Teachers' Guide

HOW TO ANSWER QUESTIONS ABOUT STUDENT FINANCE

The true cost of full time higher education study in England

2014

INTRODUCTION

The information in this guide is for teachers helping students in England starting a higher education course in 2014 with no previous history of higher education studies.

Information in this booklet is correct at time of writing (August 2013) and be subject to change.

Provided by MoneySavingExpert.com and Universities UK.

You've done your job helping your students pick the right exams and you're hoping they will get the best results they can. But there is another hurdle for teachers with students wanting to go to university – the increase in tuition fees.

In 2012, it seemed we were on the brink of a crisis with the perception of increased student debt in England – and a potential huge drop in university applicants. Thankfully by focusing on 2012 starters and some great explanation by teachers, that crisis was averted.

Yet the myths and misunderstanding of wider society about the new system are still out there. And that includes subsequent cohorts of university applicants. So we need to continue to shout loudly 'you can afford to go to university' for the 2014 student intake.

This guide isn't here to sell the system, nor sell the political solution behind it, but to quite simply try and ensure every student (and their parents) who goes to university at least has an understanding of how it works from a practical basis.

As teachers you are lynchpins in this – they trust you. After the first intake of students on the new system I was contacted by many dedicated teachers who wanted to go beyond the call and help their pupils but were struggling to source information. So I was keen that we put something together to help you understand it.

This guide aims to help you answer any questions your students might throw at you, fairly and truthfully, and help them make an informed choice about what is right for them.

Thankfully though with some great explanation from teachers, that crisis was averted...for now!

MARTIN LEWIS

Money Saving Expert

In September 2012, the fees universities in England were allowed to charge undergraduates increased from a maximum of £3,375 to £9,000 – nearly treble the amount.

In fact the rules state universities can charge £6,000 and only increase it above that if they make extra provisions such as bursaries for students from low income families.

TREBLING TUITION FEES DOESN'T ALWAYS MEAN TRIPLING YOUR COSTS!

The typical maximum loan combining tuition fees and maintenance is £16,751 a year or £50,000 over a three-year course – this is a scary sum. However that figure is mostly meaningless, student loans are one of the very few areas where the price tag bears little resemblance to the real cost.

This is because repayments depend solely on how much you earn once you graduate/leave university.

Those who earn little repay little or nothing, those who earn a lot can pay back substantially more than they borrowed.

It's crucial that students understand this as it can have a big impact on their choices, for example many won't repay any more money per month on a £9,000 course than a £6,000 course (see section 3 to find out why) so understanding this plays a key role in the decisions they need to make now.

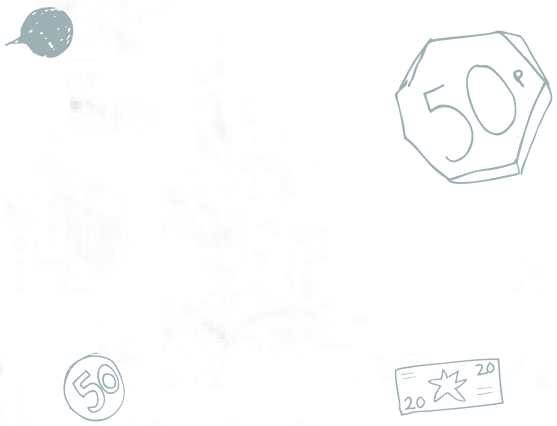
KEY FACT

If you hear other people talk about the funding system and tell you their experiences, do remember it completely changed for new 2012 starters in England – anyone who started university before that was in a different system.

So let's run through some of the initial misunderstandings many pupils and parents have...

1. Neither they nor their parents need cash for them to pay for university

It ISN'T a case of 'pay up or you can't go'. For first-time undergraduates, once their application has been processed, their tuition fees are paid automatically – and directly to the university – by Student Finance England, part of the Student Loans Company. It can also provide loans to cover living costs, which they will receive in three instalments throughout the academic year.



2. They only have to repay once they finish their course and ONLY if they are earning enough money

Once they leave university, students start repaying the following April, provided they are earning above a certain threshold in that year. For 2014 starters, this amount in their first year will be £21,000 a-year (the threshold rises with average earnings from 2017).

