heads and have fun, from the money they're given by the state. So don't take this burden on your shoulders, when it's not necessarily yours to carry. Instead, learn to understand how the system works and give them the tools to manage their cash sensibly.

I hope this booklet explains what you and your child need to know about funding university, from the student support package, through to student bank accounts, credit cards and part-time jobs. There are also tips on how you can help your child prepare before they go, so you can talk money with them.



Martin Lewis
www.MoneySavingExpert.com
August 2011

PS. While this booklet focuses on the situation for English students, many of the same principles apply for those from elsewhere in the UK too.



the student finance package explained

All English students going to university or college will have to pay an annual 'tuition fee' towards the cost of their course. This can be up to £3,375 a year.

As a parent, it is important to understand that there is no need to stump up your own money upfront. Your child can borrow the money for tuition fees when they go to university and won't have to repay it until they leave and are earning enough.

Where can my child get money for higher education?

Generally, there are three sources of financial support available to new full-time students:

1. Student Loans (Tuition Fee Loans and Maintenance Loans)

These loans are provided by the Government through Student Finance England (SFE). They are the cheapest form of long term borrowing available, as the interest follows whichever is LOWER 'inflation or interest rates plus 1% point'. So over the last year its been 1.5%.

The reason the highest it can be is inflation, which is the rate prices rise, is so students don't pay any 'real' interest. So, borrow £1,000 to buy ten shopping trolleys worth of goods, and you'll only pay back whatever the same ten shopping trolleys cost in the future. Your purchasing power isn't diminished and it hasn't actually cost anything.

There are two different types of loan – one is designed to pay for tuition fees and the other helps towards maintenance (day-to-day living costs such as rent and travel).

The really important thing to understand is there's nothing for your child to repay until after they leave university and only then when they're earning MORE than £15,000 (then rising with inflation in following years).

2. Maintenance Grants and Bursaries

This is the free stuff and in recent years there's been more of it. The amount awarded is assessed on a number of factors including family income and the course your child chooses. Just to make it plain, if it's called a grant it NEVER has to be repaid!

3. Money from you

As a parent, you might want to help your child out, and if you're wealthier, it's actually factored in that you will contribute. Yet if you don't have the cash, the system is designed so that money should be available for your child to support themselves so you don't risk putting yourself into debt.

There may be a better and more financially sound way you can help. Rather than offering to pay their fees, could you help with money to put towards course books or by stocking up the kitchen cupboards at the start of each term?

There are tips later on in this guide on how you could help your child by imparting your own learning. Helping your child with the practicalities of student life could be very welcome.

student finance package - the facts from Student Finance England

repayable support

Tuition Fee Loans

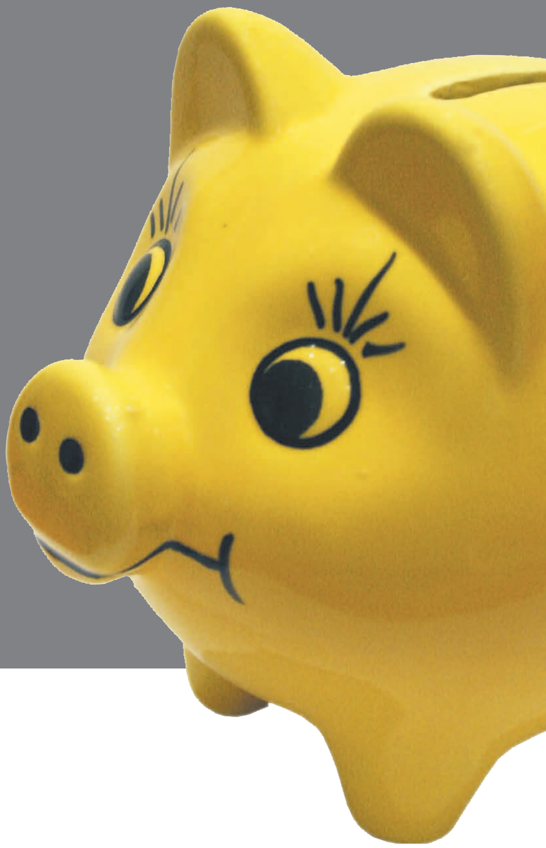
Your child can study now and pay back when they're earning. A loan is available to eligible, full-time students to cover the full cost of tuition fees, known as the Tuition Fee Loan. These are paid directly to the university or college. For the academic year 2011/12, students will receive up to £3,375 per year to cover tuition fee costs.

