



ABINGDON

*Money Matters
Seminar Series*

Student Loans

6th Form Career Guidance Programme 2019/20

In association with
Timms Wealth Management
a St James's Place Practice

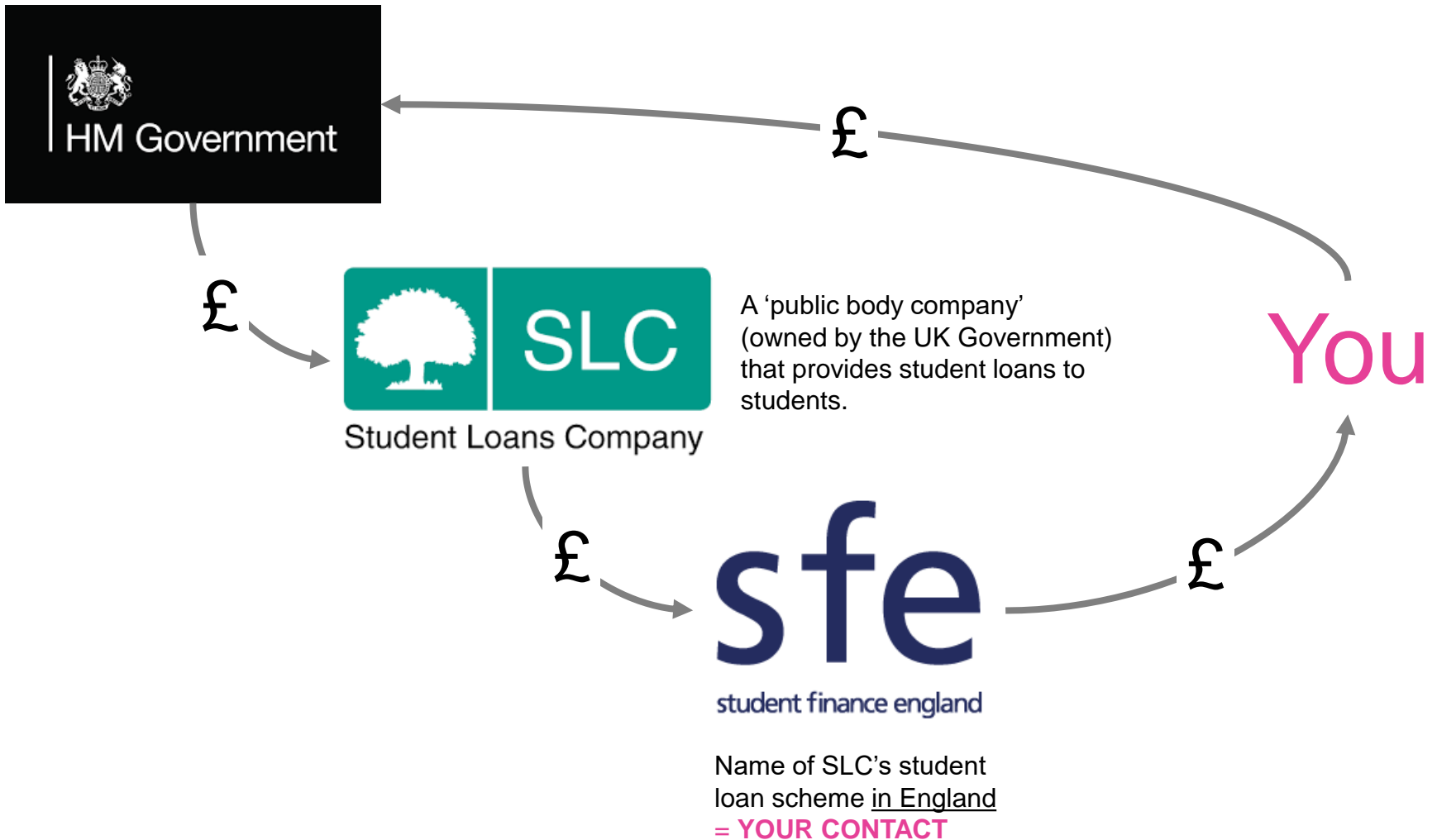


Agenda

- How student loans are funded
- Who is eligible for student loans
- Two types of student loans
- How much you can borrow
- The cost of borrowing: interest charges
- Paying back student loans and consequences of avoidance
- Should you take out a student loan?
- How to apply for a student loan

How Student Loans are Funded

Where the money comes from



Who is Eligible for Student Loans

- You plan to undertake a higher education course (degree, HNC, HND) or professional course (full-time or 25% part-time) or initial teacher training (ITT).
- Your course is offered at a UK institution.
- You normally live in England, have done so during the three years prior to the start of your course, and have no restrictions on how long you can stay in the UK.
- You need/want to borrow money and intend paying it back (*loans are not grants or bursaries- these you don't pay back*)

Note: There are other ways to be eligible for student loans – check with SFE for details.

Types of Student Loans

- Tuition Fees Loan* – pays for course fees
- Maintenance Loan* – pays for living costs (rent, food, supplies, etc.)

**Plan 2 loans are loans for courses begun after September 2012. Defines terms of loan.*

Amount of Tuition Loan

- Automatic – up to £9,250 for 2020/21.

Maximum tuition fees are set by the government in power.

- Paid directly to your university/college in three instalments:
 - ✓ 25% at start of term 1 (autumn)
 - ✓ 25% at start of term 2 (spring)
 - ✓ 50% at start of term 3 (summer)

Amount of Maintenance Loan

<u>Your circumstance:</u>	<u>Minimum</u>	<u>Maximum</u>
• Living with parents, anywhere	£3,414	£7,747
• Not living with parents, outside London	£4,168	£9,203
• Not living with parents, in London	£5,812	£12,010
• Not living with parents, year abroad	£4,951	£10,539

You get slightly less in the final year of study.