If they never earn enough (although we hope that they do) they'll never have to repay a thing.

Part-time fees are rising, but tuition fee loans now available

Part-time students, often forgotten, make up around a third of all undergraduates. Fees for part-timers may be higher in 2014 than in previous years, with all universities being able to charge up to £4,500 and some £6,750 provided they offer help to students whose incomes are lower. However, part-time students no longer have to pay upfront, as they will be eligible for tuition fee loans on the same terms as full-timers (but not maintenance loans).

There are some other differences too. See our part-time guide for further information.

There is a range of financial support out there for those wanting to go into higher education. This falls into two main categories – government support and direct money from universities and colleges.

The amounts available often depend on household income (usually the parents income, but it can be the students in some circumstances)

i. Government funding - Loans and grants for tuition AND living

1. Tuition fee loans

These cover the tuition fees charged by the university or college and they are paid direct to the university, without the money ever going into the student's hands. It's available to all eligible students regardless of household income.

2. Maintenance loans (Living cost loans)

These cover the day-to-day cost of living, such as food, rent and travel. These loans are usually paid in three instalments (one at the start of each term) directly into their bank account. The amount students can apply for depends on whether they intend to live at home when they study or elsewhere.

In 2014/15 the maximum annual loan is £4,418 if a student lives with their parents or £5,555 if they live away from home (£7,751 in London or £6,600 overseas).

- The guaranteed bit

Up to 65% of the maximum 2014 living cost loan is available to all eligible students in 2014 regardless of their household income.

- The income assessed bit.

The remainder is means tested depending on their or their parents' residual income (i.e. pre-tax income minus pensions). The rule of thumb is, the higher the income the less they're entitled to, although...

Students with household income under £42,620 get maintenance grants

University grants sound like something of a museum relic but actually, if a student's household income is below £42,620 a year, then some of their loan entitlement is replaced with a grant, that's non-repayable (unless they leave their course early).

Students can apply for a Maintenance Grant on their main student finance application but they will only be eligible for a grant if they choose to allow their household income to be assessed.

How do they apply for a loan?

Application forms can be completed online at:
www.gov.uk/student-finance

Undergraduates don't need to wait until they've been formally offered a place – they can apply once they've sent their application off.

EXAMPLE

A student with a £25,000 household income or less living away from home (outside London) would get a grant of £3,387 and a maximum loan of £3,823 (not the full £5,555). If their household income is between £25,001 and £42,620 they get a smaller grant - though the maximum loan amount increases to make up for it.

See the table on the opposite page for more information.

Those living away from home in London get larger loans, those living at home (anywhere) smaller

HOUSEHOLD INCOME	PACKAGE OF SUPPORT FOR STUDENTS LIVING AWAY FROM HOME		
	Non-repayable maintenance grants	Maintenance loans	Total
£25,000 or less	£3,387	£3,862	£7,249
£30,000	£2,441	£4,335	£6,776
£35,000	£1,494	£4,808	£6,302
£40,000	£547	£5,282	£5,829
£45,000	£0	£5,341	£5,341
£50,000	£0	£4,836	£4,836
£55,000	£0	£4,331	£4,331
£60,000	£0	£3,826	£3,826

ii. Money from universities - Fee waivers and bursaries

As part of the conditions for being allowed to charge fees above £6,000, many institutions have to put money aside for students from homes with lower incomes and those who would be considered less likely to attend university.

Part of the help that institutions offer comes from the National Scholarship Programme (NSP) for those from household earning under £25,000, but amounts and eligibility vary from institution to institution, so it's worth encouraging students to check wherever they intend to go.

KEY FACT

BURSARIES VS. FEE WAIVERS

If given a choice, and some universities will, and with everything else being equal, it is usually far better for a prospective student to pick a bursary over a fee waiver.

The reason for this is quite simple, as will be explained in the next section. Many graduates will never repay in full even at the £6,000 level - so in real terms, unless they're a higher earner, the fee waiver is unlikely to significantly reduce the amount repaid, if at all.