Maintenance Loans

In addition to the Tuition Fees Loan, eligible students can apply for a Maintenance Loan to help cover living costs throughout the academic year. This is based on their personal circumstances and is to help with living costs such as accommodation, food, travel and course materials. The amount a student can borrow depends on their family's household income and where they decide to live and study. The Maintenance Loan is split into three amounts each year and they are paid directly to the student at the beginning of each term.

Repaying Tuition Fee and Maintenance Loans

Students don't have to start paying back their loans until they have left university, are in work and earning more than £15,000 a year. They pay back 9% of their earnings above £15,000 a year, so someone earning the average starting salary for a graduate level job of £20,000 would repay £8.65 per week.



non-repayable support

Maintenance Grants

Two thirds of students are expected to benefit from a non repayable Maintenance Grant of up to £2,906.

Students from a household with an income of £25,000 or less can expect to benefit from a grant of £2,906.

Students from a household with an income of between £25,000 and £50,020 can expect to benefit from a partial grant.

Bursaries

In addition to maintenance grants there are also non repayable bursaries from the university or college. Students getting the full maintenance grant and being charged the full tuition fee are entitled to a minimum bursary of £338. A typical bursary is around £900. Many institutions are paying bursaries to a wide range of students, so they should make enquiries at their university of choice.

Once we know students have to borrow, it's important to understand that there are seismic differences in types of lending. Most important is that students are able to differentiate between 'good' and 'bad' debt.

It may sound bizarre, but some debts are much better than others – all debts are not the same!

Official Student Loans

The Tuition Fees Loan and Maintenance Loan should be your child's first port of call. These official loans, administered on behalf of the Government by Student Finance England, are the cheapest long-term borrowing students can get and should always be the first place to borrow from. The loans are linked to the level of inflation.

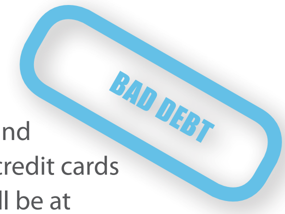
They only start repaying once they've LEFT university, and even then they only pay a proportion of their income (9% of everything over £15,000), so the less they earn, the less they repay. And if they never earn enough to repay the loan, after 25 years they're wiped.

Student Bank Accounts
Interest-free Overdrafts

Many of the big banks have created special student bank accounts targeted at people going to study at university or college for the first time. To get new customers they may offer incentives including free gadgets or discounted rail travel. While these are appealing, it's important to look beyond the freebies to what the account offers. The majority of banks offer students an interest-free overdraft to an agreed level. The best account will have a 0% overdraft guaranteed limit for the longest period of time. These are best used carefully to help cash-flow during student life, rather than as a form of longer term borrowing.

For details on the best student accounts log onto www.moneysavingexpert.com/studentaccounts.

Pretty much any other type of debt should be avoided. If you're going to have to pay real rates of interest, as a student you have no way to pay this back. Your son or daughter should avoid anything over 5% - this includes loans and credit cards.



Commercial Debt

Lending comes in many shapes and sizes: bank loans, hire purchase, credit cards and store cards. Most of these will be at commercial rates of interest, anything from 5% to 30%. As students have limited income, and are almost certain to until they graduate and start work, this means that when borrowing money, anything more than the minimum payment is unlikely to be repaid. Therefore at a real rate of interest, the effect of compound interest (paying interest on the interest) means the amount owed will quickly increase.

