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Understanding student finance

May 2019

What is student finance?

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Student finance helps UK and EU students* pay for their tuition and cover the cost of living during their studies through a system of loans. In England, 95% of eligible students take up tuition fee and/or maintenance loans.

Loans are divided into two categories:

- **Tuition fee loans** – these are paid directly to your university to cover the delivery of your course
- **Maintenance loans** – these are paid into your bank account at the beginning of each term and can be spent as you wish, to cover the costs of accommodation, transport and other expenses

*Access to student finance for EU students may change as a result of the UK's withdrawal from the European Union.

What loans are available for students?

Tuition fee loans

- UK and EU students in England can access loans up to a value of £9,250 per year to cover the cost of their undergraduate course. Those on two-year accelerated courses can access up to £11,100 per year.
- These loans help pay for teaching, resources, IT, buildings, student services and other necessary costs associated with attending university and help support the work universities do with students from less advantaged backgrounds.
- The Government provides universities with additional funding to help pay for courses which are particularly expensive to run. For example, universities receive an additional £1,500 per student for science and technology courses and an extra £10,000 for every student taking medicine, dentistry or veterinary science.

What is available for students?

Maintenance loans

- Maintenance loans are also provided to help support UK students with the cost of living. Students are free to spend this money as they wish but it could help cover rent and transport costs, for example.
- For the academic year 2019/20, students can access between £4,400 and £11,672 per year, depending on their household income and their living circumstances whilst at university. Further details about who is eligible, and how much they can access, is provided on the next slide.

What is available for students?

Maintenance loans

The exact amount you are eligible for depends on your household income. Those with household incomes less than or equal to £25,000 per year are usually eligible for the full amount. The amount a student receives decreases on a sliding scale, up until a total household income of £62,212. Students with household incomes above this amount are only able to access the basic maintenance loan. The maximum amounts are lower for students in their final year.

Student’s living arrangements	Means-tested maintenance loan 2019/20 (exact amounts dependent on household income)	Basic maintenance loan (non-means tested or household income above £62,212 per annum)
Living with parents	Up to £7,529	£3,314
Studying in London and not living with parents	Up to £11,672	£5,812
Studying outside London and not living with parents	Up to £8,944	£4,168
Living and studying abroad for at least one term as part of their UK course	Up to £10,242	£4,951

How do students repay their loans?

After completing their studies, graduates make a monthly contribution to the cost of their university studies. However, these contributions operate in a very different way to other, commercial loans, such as credit cards or bank loans.

- **No money is taken from you until you are earning £25,725** per year. If you earn more than £25,725 per year, you will begin to make contributions.
- **The amount you contribute each month always depends on how much you earn – with higher earners paying back most.** You pay 9% of the amount you earn above £25,725 – not 9% on your whole salary, which is a common misconception.
- **Graduates stop making contributions after a maximum of 30 years.** No matter how much – or how little – you have repaid, any outstanding balance will be cancelled 30 years after you graduate.

What do monthly contributions look like?

Annual salary	Monthly net salary (after tax)	Monthly repayments
£25,725	**£1,752**	**£0 per month**
£26,000	£1,767	£2 per month
£30,000	£1,994	£32 per month
£35,000	£2,277	£70 per month
£40,000	£2,561	£107 per month

Will I pay interest on my student loan?

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Interest is charged on the money students borrow for tuition and maintenance. The amount of interest applied to loans is calculated using RPI, or the Retail Index Price. This is a measure of inflation used by the Government, which estimates how much the cost of living has increased by each year.

Under current rules, the amount of interest student loans attract is:

- **RPI + 3% during their studies, for everyone**
- **RPI + 0-3% after graduation, depending on how much you go on to earn.** Lower earners will be charged RPI+0%. This rises to RPI+3% for higher earners.

However, no matter how much interest is applied to your total loan, your monthly repayment is only ever 9% of your income above £25,725. And remember: no matter how much you have or haven’t repaid, the outstanding balance is cancelled after thirty years.

How much might you actually repay?