So while it may feel like the fee and debt is lower (and does therefore have some psychological advantages) there can be no material impact on a graduate's pocket. Contrast this to a bursary that provides definitive cash now, which is a boon and could reduce the need for any commercial borrowing.

Generally, the money is likely to be given in one of three ways and could be worth up to £3,000 for some full-time students.

• Scholarship
Similar to a bursary, it is usually a form of cash or gift in kind. Yet here getting it depends on their academic ability (usually A-level grades) rather than income.

• Fee Waiver
A reduction each year on their tuition fees meaning the loan needed is reduced.

• Bursary
This is some form of cash, or gift in kind. It could range from £1,000 cash or help with living costs depending on their situation.

KEY FACT

Paying the course upfront could be throwing £20,000+ away

If students or parents have the money available, students do not need take tuition fee (or maintenance) loans, they can simply pay the university direct. Many parents consider this a responsible thing to do to prevent their children getting into debt – some are even borrowing at commercial rates in order to do it.

Yet based on financial logic, that is a very substantial risk. Student loans are the only type of lending which you don't need to repay if you're not earning enough.

This means they could pay £27,000 fees to a university (£9,000 a year) yet the loan may never have needed repaying (or more common that the amount they'd repay would be less than they paid off in real terms).

If this is discussed, it is worth seeing if pupils were aware of this. If they are, it is a legitimate decision to make in some cases, if not it's worth them thinking about it.
For more details see:
www.moneysavingexpert.com/family/should-i-get-student-loan

Students starting at English universities in 2014 could graduate/leave university with loans of around £50,000 if they take both tuition fee loans and maintenance loans.

HOWEVER, NO MATTER HOW MUCH THEY TAKE OUT IN LOANS – THEY'LL PAY THE SAME BACK EACH MONTH.

Graduates repay back 9% of their pre-tax annual earnings above £21,000 salary.

EXAMPLE

If they earn £22,000 a year salary they'll repay £90 a year or £7.50 a month (9% of the £1,000 earned above £21,000). If they earn £31,000 they pay £900 a year (£75 a month).

For graduates who are employees, the money is deducted straight from their pay packets through the payroll – just like tax. This importantly means the money never hits their pockets – so it can't be spent – and there are no debt collectors to come calling.

Low earners (under £21,000) never repay

While it's to be hoped one of the benefits of higher education will be financial, graduates who don't earn a lot won't need to repay.

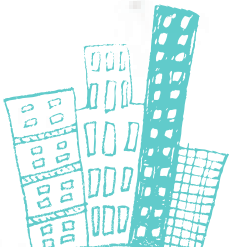
If a graduate gets a job that never pays over £21,000 then they'll never repay. This threshold is designed to rise in line with average earnings, and this will start in April 2017. They need to repay 9% of everything above that threshold.

And if they lose their job or take a pay cut once they have started repaying the loan, repayments simply stop or drop accordingly, no questions asked.

After 30 years any remaining debt is wiped

Graduates stop owing when they've cleared the debt or 30 years (from the April after graduation) pass, whichever comes first.

The debt is also wiped if they die or are permanently incapacitated (unable to take on any work). This is important as it means the debt is never passed on to dependants.



'Above-inflation' interest is now charged

Students don't just pay for the cost of their education – sadly they'll pay for financing it too.

Under the old system, there was no 'real' cost to borrowing money via student loans as the interest rate was set at the rate of inflation (RPI). Yet that has changed – and now 'above inflation' interest is charged.

However, it is important to understand this interest is just added to the 'amount owed'. It doesn't change repayments. Therefore, if a student will never repay in full in the 30 years before their debt is wiped, the added interest is irrelevant. If they are a higher earner it will mean they are repaying for longer and repaying more. See www.studentfinancecalc.com for more information.

An easy way to explain inflation

Inflation is a measure of the rate at which prices change over time. Usually, though not always, they are increasing. So if inflation is 4%, then a basket of shopping costing £100 this year will cost £104 next year.

Therefore, if the interest on a loan is set at the rate of inflation it's like saying you were lent a 'basket of shopping's worth' of money this year, but when it comes to repaying you'd only have to give the cash that'd buy that same basket back. This means your actual spending power hasn't been diminished by taking out the borrowing so it hasn't cost you anything.