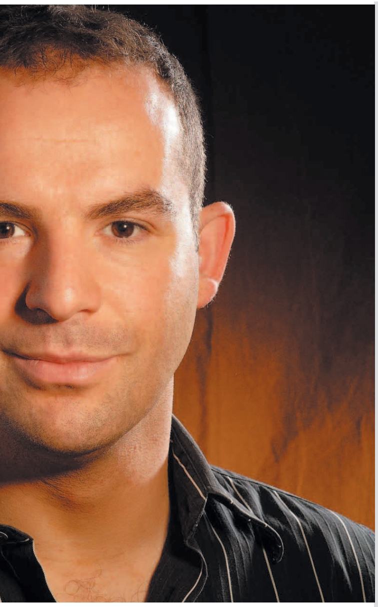
Therefore the best possible thing to do is impart a 'don't borrow any more' philosophy if you can. The reality is credit can be easy for some students to obtain - they're very profitable customers. The real lesson here is to try and differentiate between 'reasonable borrowing' and 'debt that will put you in trouble'. So the message for your son or daughter is simple; planned, budgeted for, affordable debt is a reasonable life option – yet commercial debt that you can't repay can cause major problems.

If they do need to borrow, then stress that the lower the interest rate, and the quicker they can repay means the less they will pay. They should never borrow without checking the interest rate.

gooddebt, baddebt!

budgeting

martin's top tips for budgeting



Lots of parents rightfully urge their lids to "do a budget"! Yet there's a big problem here; while in the working world the rule is simple 'don't spend more than you earn' – what shouldn't students spend more than? Without defining that, saying do a budget is irrelevant.

As a rule of thumb I would suggest the answer is to add up A. Their student loan, B. Any grants or bursaries, C. Any money earned by working, and D. Any money you agree to give them. The total of that is their income and they shouldn't go beyond it.

Yet moving away from home to study is often the first time that young people will have to properly budget for themselves. Help your child start as they mean to go on and sit them down, work out what is going in and out before they even pack to go to university, helping them to allocate their cash.

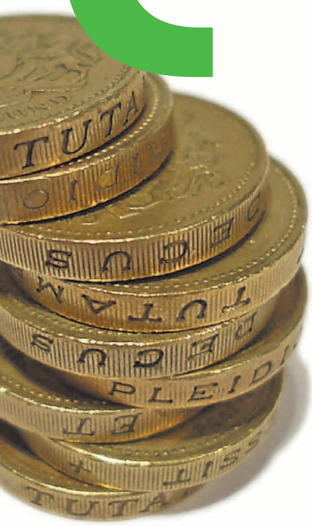
Top Student Budgeting Tips

• Don't spend it when you get it. Make sure your child doesn't get the spend it as soon as they get it' bug. When the loan or other cash arrives, it's tempting to celebrate with a big blow-out – but a big night out in fresher's week could mean they can't afford to go out for the rest of term. Of course we all want a splurge, but the time to do it is at the end of term, when they've carefully managed their money and know they've got some spare cash, not the beginning of term, leaving them short and struggling.

• Set rules with flat mates. If your child is sharing accommodation, they need to be clear with flat mates about who will pay for what. Suggest that they consider a house kitty to cover cleaning products, toilet roll, bin bags and any shared food e.g. tea bags.

• Curb spending impulses. When shopping, students should ask themselves three questions: "Do I need it?", "Can I afford it?" and "Have I checked if it's cheaper elsewhere?" If the answer to any of these questions is no, don't buy it!

• Grab bargains. Help them think about how they can save money, for example buying fruit and vegetables at the market and ensuring they use their NUS card with all its discounts. Save up loyalty points when you are shopping and convert them into vouchers to contribute to your child's first/last shop of the term. If there is spare cash suggest they check local promotions and available vouchers (see www.moneysavingexpert.com/deals for shopping and restaurant discounts).



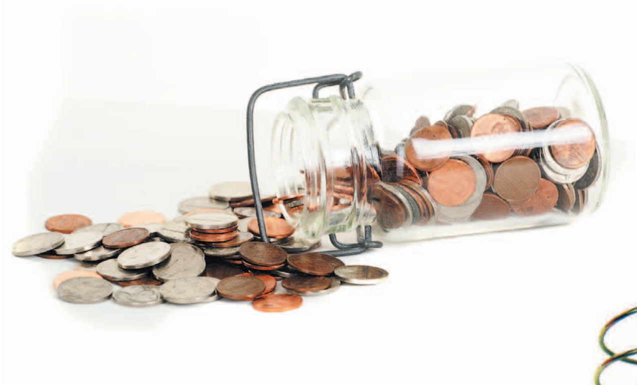
• Two bank accounts. Set up two bank accounts; one for essentials such as rent and bills and a separate 'spending money' account. If you are helping out on rent or bills, ensure that your child sets up direct debits from the first account so essentials are paid.

