The hidden costs of student loans:

A Myth-Busting Guide

community | Education & Early Years

GENERAL FEDERATION OF TRADE UNIONS

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Foreward

Student loans have been around in the UK for more than 30 years and in that time they have changed and developed significantly beyond what they were originally supposed to be.

Unless you have serious money saved, it is now almost unthinkable that you might be able to go to university to study without needing to take out a student loan to cover your tuition fees and living expenses – and this can add up to a sizeable sum.

Originally, they were supposed to be low-interest loans to help with living costs, but with the introduction of tuition fees and rapidly rising costs, the loans themselves have also risen meaning the average student leaves university with £45,000 of debt.

This is clearly too much!

Growing out of a motion at our 2022 Conference, we established a Student Loans Members Working Party, and working together with the GFTU developed this guide. We wanted to ensure that students go into university with their eyes open and this booklet is designed to answer some of the questions you might have about student loans and the impact they might have on your finances after you leave university.

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General Secretary
Community Trade Union

Introduction

The debate over student loans and their role in financing higher education is a contentious one. Proponents argue that loans make university education accessible to all, ensuring a committed and talented workforce. Critics, however, contend that the system places an undue financial burden on students and fails to address the underlying issues of educational accessibility and affordability.

This booklet aims to debunk common myths surrounding student loans and highlight the hidden costs and consequences of the current financing model. By examining the data and evidence, we hope to shed light on why large private individual loans are not the optimal solution for managing higher education financing.

Student Loans Plans

Since they were introduced there have been a number of different student loans plans.

- Plan 1 loans are the older loans (from England or Wales) And loans taken out in Northern Ireland are called plan 1 loans.
- Plan 2 loans are those taken out from September 2012 onwards, in England or Wales.
- Plan 3 loans are postgraduate or masters loans (England, Wales or EU) from August 2016.
- Loans taken out in Scotland after 1998 are called plan 4 loans.

Most current loans taken out in England from August 2023 are Plan 5 loans, which means repayment will begin from 2026.

For full descriptions of the different types of loans and to check which one you have and what this means for repayment and interest, it is best to check the student loans website or www.gov.uk/repaying-your-student-loan

Myth 1: Student Loans Make University Affordable for All

Despite the intention to make higher education accessible, studies show that student loans deter poorer students from pursuing university education due to concerns about accumulating debt.

Research conducted by the UCL Institute of Education found that changes in student funding policies, particularly the increase in student loans, have led to a decrease in the proportion of students from lower-income backgrounds attending university.

The abolition of maintenance grants in 2016, which did not need to be repaid, has placed a significant debt burden on students from the poorest families.

This shift means the current student maintenance system disproportionately affects those from lower-income backgrounds. Instead of fostering equal access to higher education, it influences university choices for some and deters others from attending altogether.

Student loan debt has risen past

£100 billion

This will continue to rise.

Source: Student Loans Company

Myth 2: High Fees and Student Loans Ensure a Committed and Talented Workforce

Despite the belief that high fees and student loans lead to a more committed workforce, evidence suggests otherwise.

In the healthcare sector, for example, the removal of nursing bursaries and the introduction of tuition fees have contributed to a workforce crisis. The financial burden of student loans combined with low pay in the sector has deterred potential candidates and led to staffing shortages.

The NHS is experiencing a significant workforce crisis, with a projected shortfall of 179,000 full-time equivalent (FTE) staff by 2024/25, including 38,000 nurses and general practice nurses relative to projected demand.

Source: Nursing Times, Health Foundation

Recent data from the National Foundation for Educational Research (NFER) indicates a continuing crisis in teacher recruitment and retention, suggesting that financial barriers, such as high tuition fees and student debt, exacerbate the difficulty of attracting and retaining teachers. This is particularly problematic in subjects with significant shortages, highlighting the broader implications of financial barriers in higher education.

Source: NFER

Myth 3: Student Loan Interest Rates are Fixed and Cannot Change Over Time

Contrary to popular belief, student loan interest rates are not fixed and can change over time. These rates are often linked to the Retail Price Index (RPI) and can vary depending on broader economic conditions, leading to significant fluctuations in the amount of interest accruing on student debt.

