Policy Briefing, February 2024

Student loans

Who will be negatively impacted by the latest reforms?

The government recently introduced changes to the student loans system, which included lowering and freezing the income repayment threshold, and increasing the repayment period from 30 to 40 years.

The repayment threshold refers to the minimum level of income a borrower will earn before repaying their student loan, which is repaid at 9% above that threshold. Under the reformed system, known as Plan 5, this threshold is set to be £25,000 and frozen for the next three years. Under the previous system, known as Plan 2, this threshold was estimated to be £29,860 this year, increasing annually in line with average earnings growth.

The latest reforms mostly affect Plan 5 borrowers who are starting higher education from this academic year onwards, but some reforms were also introduced for Plan 2 borrowers (not covered here). The reforms in general have been described as "regressive", as they will benefit high earning borrowers but disadvantage low and middle earners (Waltmann, 2022).

More specifically, a larger proportion of low earning borrowers will be drawn in to making repayments in any given year and this group are also more likely to make repayments across the full 40-year period. Meanwhile, high earning borrowers will repay their student loans off faster, resulting in an overall reduction in the amount this group will repay, due in part to the lower accumulation of interest (Waltmann, 2022).

This briefing note adds to previous work from the Institute for Fiscal Studies, documenting the financial impact of the reforms (Waltmann, 2022), by focusing on the types of borrowers who are likely to be drawn in to making repayments due to the lower income repayment threshold compared to the pre-reform threshold. Using linked survey and administrative data, we explore the background characteristics of these individuals, including their education experiences, and the types of jobs they work in at age 25.

Key findings

Our analyses show that reducing the income repayment threshold from £29,860 to £25,000 will increase the number of borrowers making repayments (at age 25) by around 50% and that borrowers will repay £437 more, on average, each year.

We find that, compared to higher earning borrowers who would be making repayments under the previous system, those drawn in to making repayments are:

- More likely to be from an ethnic minority background, first in their family to attend higher education, and previously eligible for free school meals.
- Less likely to have attained five or more GCSE grades at A*- C, attended a Russell Group university, or studied a STEM subject at university.
- More likely to work part-time, be in education while also working, have a zero-hours or non-permanent contract, and work in a routine or semi-routine occupation at age 25.

Results

How much more will borrowers repay?

The average (median) income for the whole sample of 25-year-old borrowers was £33,991*. Therefore, an average borrower would be repaying £372 under the previous system and £809 under the new system, reflecting an increase of £437 (+ 54%) per year.

Who will be drawn in to making repayments?

Background characteristics

We estimate that a higher proportion of those drawn in to making repayments will be first in their family to attend higher education (74% vs. 68%), be from an ethnic minority background (22% vs. 15%) and have been eligible for free school meals (9% vs. 5%). In addition, a lower proportion of those drawn in will have attended private school (7% vs. 14%).

Educational experiences

We estimate that a lower proportion of those drawn in to making repayments will have attained five or more GCSE grades at A*- C (76% vs. 90%), attended a Russell group university (14% vs. 35%), or studied a STEM (science, technology, engineering, or maths) subject at university (18% vs. 28%).

Employment outcomes

We estimate that, at age 25, a higher proportion of those drawn in to making repayments will be working part-time (10% vs. 1%), be currently in education while also working (6% vs. 3%), have a zero-hours (8% vs. 1%), or non-permanent contract (17% vs. 8%) and work in a semi-routine or routine occupation (19% vs. 3%). Conversely, a lower proportion will work in London (17% vs. 27%), work full-time (85% vs. 98%), work in the public sector (27% vs. 34%), or work in a higher, managerial, admin, or professional occupation (42% vs. 81%).