• Don't 'auto-bail out'. However tempting, don't immediately bail your children out at the first sign of financial trouble or they'll never learn how to budget! Advice can be more valuable than cash.

• Gift vouchers help discipline. If you do want to give your children money, but are worried about how they might spend it, you could give vouchers (though ensure it's with a big solvent company).

• It's a competitive world. Make sure they know that from mobile phones to buying textbooks, public transport to bank accounts, energy bills to nightclub entry it's a competitive world and never just go with the first seller, compare and check out a whole raft to find the best deal.

budgetplanner



Below is a quick list of some of the things your child should consider when drawing up a budget. For a fully automated step-by-step free planner to do it all for them go to www.moneysavingexpert.com/budgeting

monthly expenditure

Education costs
- Books
- Equipment
- Field trips

Living costs - Essentials
- Accommodation
- Food
- Council tax (if applicable)
- Utilities (water, gas, electricity)
- Travel

Additional
- TV licence
- Digital TV subscription
- Home telephone & internet
- Mobile phone

Miscellaneous costs
- Going out
- Gym/sports/fitness
- Entertainment (e.g. cinema/music/DVDs)

Financial products
- Savings
- Credit and store card repayments

Total monthly outgoings
Months in term
Termly outgoings

monthly income

- Maintenance Loan
- Maintenance Grant

- Bursary
- Scholarships
- Holiday job

- Part-time work
- Parental contributions
- Spendable savings
- Other

Total monthly income
Months in term
Termly income

Many parents are concerned about the impact part-time work could have on their child's studies. But, done in moderation, it's a great way of bringing in some extra income and increases your child's employability when they graduate.

Why work?

The Student Finance package is designed to cover essential costs such as tuition fees, food, travel and accommodation, but it does not account for life's little luxuries.

By working part time, not only will your child earn extra money, but they will also meet new people and learn new skills. What's more, they can include any work experience on their CV which could impress potential employers.

Your child might be able to get a short work placement at a relevant company – even if it's not paid, companies often cover travel and lunch expenses and the experience is good when it comes to applying for a full-time job upon graduation.

Is it for my child?

First of all, you must be aware that working part-time may not be suitable for everyone. Your child needs to think carefully about whether this is a feasible option for them – it will very much depend on their course and other demands on their time. Some courses may not have very full timetables, especially in the second and third years, but this is because there is a greater focus on self-study. Also, some practical courses such as sports science will put other demands on their time, such as time spent on sports activities. Most universities have Student Job Centres to help find student-friendly employment.

What about wages?

You may think that student jobs pay very little, but remember that your child is entitled to the minimum wage if they are over 18 years of age. This is £4.92 an hour for those aged 18-21 years, or £5.93 for those over 22 years. From 1 October 2009 this is £4.98 an hour for those aged 18-21 years, or £6.08 for those over 22 years. Other potential advantages include employee discounts (in shops) or free food and drink (in bars or restaurants). It's also likely those in catering jobs, such as bar and restaurant workers will receive tips. Working in a bar is a popular choice for many students as it allows them to continue socialising but saves them from spending their money on the other side!

Do students pay tax?