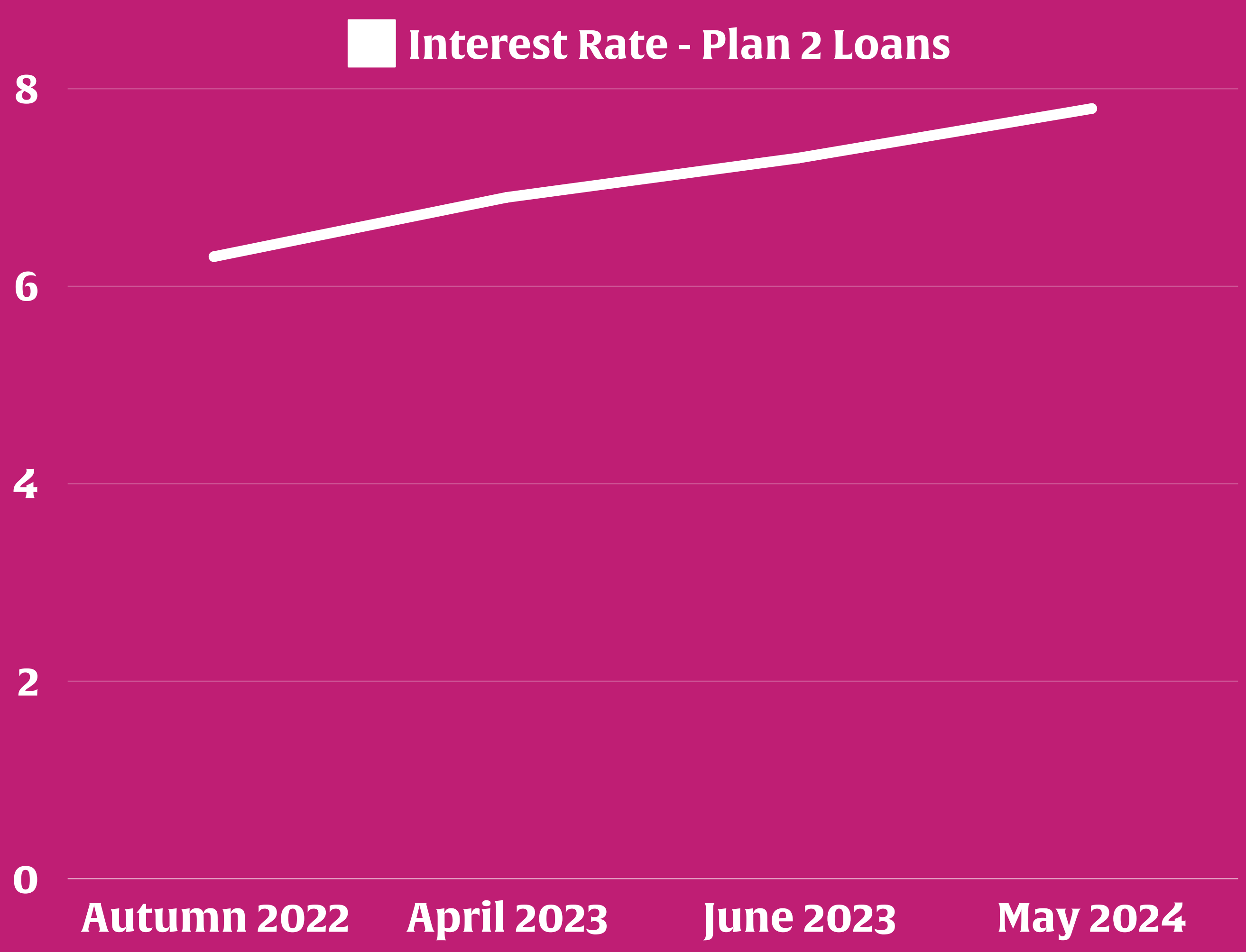
Variable Interest Rates: Student loan interest rates in the UK are tied to the RPI. This means that as inflation rates change, so do the interest rates on student loans. For instance, interest rates for Plan 2 loans (those taken out after 2012) can range from RPI to RPI + 3%. This can result in substantial variability in the total amount owed over time.

RPI
+
3%

Impact of Inflation: Rising inflation has a direct impact on student loan interest rates. According to The Guardian, a record £48 billion was added to student debt in Britain in the last year due to rising inflation and changes in interest rate policies. This surge significantly increases the financial burden on graduates, who see their total debt grow much faster than anticipated.

Current Interest Rates: The Department for Education placed a maximum 6.3% rate on loans last autumn, which increased to a level of 6.9% in April 2023. It increased again to 7.3% from the start of June 2023, as ministers aimed to reflect a rise in prevailing market rates offered by high street banks on unsecured personal loans.

Currently, interest rates for Plan 2 loans sit at 7.8%. This continuous increase underscores the unpredictability of student loan interest rates and the potential for escalating debt.



Comparison with Fixed-Rate Loans: Unlike student loans, fixed-rate loans provide a consistent interest rate throughout the repayment period.

This predictability is not available with variable-rate student loans, making financial planning more challenging for graduates. The lack of stability in student loan interest rates can lead to financial distress, particularly for those already managing tight budgets.

Long-Term Financial Impact: Over the life of a loan, the variability in interest rates can lead to graduates repaying significantly more than they originally borrowed. This is especially true during periods of high inflation, where the interest rate can quickly outpace wage growth, leading to a ballooning debt load. For instance, a graduate with an initial loan of £40,000 could see their debt grow to an unmanageable level if interest rates remain high over several years.

