

Student loans: 5 things you need to know



Fear grabs votes and makes headlines. Sadly though, the result of both side's political spin over student finance has resulted in widespread rampant misinformation.

With a new [academic](#) year about to start, my message to students and their parents is simple: forget the politics – ensure you understand the real impact on your pocket of going to uni.

Don't confuse explaining the system with supporting it – I simply want to tool people up to make appropriate decisions.

As finance differs across the home nations, I'll focus on the most common (and costly): English loans for English students starting in/after 2012.

Here are my five main need-to-knows – more at mse.me/studentmythbuster.

1 Student loans price tag is up to £50k but that's not what you pay

Students don't pay universities directly. [Tuition fees](#) typically up to £9,250 a year, are paid for them by the Student Loans Company. Over a typical three-year course, the combined loan amount can be up to £50,000. Yet what counts is what you repay...

- You only repay once you've left and earn £25k+ a year. Earn less, don't pay.
- You repay 9% of everything earned above £25k – earn more, repay more.
- The loan is wiped after 30 years – whether you've paid a penny or not.
- It's repaid via payroll, just like tax, and doesn't go on your credit file.

2 There's an official amount parents are meant to pay, but it's hidden.

Students are also eligible for a "maintenance loan" to help with living costs. Yet for most under-25s, even though they are old enough to vote, get married and fight for our country; their living loan is dependent on household (so parents') income. From just £25,000 family income upwards, the loan is reduced, until at around £60k, where it's roughly halved.

This missing amount is the expected parental contribution. Yet parents aren't told that, never mind the amount. I wrote to the Government asking them to start to do so – it refused. So do it yourself. The maximum loan for this year's NEW starters is £7,097 if living at home, £8,430 away from home, and £11,002 away from home in London. Subtract the amount you get from this, to find the sum parents are expected to contribute. (For other situations see mse.me/parentalcontribution)

Yet even the max may not be enough to live on. Bizarrely the biggest problem with student loans isn't that they're too big – it's that they're not big enough.

3 The amount you borrow is mostly irrelevant – it works like a tax.

What you repay each month depends solely on what you earn, ie 9% of everything above £25,000. Take £35,000 earnings, as it's easy maths...

- Owe £20,000 you repay £900 a year
- Owe £50,000 you repay £900 a year
- Owe £3,000,000 (if fees were absurdly hiked to £1m a year), you repay £900.

The only difference what you owe makes is whether you'll clear the borrowing within the 30 years before it wipes. The IFS estimates only the highest-earning 23% of graduates will.

So unless you're a seriously high earner, ignore the amount you "owe". In practice you're paying an increased rate of tax for 30 years – see the panel above. This is why I campaign to have it renamed the "graduate contribution system". Calling it a loan is dangerous – it means young people are educated into a "debt" and then end up getting other types of much worse borrowing.

PAYING BACK WITHIN TAX

Earnings	Uni goers	Non-uni goers
Up to £11.5k	No tax	No tax
£11.5k-£21k	20%	20%
£21k-£45k	29%	20%
£45k-£150k	49%	40%
£150k+	54%	45%

4 Interest is added, but many won't pay it.

Student loan interest is set at RPI (a measure of inflation) + 3% a year while studying, and between RPI and RPI + 3% afterwards, depending on what you earn. The RPI rate changes each academic year, this year it's 3.1%, so interest while studying is 6.1%.

Yet this just adds to the amount you borrowed. And as explained already, that doesn't change what you repay.

The interest only has an impact if you'd clear your initial borrowing in full over the 30 years. Many won't do this, and even of those who will, all but the highest earners won't come close to repaying all of the interest.

If you're a graduate wondering "should I repay my student loan now" read mse.me/graduatesrepay.

5 System can and has changed.

Student loan terms should be locked into law, so only an act of parliament can negatively change them once you've started uni – but they're not. So sadly my explanation needs an "unless things change" caveat.

We've seen a terrible change this year that I've been ranting against, sadly to no avail. It was promised the £21k* threshold would start increasing with average earnings, but it's been frozen until 2021. So, outrageously, recent graduates are repaying more each month than they expected.

**Correct at the time of writing this article but this threshold has now increased to £25k.*