Students do have to pay tax, just like everyone else. However, no one has to pay tax on the first £7,475 of income earned in the year and as many students do not earn that, they never pay tax. Neither the Tuition Fee Loan, Maintenance Loan or Maintenance Grant count as income, so they are untaxed. If your child is earning less than £7,475, they need to ask their employer for a P38(S) form to insure they are paid tax free.

toworkor nottowork

studentfinanceengland

letters

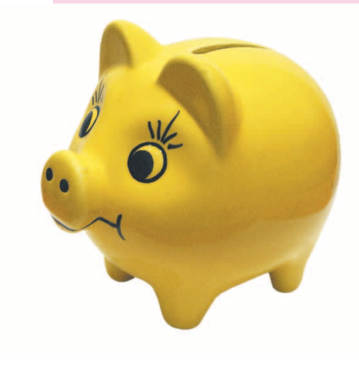
Question:
My daughter will be starting university in September and I'm worried about the impact her student debt will have on her when she graduates – I want her to be able to pay it off as soon as possible. I have some savings which I was thinking of using either to pay her £3,375 tuition fees or to help pay back her loan as soon as she graduates. Which would you recommend?
Sue, Barking

Martin says:
Well assuming that she won't have any commercial debts, then actually you're perhaps being a touch over squeamish about the debt. Remember student loans are different from commercial loans because they are one of the cheapest forms of long-term borrowing possible. Technically you are not paying any real interest; because the interest rate is linked to the rate of inflation.

The Tuition Fee Loan was introduced to remove the need for students and their families to find the money for fees upfront, so it is a good idea to take advantage of it.

Why not put your savings into the highest interest savings vehicle possible, like a Cash ISA instead which will earn you more interest than it costs to repay the loan. Then you will be in a better position to help your daughter once she graduates.

This money is likely to be far better put towards a mortgage or rent deposit in the future than paying off the student loan. Remember as it's the cheapest long term debt possible, if she pays it off quickly but then needs to borrow later (e.g. for a house) that will be at a higher rate, so you've effectively traded cheap debt for expensive debt. See www.moneysavingexpert.com/studentrepay *for a full step-by-step guide to when you should and shouldn't overpay student loans.*



Question:
I keep hearing that the interest on the student loan is set at the rate of inflation, but that means I still have to pay interest so surely it's costing me?
Clive, Tyne and Wear

Martin says:
The interest rate on student loans is set at most at the rate of inflation. Inflation is the rate at which prices rise, therefore if inflation is 2%, it means things costing a £100 this year will cost £102 next year. Equally so, borrow £100, on a loan at a rate of inflation of 2% and in a year's time you will owe £102. For example, a basket of shopping costing £100 this year will cost £102 next year.

Therefore you were lent a 'basket of shopping's worth' of money and still owe a 'basket of shopping's worth' of money, thus your actual spending power hasn't been diminished by the loan: in other words there's no 'real' cost.

Compare this to a higher than inflation rate loan, say 10%, and here you'd owe a 'basket of shopping's worth' plus £5. Hence to repay that money you'd need to forgo £5 of other spending.

usefulinfo

Applying for Financial Help

Students don't have to wait until they have received an offer from a university or college to apply for student finance. Once they have applied for a place to study, they can then apply for financial help towards fees and living costs. This should be done as early as possible and students can apply for financial help online at www.direct.gov.uk/studentfinance. The online application process is fast and easy.

• A new application for financial help will need to be made for each year of their course

• Student Finance England is a partnership between the Department For Business, Innovation and Skills and the Student Loans Company to provide financial support on behalf of the UK Government to students entering higher education in the UK.

Contact details

• For more information on Student Finance, how to apply and what your child may be eligible for, visit www.direct.gov.uk/studentfinance.

• For additional money saving advice, visit Martin Lewis' website at www.moneysavingexpert.com

A final word from Lynne Condell, Chairperson of the National Association of Student Money Advisers (NASMA)*:

NASMA
National Association of Student Money Advisers

For many students, university life will be their first experience of handling money for living costs as well as entertainment. Many young people haven't had to budget for the essentials of life before university and it's understandable that you might be concerned for your son or daughter – however, you never know, your child might actually rise to the challenges of independent living – university life is a very full learning experience!

Universities, colleges and students' unions employ Student Money Advisers who offer experienced, impartial and non-judgmental advice. We can help students to maximise their income, manage their money and deal with any difficulties. There will be useful financial information and contact details of advice services on the university's website. Many services will help students before they get to university – to help them to try to make an effective adjustment to student financial life.

*NASMA is a professional interest organisation for money advisers and funding administrators working in universities, colleges and students unions. It does not provide advice directly to students – contact the university, college or students' union.