Sources: The Guardian, UCU, Full Fact, gov.uk

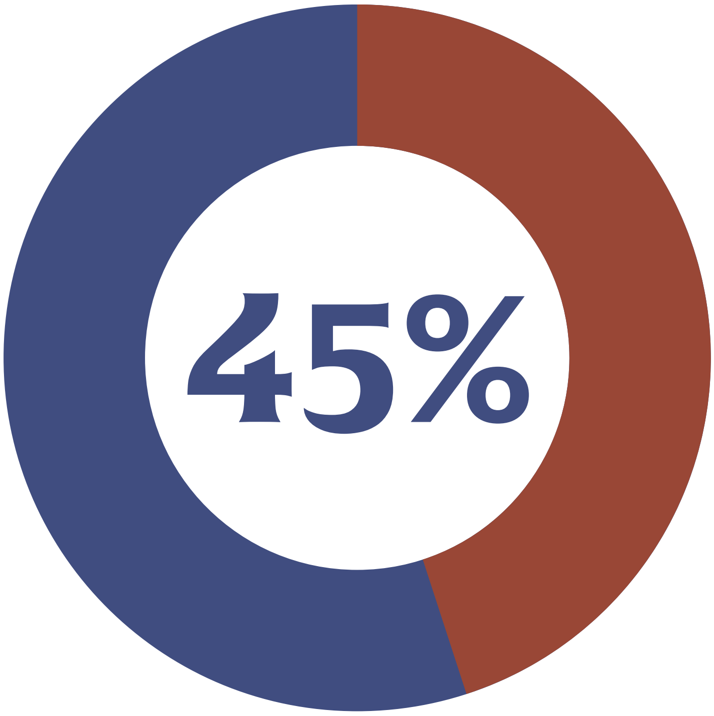
Source: IFS

Myth 4: Student Loans Save the Taxpayer Money

Despite concerns about the cost to taxpayers, the reality is that taxpayers already shoulder a significant portion of the burden for unpaid student loans.

According to estimates, 83% of graduates are expected to have some of their debt written off under the current system, with taxpayers expected to cover about 45% of unpaid student loans. This is largely due to only 17% of borrowers being projected to fully repay their loans.

Cost to the Taxpayer



of student loans starting from 2017 may end up being paid by the taxpayer.

Private tuition loans don’t ‘save the taxpayer’ money’.

Source: DfE

Myth 5: Student Loan Debt Can Be Discharged Through Bankruptcy Proceedings Easily

Despite common misconceptions, student loan debt cannot be easily discharged through bankruptcy proceedings. Filing for bankruptcy does not typically eliminate student loan debt, as it is treated differently from other types of debt. This can have significant implications for teachers facing financial hardship.

Source: citizens advice

Myth 6: Income-Driven Repayment Plans Guarantee Affordable Monthly Payments for All Borrowers

While income-driven repayment plans aim to provide relief for borrowers with low incomes, they may not always result in affordable payments for everyone. Research by the Institute for Fiscal Studies (IFS) suggests that low-to-middle earners, which Includes teachers, could end up repaying significantly more over their lifetimes due to the extended repayment period, while high earners may repay less due to lower interest rates and quicker repayment.

Extended Repayment Period: Income-driven repayment plans often extend the repayment period to 20-25 years. While this lowers monthly payments, it increases the total interest paid over the life of the loan.

Source: IFS

Impact on Career Choices: The burden of extended repayment can influence career choices.

Graduates might opt for higher-paying jobs over careers in public service, like teaching, or other lower-paying fields they are passionate about, to manage their loan repayment more effectively.

Source: IFS

Myth 7: Student Loan Debt Has Minimal Impact Once You're Working, Similar to a Tax

Graduates often experience significant financial and psychological burdens from student loan debt even after entering the workforce.

Studies have shown that student loan debt can lead to stress, anxiety, and feelings of insecurity, impacting graduate teachers’ overall well-being and financial stability.

Source: HEPI

The myths surrounding student loans often mask the complex realities and significant burdens they impose on graduates. While intended to make higher education accessible and affordable, the current student loan system can deter lower-income students, contribute to workforce shortages in critical sectors, and create unpredictable financial obligations due to variable interest rates.

Income-driven repayment plans, though designed to alleviate financial strain, may not offer universal relief and can extend the repayment period, increasing the overall cost. Additionally, the burden of unpaid student loans falls heavily on taxpayers, with a substantial portion of debt projected to be covered by public funds.

Understanding these hidden costs and consequences is crucial for evaluating and reforming higher education financing to ensure it truly serves the needs of all students and the broader society.

What we are calling for

- No lowering of the repayment threshold.
- Loan remittance for key public-sector workers (Education/NHS etc).
- Real support for living costs tied to the cost-of-living.
- No retrospective changes to existing loans such as those which prolong repayment or bring more into repayment early.
- Interest currently follows RPI. Over the past two years this has been very volatile. Ideally, we would like interest-free student loans so that students always know how much they have to repay.

Lobby your decision makers

Access our lobbying materials and take action on student loans.

Scan the QR code below.

Notes

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