Figure 1: Background characteristics

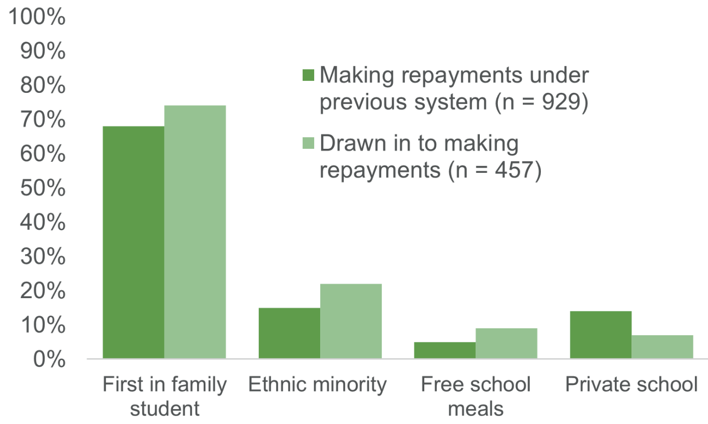


Figure 2: Educational experiences

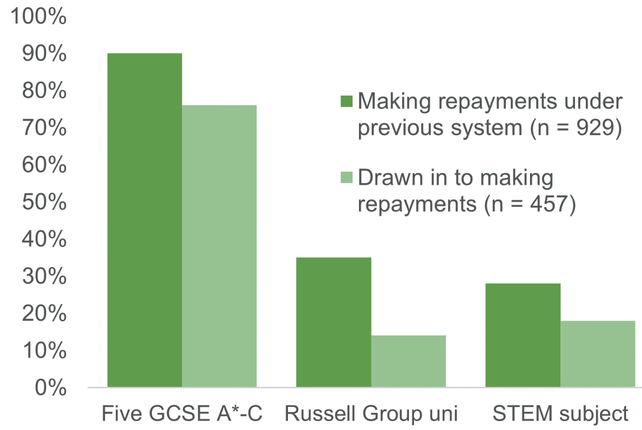
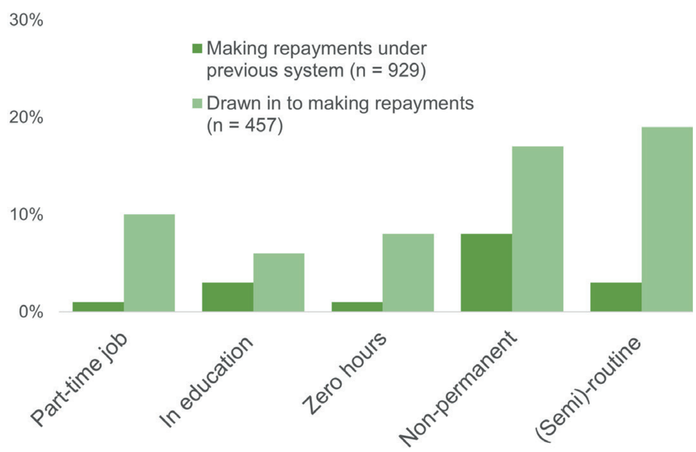


Figure 3: Employment outcomes



Implications

The recent student loan reforms were designed to benefit taxpayers, by increasing the proportion of the student loan bill that is eventually repaid. However, previous analyses have shown that the reforms will disproportionately increase repayments from low and middle earners over their life course, compared to higher earners (Waltmann, 2022).

Data description

This briefing note uses linked survey and administrative data. Data were from the Next Steps, a cohort born in 1989/90, who mostly started higher education in 2008/09. Detailed survey data was collected from them in 2015/16 at age 25. Administrative data from the Student Loans Company (SLC) was linked to survey data in 2021, including data on student loan repayments made across a ten-year period.

Participants were 1,385 individuals who took part at the age 25 survey, were linked to SLC data (Booth et al, 2024), and made a student loan repayment in 2015/16. Income was estimated from the amount of loan repayment made in that year. This cohort entered higher education under Plan 1 loan terms, which had a very similar repayment threshold (in real terms) to the current Plan 5 threshold, meaning that we were able to observe individuals who would be drawn in to making repayments under Plan 5 reforms compared to the previous Plan 2 threshold.

Two groups were constructed reflecting individuals earning above £29,860* (n = 929) and those who would be drawn in to making repayments under Plan 5 reforms, earning between £25,000 - £29,859* (n = 457). This reflects a 50% increase of individuals making repayments at age 25.

*Prices were inflated from April 2015 to April 2023 using the Retail Price Index (RPI).

Our analyses add to this, by showing the types of borrowers who will be drawn in to making repayments under the reforms. Firstly, a large proportion of new borrowers will be drawn in to making repayments, reflecting an increase of approximately 50% at age 25. Those drawn in are more likely to be from more disadvantaged or ethnic minority backgrounds. Conversely, they are less likely to have attended prestigious Russell Group universities and are more likely to work part-time, be in education while working, and have more precarious employment contracts.

This suggests that the recent student loan reforms could further disadvantage marginalised groups and put additional pressure on young graduates, particularly those who may still be in education and working part-time. The increase in repayments more generally could be considered to be putting increasing financial pressure on young people, especially now during the existing cost of living crisis.

Future directions

Policy makers should explore whether the goal of increasing the proportion of the student loan bill repaid could be achieved through more progressive means, such as via a ‘stepped’ repayment system, as suggested by Conlon & Halterbeck, 2023, or through a more radical move to a graduate tax, which would procure more payments from higher earning graduates throughout their working lives.

Using Next Steps survey data linked with Student Loans Company data, researchers can identify the individual consequences of policy decisions across the life course. This may include exploring how student loan debt and repayments are associated with labour market trajectories, home ownership and family formation to reveal further social inequalities.

References

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