Exact amount is means-tested, based on:

- Your parents' combined incomes; if separated/divorced, the parent on whom you depend financially, plus their partner, if relevant.
- Your personal income (bank interest, investment income, trust income, property income), excluding income from holiday, evening or weekend work.

After you register at uni/college, and once SLC has your bank details, loan is paid in three instalments (at the start of each term) directly into your bank account.

Cost of borrowing: Interest Charges

- You will owe more than you borrowed because interest is charged.
- Interest is charged from the first day the university (tuition fee loan) or you (maintenance loan) receive payment from the Student Loans Company...until your loan is either repaid or written off (wiped out).
- Interest is charged daily on the loan balance and gets added to the loan balance. This is called 'compounded interest', meaning interest is charged on interest.
- Interest rate charged is based on the UK Retail Price Index (RPI), which measures changes to the cost of living (currently 2.4%).
- The RPI is updated each September based on the RPI figure from March of that same year.

Cost of borrowing: Interest Charges

- Interest rate charged varies:
 - ✓ While studying at university/college (until the April after you leave your course), interest rate charged is RPI plus 3%.
 - ✓ From the April after you've left your course, interest rate charged depends on your earned income (salary, bonuses, freelance/self-employment work).

<u>Earned Income Threshold</u>	<u>Interest Charged</u>
▪ Under £26,575	RPI only
▪ £26,575 to £47,835	RPI plus VIR* (0.1% to 3%)
▪ Over £47,835	RPI plus 3%

*VIR (Variable Interest Rate) starts low and rises to a cap, as earned income rises.

Paying Back Your Loan

- The earliest repayments can start is 6 April after you've finished (or left) your course.
- Repayments start when your earned income exceeds the repayment threshold (£26,575/year; £2,214/month; £511/week). Threshold changes on 6 April each year.
- Repayments are based on how much you earn over the threshold. Currently, your repayment is 9% of your earned income over the threshold.

Ex: Salary = £30,000 - £26,575 = £3,425 x 9% = £308 per year.

- The more you earn the more you repay; the less you earn, the less you repay. Interest charges have no impact on how much you repay, only how long it takes to repay your loan.

Paying Back Your Loan: Example

Assumptions:

- 3-year course, uni outside London, not living with parents (2020 entry)
- Tuition fee loan: £9,250 x 3 years = £27,750
- Maintenance loan: £4,168 x 3 years = £12,504

Starting Salary (in 2023):	Moderate: £25,000	Very High: £45,000
Loan amount	£40,254	£40,254
Interest charged on loan	<u>£99,234</u>	<u>£47,868</u>
Total debt	£139,488	£88,122
Amount repaid	<u>£56,046</u>	<u>£88,122</u>
Years of payments made	30	22
Amount written off	£83,442 (100% interest)	£0

Earned income assumptions for model:

- You get a 4% annual pay rise
- You get a promotion every 5 years (additional 10% pay rise)

Student Loan Repayment Calculators (all use different assumptions and thus give different results!):

<https://www.thecompleteuniversityguide.co.uk/student-loan-repayment-calculator>

<https://www.moneysavingexpert.com/students/student-finance-calculator>

<https://www.savethestudent.org/student-loans-repayment-calculator>

Paying Back Your Loan

- Work in UK? Repayments made through income tax system (i.e. through your pay cheque). Repayment is deducted from salary *before* you get paid. Employer sends repayment to HMRC, who informs the Student Loan Company, who updates your account.
- If you stop earning (lose your job), or fall below the earned income threshold, repayments stop until you again exceed the threshold.
- Any unpaid debt is 'written off' (cancelled) 30 years from the day you graduate.
- You can repay loans early (to avoid further interest charges) without penalty. This does not reduce monthly repayments, but it does reduce how long it takes to repay your loan. *Advisable only if you are a high income earner and likely to pay off your loan within 30 years.*

Paying Back Your Loan

- Student loans do not affect credit scores and do not appear on credit reports. However, some lenders, particularly mortgage lenders, may ask about student loans in mortgage application.
 - *Moving abroad does not excuse your debt. You pay the Student Loans Company directly (vs through the UK income tax system). Earned income thresholds vary by country of residence.*
- If you don't make repayments, SLC can charge penalties...or take legal action by getting a court order to make you repay the loan balance plus interest and penalties, whether you're in the UK or living abroad. Plus, you'll be responsible for paying their legal costs to do so!

Should you take out a loan? It Depends on:

How much you earn over your lifetime.

- The more you earn, the less attractive loans become.

What is done with the money that would have been used for to pay for uni.

- If invested well, and income tax rates don't increase, after-tax earnings in investments might exceed loan repayments, making loans more attractive.

What changes the government makes to loans, including:

- Earned income threshold for repayment.
 - As thresholds are raised, loans become more attractive.
- Repayment percentage of earned income - currently 9%.
 - If percentage is lowered, loans become more attractive.
- Interest rates charged on loans.
 - If lower interest rates, loans become more attractive
- Loan period and write-off policy (currently 30 years – loan balance written off).
 - If loan period is reduced, and write-off policy remains, loans become more attractive.

How to Apply

- Apply online: www.gov.uk/studentfinance
- Application covers both Tuition Fee and/or Maintenance Loan
- Opens in February. Two deadlines:
 - ✓ 25 May before course starts: to get funds up front
 - ✓ Can apply within 9 months after course starts (by 31 May): to get reimbursed; you have to fund costs until then.
- Set up an account
- Need UK passport details first time you apply
- Allow 6 weeks for application to be processed
- Apply annually for the following school year

Disclaimer

*Everything I told you can change
if the government in power
wants to change the way
the student loan system works!*

That's politics!