Under the new system, the interest is as follows:

While studying:

Students will accrue RPI inflation plus 3% on the outstanding balance. This starts as soon as they get the loan and continues until the first April after graduation when it changes to...

After studying they earn under £21,000:

Accrue RPI inflation.

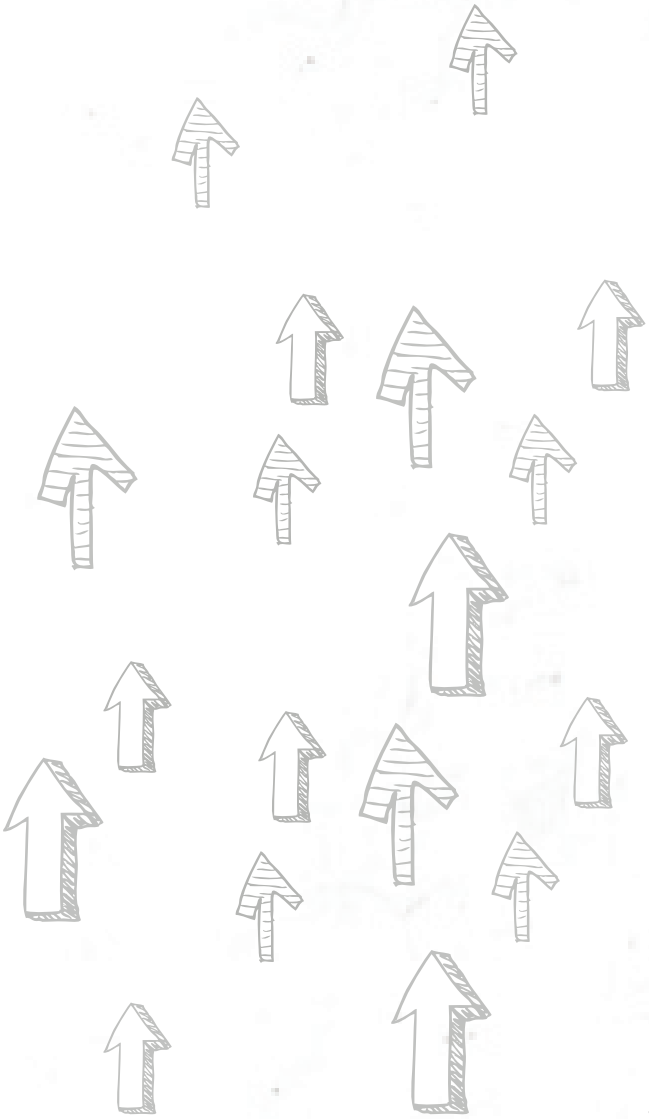
After studying they earn £21,000 - £41,000:

The interest rate will gradually rise from RPI to RPI plus 3% the more that is earned (the interest rises 0.00015% for every extra pound you earn or, put another way, if they earn £1,000 more they accrue 0.15% extra interest). These thresholds are likely to rise with average earnings from 2017.

After studying they earn over £41,000:

Accrue RPI inflation plus 3%.

This, coupled with the fact that graduates will be repaying less, prolongs the time it will take graduates to repay. But as those on lower incomes are unlikely to ever repay their loans in full, for them at least, this won't have an impact.



This is the crucial question and one of the many fears that are unnecessarily putting students off going to university. The actual answer is different for everyone, but the following three points should help you explain it.

1. They will repay LESS than current graduates

Many young people worry that with much higher levels of student debt their cash will be too tightly squeezed to live on once they graduate. In fact the reality is that new students will have MORE cash in their pockets each month than those who've already graduated.

Graduates who started their course before September 2012, repay 9% of everything earned above £16,365. Those starting in 2012 and beyond see that increased to £21,000. That means those earning above the £21,000 threshold will have £417-a-year more in their pockets.

For many there's no additional cost of doing a £9,000 course

Even many on STARTING salaries of £30,000, which is well above average, and with good salary progression after that would not repay in full at £6,000 course fees and the maximum living away from home maintenance fees.