Because graduates only ever make contributions based on what they earn, and because any outstanding amount is written off after 30 years, many students do not repay the total amount they borrowed. In fact, **81% of graduates do not repay their loans in full**.

This is intentional. The system was designed to be affordable and progressive – meaning that over their lifetimes higher earners pay most towards higher education.

The calculator on the next slide is designed to give you a rough guide to how much you might repay over the 30 years after you graduate. In the majority of cases, this will be less than the original amount you borrowed.

Student finance repayments calculator

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Select annual starting salary…

£20,000

£27,000

£37,000

Total estimated lifetime repayments

Based on a graduate borrowing a total of £54,500, average salary growth of 3.5% and long-term interest at 2% per annum

Skip repayments calculator

Student finance repayments calculator

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Select annual starting salary…

£20,000

£27,000

£37,000

Total estimated lifetime repayments

£1,500

Based on a graduate borrowing a total of £54,500, average salary growth of 3.5% and long-term interest at 2% per annum

Skip repayments calculator

Student finance repayments calculator

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Select annual starting salary…

£20,000

£27,000

£37,000

Total estimated lifetime repayments

£11,000

Based on a graduate borrowing a total of £54,500, average salary growth of 3.5% and long-term interest at 2% per annum

Skip repayments calculator

Student finance repayments calculator

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Select annual starting salary…

£20,000

£27,000

£37,000

Total estimated lifetime repayments

£58,000

Based on a graduate borrowing a total of £54,500, average salary growth of 3.5% and long-term interest at 2% per annum

Skip repayments calculator

Can I get a loan for my masters?

Graduates can now also apply for postgraduate loans to help with expenses while they study for their masters. **The maximum amount that postgraduate students can borrow in 2019/20 is £10,609 for the duration of their course.** This can be used to help cover course costs and/or help with living expenses.

Masters loans are similar in many ways to undergraduate loans, however the application of interest and repayment terms are slightly different:

- Interest is applied at RPI+3% from the day the first payment is received, indefinitely
- You make contributions equivalent to 6% of your total salary above £21,000 per year.

Those eligible for postgraduate loans receive them in proportional instalments, spread out over each year and each term of their course.

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For more information, visit the Student Loans Company website at:
https://www.slc.co.uk/students-and-customers/students-from-england.aspx

Who are the Russell Group?

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The Russell Group represents 24 leading UK universities which are committed to maintaining the very best research, an outstanding teaching and learning experience and unrivalled links with business and the public sector.

University of Birmingham
University of Bristol
University of Cambridge
Cardiff University
Durham University
University of Edinburgh
University of Exeter
University of Glasgow

Imperial College London
King's College London
University of Leeds
University of Liverpool
London School of Economics
University of Manchester
Newcastle University
University of Nottingham

University of Oxford
Queen Mary University of London
Queen's University Belfast
University of Sheffield
University of Southampton
University College London
University of Warwick
University of York

Notes on the student finance calculator

- 1. **The repayment threshold is currently set at £25,725.** This means that you make repayments equivalent to 9% of your income above £25,000. It is set to increase in line with average earnings each year, and this has been factored into your calculations.
- 2. **The rate of inflation:** This dictates the interest rate that will be charged and is therefore important. The current Bank of England target is 2%, therefore we have assumed it will be 2% for the next 30 years. Student loans are linked to the Retail Price Index (RPI) measure of inflation.
- 3. **Your salary growth:** We have assumed your salary will grow by 2.7% each year over the next 30 years. This is the average annual salary growth in the UK according to the Office for National Statistics, but your actual salary may increase more quickly or more slowly than this. In practical terms, it may grow quicker in the early years, and slower in the later years. And, of course, depending on your field of work it can be very different.
- 4. **You will work for 30 years:** Our assumption is based on the fact that you'll take no time out of working. If you do, e.g. maternity /paternity leave, work or career break, periods of unemployment, it means you'll repay LESS than the predicted amount.

<u>Warning:</u> the assumptions the calculator uses about your earnings and inflation mean that they should only ever be used as a rough example. In reality, your earnings may differ from these and you should take this into account if making decisions based on this statement.