Reforms to higher education finance: the main ‘winner’ from the reforms is the taxpayer while the main ‘loser’ is the average graduate

Haroon Chowdry, Lorraine Dearden, and Wenchao (Michelle) Jin analyse the financial implications of the reforms to higher education finance for students, graduates, taxpayers and universities. The reforms will save taxpayers money and the poorest 29 per cent of graduates will actually be better off under the new system, but the average graduate will be worse off.

The Government’s reforms to higher education funding – involving an increase in the cap on tuition fees to £9,000 per year and the removal of most direct funding for teaching – have now been implemented. This has led to greater variation in fees across universities, and even across different subjects within the same university, although average headline fees are, at £8,660 per year, close to the cap.

Accompanying this, however, are changes designed to make the student finance system more ‘progressive’. Its basic principle remains unchanged: loans are available to undergraduates for tuition fees and living costs, which they pay back once in employment. Compared to the old system, however, the earnings threshold above which graduates make repayments has been increased from £15,795 p.a. to £21,000 p.a. (in 2016 prices), the maximum period over which those repayments are made has risen from 25 to 30 years, and many graduates will face above-inflation interest rates for the first time ever. Up-front cash support for most students has also risen, including a £50-million government contribution to the National Scholarship Programme to support students from the poorest backgrounds. This will triple in value to £150 million by 2014.

Recent IFS research, supported by the Nuffield Foundation, provides the first detailed analysis of the financial implications of these reforms for students, graduates, taxpayers and universities. The new system eventually saves the taxpayer around £760 million per year, driven by a dramatic cut in direct public funding to universities. But for universities, this cut is more than offset by almost £15,000 in additional fee income per graduate – a 140 per cent rise over the old system. Thus the total amount spent – from both private and public sources – on higher education is expected to increase as a result of these reforms. On average, universities will be better off financially as a consequence.

The average student will also be better off while at university, enjoying an increase in cash support of some 12 per cent. But the main ‘winner’ from the reforms is the taxpayer while the main ‘loser’ is the average graduate, marking a significant shift in the burden of higher education funding away from the public sector and towards private individuals.

However, these headline changes for the average graduate mask some important variation. To consider in more detail the impact of the reforms on graduates, we estimate how much each graduate in a cohort would be expected to repay over their working life. Figure 1 shows how this total repayment varies with total lifetime earnings, under the old and new systems. The two lines cross at around the 29th percentile of the earnings distribution; in other words, the poorest 29 per cent of graduates will actually be better off under the new system.

Figure 1. Lifetime repayments under old and new systems
Low-earning graduates benefit from the increase in the earnings threshold, which (combined with the debt write-off after 30 years) ensures that the majority of their loan is never repaid. This makes the new system substantially more progressive than its predecessor: the richest graduates are likely to repay ten times as much as the poorest, and would even pay back more than the value of what they borrowed.

What does this imply for university attendance amongst disadvantaged students? The progressive features of the repayment system should provide some grounds for optimism: as long as students are well informed and not averse to the kind of debt involved – repayments of which only depend on one’s ability to pay – participation rates should not suffer. But there are grounds for concern if students have difficulty understanding the complexities of the new system – which are substantial – or if they are deterred by the prospect of higher borrowing regardless. Efforts to increase participation amongst students from disadvantaged backgrounds will require clear, precise information to be provided about the costs and benefits of going to university in both the short and long run. Only time will tell if that goal has been achieved.

A more detailed review of the financial support available to students, together with an assessment of the impact of the 2006 fee reforms on university participation rates, will be presented as part of the ESRC’s Festival of Social Science on Friday 9th November.

This article was first published on the IFS website.

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