That means there is no additional cost to them of opting for a £9,000 course. The table opposite can show this in more detail. Overall it means no one should be scared of opting for a higher fee course, if it's the right one for them because of 'what if I don't get a well paid job after university, how would I afford £9,000 fees'

This means those earning above the £21,000 threshold will have £417 more in their pockets every year than now. This chart helps demonstrate this:

Earnings	Old system		New 2012 system	
	Annual repayment	Monthly pay packet reduction is equivalent to	Annual repayment	Monthly pay packet reduction is equivalent to
£16,000	Nothing	Nothing	Nothing	Nothing
£17,000	£57	£5	Nothing	Nothing
£21,000	£417	£35	Nothing	Nothing
£22,000	£507	£42	£90	£7.50
£30,000	£1,227	£102	£810	£67.50
£40,000	£2,127	£177	£1,710	£142.50
£50,000	£3,027	£252	£2,610	£217.50

2. Graduates WILL owe money for longer and MAY pay a LOT more

The obvious flip-side of repaying less every month due to the £21,000 threshold is that it will take much longer for them to pay off the loan. This is compounded by the fact the original debt is bigger, and the interest rate higher.

The higher repayment threshold means 2014 starters will be able to keep more of their income to spend now, than current graduates. But lower monthly repayments means the cost is spread over a much longer period. It means initially graduates will keep more of their income to spend than now, though later on when they would've paid off the loan under the old system, they'll have less as they'll still be repaying.

CALCULATE HOW MUCH THEY'LL PAY

Students can use this tool to find out a rough estimate of how much they will repay based on their tuition fee loans, living loans and estimated starting salary. Encourage them to play about with figures and look at whether the amount they repay changes as they move the sliders, depending on what tuition fee loan and what maintenance loan they take out www.studentfinancecalc.com.

3. Many people never repay in full

Calculations show the lower repayments and higher borrowing means all but high earners will be making repayments for the entire 30 years before the debt is wiped, and won't come close to repaying in full what they borrowed plus the interest.

Take a look at the examples below for what a graduate on a £9,000 a year course would expect to repay depending on salary.

Estimate of total repayments in todays money. Bases on £9,000 annual fees and £5,555 maintenance loan

Starting salary (Sep 2017)	Total amount repaid (in todays prices)	Will I fully repay it?
£10,000	Nothing	No
£20,000	£7,000	No
£30,000	£43,000	No
£40,000	£77,000	No
£50,000	£68,000	Yes - 21 years

Assumptions: RPI 3%, graduate salary increases by RPI + 2%, tuition loan and maintenance loan are £9,000 and £5,555. Average earnings assumed to grow by RPI + 2% (based on ONS figures 2000 - 2010). Source: www.studentfinancecalc.com

WHY HAS THE SYSTEM CHANGED?

The funding which used to be provided to universities has been radically cut by the government (sometimes by more than the extra fees received will make up for)

Education has to be paid for by somebody – and universities have buildings to maintain, staff to pay and administration costs to think about too.

In the past the bulk of the cost was met by the taxpayer, so everybody who worked and paid tax helped fund the cost for those who went. The new government policy has decided to shift this cost onto individual students who benefit from the education.

There are different views on whether this is a good idea or not, but it is important to understand how the changes affect anyone considering university.

IS UNIVERSITY WORTH THE COST?

Going to university is an individual choice. While on average graduates are higher earners than those who don't go to university, there are no guarantees. Yet higher education is about more than just financial gain, it can be an incredible and enjoyable experience both socially and culturally.

After the heated political debate about tuition fees, it is vital that potential students can make informed choices about going to university based on the facts about the new system.

No one can help them decide whether it's right for them or not, it's an individual life choice. Yet by explaining the likely cost, you can help them work out the value.

CAN STUDENTS APPLY FOR A LOAN EVERY YEAR WHILE STUDYING?

Yes, they can normally apply for a loan for tuition fees for every year of their course. There are some exceptions, for example for longer courses such as medical degrees where different packages of support are available in later years. They should check with their university or college if they are unsure what support is available to them.

WILL IT BE POSSIBLE FOR GRADUATES TO REPAY STUDENT LOANS EARLY?

