



PRESS RELEASE

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IFS Analysis of the HE Reforms

A new briefing note published today by the IFS, analyses the latest government HE reforms, some of which will be voted on in the House of Commons on Tuesday 27 January 2004.

Summary of Findings:

1. In its January 2003 White Paper the government proposed abolishing upfront tuition fees for students and introducing variable fees of up to £3,000 a year, with students from poorer families to be exempted from up to £1,200 of their fees. Graduates would be entitled to a subsidised Graduate Contribution Scheme (GCS) loan equal to the value of their fees. They would contribute 9% of any earnings above £15,000 each year towards repaying the loan, the outstanding value of which would rise each year in line with inflation.
2. Under the government's current proposals, universities and colleges will still be allowed to charge variable fees of up to £3,000, which *all* students will now be liable to repay fully after graduation through the subsidised GCS loan. While at college, students from the poorest backgrounds will receive a bursary of at least £300 a year if the higher education institution charges full top-up fees. Students from families with incomes of up to £33,630 will receive a means-tested grant of up to £2,700 a year. Students will also be entitled to a means-tested loan of at least £3,300 (for those living away from home and outside London), to help cover living costs. Graduates from 2009 will have to contribute 9% of any earnings above £13,600 each year towards repaying the maintenance and tuition loans. The outstanding value of the loans will be increased each year in line with inflation, with any sum remaining unpaid after 25 years written off.
3. The current proposals therefore differ from those of the White Paper principally in the greater generosity of the support provided to students while at college, and especially to those from poorer backgrounds. Graduates will have to start repaying their loans at lower incomes than under the original proposals, but for graduates who remain on low incomes for a long time after leaving college their outstanding debts will eventually be written off.
4. The largest government-sponsored debt that a student with parents on an income of up to £26,000 could incur for a three-year course outside London would be £19,335 in 2006-07 prices. The potential debt then rises to a maximum of £21,875 for a student whose parents' income was £33,600 a year (and therefore just large enough for the student no longer to be entitled to a grant).

The potential debt then declines steadily again to £18,664 for students with parents on incomes above £44,000.

5. According to the National Union of Students, a full-time student living outside London and away from home would need £9,890 per academic year in 2006-07 prices to live and pay tuition fees of £3,000. We calculate that for students with parents on incomes up to £15,970 a year, the combination of bursary, grant and loans would leave them around £340 a year short of this total. The shortfall then increases as parental income rises and as the student's entitlement to grant diminishes. Students from middle-income backgrounds (with parental income around £25,000) could be £2,400 short and those from high-income backgrounds (parental income above £44,000) £3,600 short.
6. Students receiving parental contributions or income from other sources that means that they do not need to take out the maximum loan available to them to would still be well advised to do so because of the government subsidy. They could put the money in an interest-bearing bank account and make a profit.
7. Whatever amount a graduate earns, the loan repayment they will have to make is relatively small compared to their income tax and employees' national insurance bill. A graduate on £10,000 a year in 2009-10 would pay 15.4% of gross income in these taxes and no loan repayment; a graduate on £25,000 a year would pay 26% in tax and 4.1% in loan repayment; and a graduate on £50,000 a year would pay 31% in tax and 6.6% in loan repayment.
8. Imagine a graduate who completed a three year course and then earned the median graduate income for their age until 55; in other words, if you were to line all graduates of the same gender up from rich to poor they would be the ones in the middle in each year. A typical male graduate of this sort would have lifetime gross earnings of just over £1.2 million and would pay £329,993 in income tax and national insurance. If the graduate had parents with income of £35,000, he would make £21,425 in loan repayments over 20 years, adding 6.5% to this tax bill and raising his working-lifetime average tax rate from 27.5% to 29.3%. (Of course, he would be paying lots of other taxes as well, which we do not consider.) He would also in effect have received a subsidy on the loan from the taxpayer of £6,016.
9. The addition to the tax bill on this definition for the equivalent female graduate would be 8.0%, which is higher because she could expect to earn less over her lifetime (which also means that the female graduate would take four years longer to pay off her loans). For both male and female

graduates the additional tax bill would be slightly smaller if they had come from low to middle income families (and had therefore received bigger grants) or from high-income families (and had therefore not been entitled to maintenance loans as large).

10. Would students opting for longer courses find their loans a bigger burden? Imagine a female doctor graduating after five years at college and – as one might imagine for this sort of job - starting work three quarters of the way up the female graduate earnings distribution. She would earn more, pay more tax and make bigger loan repayments than the typical female graduate. If her parents had income of £35,000, the loan repayments would add 7.4% to her tax bill.
11. What about a female graduate who starts work on relatively low earnings of £6,800 in 2006/07 prices – about a quarter of the way up the female graduate earnings distribution – and then takes five years out of the labour market at age 28 to start a family. She would not earn enough to repay all her loan within 25 years and would therefore have received a much larger subsidy from the taxpayer – about two-thirds of the value of her debt. Her loan repayments would add around 6.0% to her working-lifetime income tax and national insurance bill.
12. A high-flying male graduate starting work and remaining 95% of the way up the male graduate earnings distribution would pay off his debt in around 10 years and would therefore receive a smaller public subsidy in proportion to his debt than the typical male graduate. Because of the progressive nature of the income tax system he would pay a bigger proportion of his income in tax and his loan repayments would therefore add less than 2% to his tax bill.
13. All these examples suggest that the repayment burden implied by taking out even the maximum student loan would be relatively small compared to the income tax and national insurance that graduates would be paying anyway.
14. In costing its plans, the government currently assumes that 75% of courses will attract the full top-up fee of £3,000 per year and that the rest will remain at the basic fee level of around £1,200 (in 2006-07, when the top-up fees come in). Based on this assumption, top-up fees are likely to bring in around an extra £1 billion per year. Universities and colleges will be allowed to keep the additional revenue from the top-up fee, but will be required to pay back at least £300 per qualifying student in bursaries. This could cost them £50 million in total.
15. The top-up fees will therefore provide universities with up to an extra £950 million to spend on increased teaching resources per student, depending on how generous their bursaries are. This could

increase teaching resources per head by around £1,250 or 22% on top of the current level of £5,600 (in 2006-07 prices).

16. As well as ensuring Universities extra revenue the government is also committed to increasing spending on student support. In order to pay for the extra grants that students will qualify for from 2004/05, and subsidise the new loans, the government will have to find in excess of £1 billion. The government has promised that this will not be taken from the higher education budget, but it will have to come either from other public spending categories or from general taxation.

ENDS

Notes to editors:

1. 'An Analysis of the Higher Education Reforms', by Lorraine Dearden, Emla Fitzsimons and Alissa Goodman was published by the Institute for Fiscal Studies on Friday 23 2004. It can be accessed on <http://www.ifs.org.uk/education/bn45.pdf>. A word version can be found on <http://www.ifs.org.uk/education/bn45.doc>.
2. All figures in the briefing note and press release are in 2006/07 prices.
3. For press enquires during office hours, please contact Emma Hyman on 020 7291 4850 or by email to emma.hyman@ifs.org.uk. For enquiries out of hours you can contact Lorraine Dearden on 07946 622617; Alissa Goodman on 07904 157769 or Emla Fitzsimons on 07968 563950.