No charges or so-called early redemption penalties will be imposed on graduates who decide to pay off their student loan early. This means if they do run into cash after university and want to clear their debt earlier to avoid further interest costs, they can. However, just because they can repay without penalties, doesn't mean they should. For some who won't pay off their loan in its entirety, making extra payments could simply be throwing money down the drain as it won't make any difference.

For more information on how this works visit
http://www.moneysavingexpert.com/students/student-loans-repay

HOW DOES MEANS TESTING WORK?

For most students, it's based on the before tax (they are allowed to take off their pension contributions and some allowances for each younger sibling) of the parent(s) they live with. It's worth mentioning to students who have substantial savings in their own name, that this will also be taken into account.
There are a few situations that mean the testing is based on the student's own income (or their husband, wife or civil partner) including if they are over 25, have financially supported themselves for more than three years, have no living parents, have been in local authority care or are caring for a child. See www.studentfinanceengland.co.uk for more information.

WHAT ABOUT SCOTTISH, WELSH AND NORTHERN IRISH STUDENTS?

Scottish, Welsh and Northern Irish students, including those who decide to study in England, receive their financial support from their "home" devolved administration.
It's a matter for the devolved administrations to decide how they wish to support their students.

Scotland:
Scottish students studying full-time in Scotland do not pay any tuition fees, and could be eligible for a living cost loan and bursary.
Fees for English, Welsh and Northern Irish full-time students studying in Scotland will be set by each higher education institution. English, Welsh and Northern Irish students will receive the same level of means-tested grants as if they were studying in their home countries.

Further information can be found on www.saas.gov.uk

Wales:
Tuition fees at Welsh universities followed the English pattern and have been increased to up to £9,000. However, the Welsh Assembly will cover the increase for Welsh resident students – i.e. they won't have to pay any more than the current cost plus inflation, likely to be £3,575.

Further information can be found on www.studentfinancewales.co.uk

Northern Ireland:
Fees for Northern Irish full-time students studying in Northern Ireland will be set by each higher education institution, up to £3,575. Students will be able to access a loan to cover living costs and may be eligible for a grant and bursary.

Fees for English, Welsh and Scottish full-time students studying in Northern Ireland will be set by each higher education institution up to £9,000. English, Welsh and Scottish students will receive the same level of means-tested grants as if they were studying in their home countries.

For further information can be found on www.studentfinanceni.co.uk

IF A STUDENT HAS A DISABILITY, CAN THEY GET ANY EXTRA FINANCIAL SUPPORT?

If you have students with a disability – which could mean anything from a mental health condition to dyslexia – they can get extra financial help. The Disabled Students' Allowances (DSAs) are for those who face added financial burdens because of a condition. These are paid on top of the standard student finance package and, even better, they are not dependent on income and do not have to be repaid.

WHAT ABOUT STUDENTS WITH CHILDREN?

If a sixth-former asks whether they will get extra help because they have a child to look after, you can mention the Childcare Grant. This is available for university students who have dependent children in childcare. The grant pays 85% of actual childcare costs in term times and holidays up to a maximum amount per week.

If they are a parent studying on a full-time course they may also be entitled to the Parents' Learning Allowance to help with costs. The Childcare Grant and Parents' Learning Allowance are both means tested and they also don't have to be repaid.

WHAT ABOUT IF THEY GET INTOFINANCIAL DIFFICULTIES?

If you have students who are particularly fretting about struggling financially, you could mention the Access to Learning Fund. This is given by universities and colleges, and can provide help for students in financial difficulties who may need extra support to stay in higher education.

AND IF THEY'RE STUDYING BY DISTANCE LEARNING – CAN THEY GET A LIVING COST LOAN?

In this case they can't. If they begin full-time distance learning courses they can get a loan to cover the full amount of their tuition costs, but cannot apply for living cost loans.

WHAT HAPPENS IF THEY DITCH THEIR COURSE?

If they don't complete their course, any tuition or maintenance loans that have been paid to them up to that point will need repaying. The repayments and interest work in the same way as if they had done the course – in other words they repay 9% of everything earned above £21,000 in the April following the three years after they started. They may also be asked to repay any grants they have received and their funding entitlement for a future course may be reduced.

WHAT HAPPENS IF THEY LOSE THEIR JOB OR TAKE A CAREER BREAK?

If later on, after university they are working and their salary falls below £21,000 a year then

repayments stop. So if they take a career break or are unemployed then repayments will be suspended until they are earning over £21,000 again.

DO STUDENT LOANS GO ON CREDIT FILES?

When people borrow from a bank for a credit card, loan or mortgage, to evaluate whether they'll make money from them, lenders look at three pieces of information – their application form, any previous dealings they've had with them, and crucially the information on their credit reference files. Most normal financial transactions and credit relationships are listed on these files –yet student loans are not included (with the exception of students who started university before 1998 under the old loans system and have defaulted).

So the only way loan, credit card or mortgage providers know if they've got one is if they choose to ask on application forms, and they don't always do so – though the bigger value the transaction, the longer the application form is likely to be.

WILL THE NEW SYSTEM AFFECT THEM GETTING A MORTGAGE?

Settling down with a home and a mortgage may seem a world away for your students now but you'll know the time comes around fast enough. So another question you might want to tackle is whether the new system will hinder their chances of having a mortgage agreed once their studying days are behind them.

The truth is though, for most the impact will be limited. The fact they'll only need to repay when earning above £21,000 a year means future graduates will have more income after tax and loan repayments - which makes saving for a deposit and repaying a mortgage in the years after graduation easier.

However, this is countered by the fact they'll be in debt for much longer, so will have less disposable income. And increasingly, lenders look at disposable income (rather than multiples of income) to assess whether an applicant can afford a mortgage.

IF THEIR PARENTS ARE DIVORCED OR SEPARATED WHOSE INCOME IS MEANS TESTED?

The income of the parent lived with most of the time will be used (if that's not clear, this is normally the parent who claimed child benefit before university). If the parent they mainly lived with remarries or has a cohabiting partner, their joint income will then be looked at.

HOW DO THOSE WHO ARE SELF-EMPLOYED REPAY THE DEBT?

If a student sets up their own business or works for themselves, their repayments will be collected via HMRC's Self Assessment scheme. This means they will

need to make payments at the appropriate deadline to fulfil their legal obligations. If they do not pay, HMRC will pursue them for any amounts overdue.

IF THEY'VE GOT SAVINGS OR OTHER EARNINGS AFTER THEY GRADUATE DO THEY COUNT?

If they have additional income of £2,000 or more from savings interest, pensions or shares and dividends, this will also be treated as part of their income for repayment purposes and they'll need to repay 9% of that, again via self-assessment.

DO THEY STILL HAVE TO REPAY IF THEY MOVE ABROAD?

Yes is the simple answer. They're still obliged to repay the student loan based on 9% of all earnings above the equivalent of £21,000 in the country they are in and can face a fine if they don't. By taking out the loan they have a contractual relationship to repay it.

Some people may have heard that some people don't repay loans when they move abroad. If that happens it's because there are practical difficulties in the government pursuing their repayments – but that doesn't stop them owing the cash.

ARE THERE ANY OTHER SOURCES OF SCHOLARSHIPS AND FUNDING AVAILABLE?

On top of the official financial support, other funding sources are also available from scholarship sites such as

www.scholarship-search.org.uk
www.family-action.org.uk
www.turn2us.org.uk
www.studentcashpoint.co.uk
www.unigrants.co.uk

BRIGHT KNOWLEDGE

www.brightknowledge.org
- the essential guide to careers, education and student life

THE STUDENT ROOM

www.thestudentroom.co.uk/studentfinance
- information about applying for student finance

NASMA

www.NASMA.org.uk
- the National Association of Student Money Advisers who work in universities, student unions and further education colleges

NUS

www.nus.org.uk
- National Union of Students, a voluntary membership organisation which represents the interests of students

UCAS

www.ucas.com
- the organisation responsible for managing applications to higher education courses in the UK

MONEYSAVINGEXPERT.COM

www.moneysavingexpert.com/students2014
- key facts and figures about student finance and tuition fees

See our other guides for specific details

- Part-time students guide
- Full-time students' guide
- Mature students' guide