BRIEFING

REACHING HIGHER

REFORMING STUDENT LOANS TO BROADEN ACCESS TO POSTGRADUATE STUDY

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Institute for Public Policy Research

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CONTENTS

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1.
THE CASE FOR A POSTGRADUATE LOAN SYSTEM

> *'Everyone agrees that nobody should be barred from undergraduate education because they can't afford fees, and yet we completely accept this barrier when it comes to post-graduate education. The fact is, post-graduate education is not a luxury for the individual, it is a necessity for our economy and wider society.'*
> Alan Milburn, cited in HECSU 2012: 5

The principle of fair access is central to debates about higher education: almost everybody agrees that no one should be denied the opportunity to go to university because they cannot afford to pay. This is why we have a subsidised loans system, which means that graduates can pay back the cost of their undergraduate study once they are earning over £21,000 a year. However, this principle of fair access has not been applied to postgraduate study, where there is no subsidised loan system at all.

Without access to subsidised loans, many students are put off, particularly those from lower-income backgrounds. The predominance of overseas students in UK postgraduate courses is an indication of this disparity. While overall postgraduate enrolments increased more than 200 per cent between 1999 and 2011, the number of home and EU students doing postgraduate degrees increased by just 18 per cent – the vast majority of new postgraduate students have come from outside the UK and EU.

Those UK students who do decide to pursue postgraduate studies without means to pay upfront often find themselves in financial hardship (NUS 2012). Relatedly, there are also concerns about postgraduate students funding their study in potentially disastrous ways, such as with credit cards, overdrafts or personal loans (ibid).

This is important for social mobility, because there are significant benefits which accrue from postgraduate study:

- **Better access to professions:** The Higher Education Commission on postgraduate study found that employers were increasingly requiring postgraduate qualifications for certain roles, including legal positions, engineering jobs and scientific roles in biotechnology firms (HEC 2012: 44). Similarly, the Milburn review noted that postgraduate degrees are becoming a requirement to entry to competitive professions, such as journalism, accountancy and academia (Milburn 2012: 72).
- **A higher wage return:** The wage gap between workers with an undergraduate degree and those with a postgraduate degree has increased in the last two decades. While the wage premium for postgraduate workers increased by 7.5 per cent between 1996 and 2011, the wage premium for undergraduate workers stayed 'basically flat' (Lindley and Machin 2012: 276). Lindley and Machin argue that postgraduates have seen 'the biggest wage gains across the whole education spectrum, raising wage inequality and holding back social mobility' (ibid: 284).

It is because of these benefits of postgraduate study that improving access to it is of critical importance if we wish to create a society in which there is greater social mobility and greater equality of life chances. We are rightly very concerned at the suggestion that having a wealthy family should be a condition for undergraduate study – the same should be true of postgraduate courses.

It is in light of these considerations that IPPR's Commission on the Future of Higher Education in England proposed last year that the government create a new postgraduate loans scheme to enable fairer and wider access to postgraduate courses (see CFHE 2013). This briefing paper, based on modelling by London Economics, demonstrates how such a system would work.

Overview of the methodology

London Economics' analysis is based on information from a range of official sources: Higher Education Statistics Agency (HESA), ONS Labour Force Survey (LFS), Student Loans Company (SLC), the Office for Fair Access (Offa), the Higher Education Funding Council of England (HEFCE), Department for Business, Innovation and Skills (BIS), as well as a range of statistical first releases from the Office for National Statistics.

The detailed findings are available on the IPPR website: http://www.ippr.org/reaching-higher-reforming-student-loans-to-broaden-access-to-postgraduate-study

2.
SUMMARY OF THE FINDINGS

What has been modelled in the baseline scenario?

The baseline scenario consists of an assessment of the redistribution of costs – or 'resource flows' – between higher education institutions, the exchequer and postgraduate students associated with an income-contingent tuition fee loan system. The baseline model is essentially identical to the undergraduate loans scheme:

- All students studying a taught masters course would be eligible to borrow £10,000 to cover the cost of their tuition fees, irrespective of the duration of study, or whether they are studying full-time or part-time.
- Graduates would repay the tuition fee loan at 9 per cent on any earnings between £15,000 and £21,000. All other features of the loan system, such as the write-off period (30 years) and interest rates (ranging between 0 and 3 per cent in real terms) would be the same as for an undergraduate loan.

In this baseline scenario, we assume that the postgraduate loan is available to (47,081) full-time and (24,301) part-time students (subject to annual completion rates). We assume that no maintenance support is available to students.[1]

What is the balance of contribution between the state and graduate?

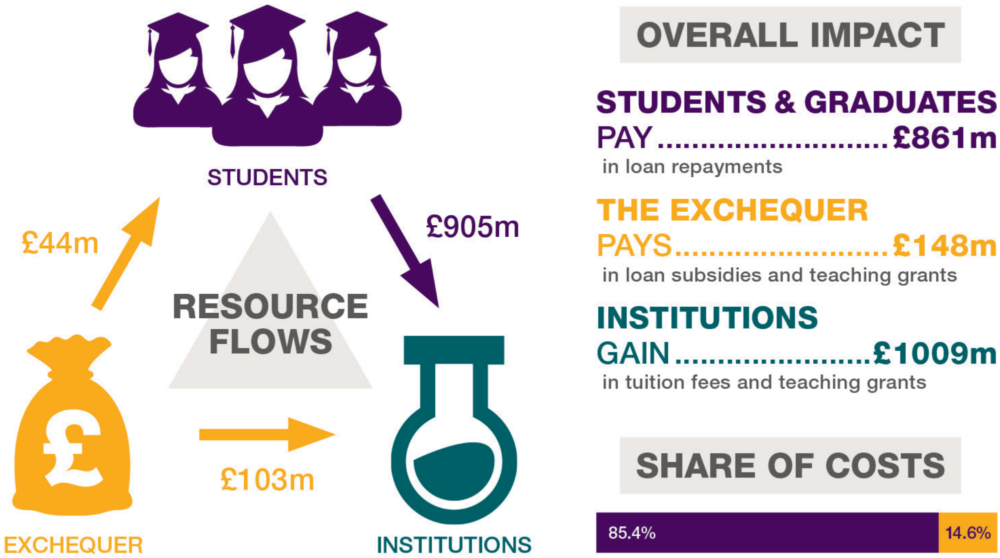
In the baseline scenario:

- the exchequer makes a small direct contribution to taught postgraduate courses (we have estimated that it contributes around £103 million in HEFCE teaching grants)
- the exchequer also contributes around £44 million in loan subsidies and write-offs
- the proportion of postgraduate loans that would be not recovered at the end of the 30-year term (the RAB charge) is estimated at 6.9 per cent
- the total contribution of the exchequer is estimated at £148 million
- students and graduates contribute approximately £861 million of the costs associated with their postgraduate studies (representing approximately 85 per cent of the total cost)
- institutions would receive a total of approximately £1.009 billion in fee and HEFCE teaching funding from students and the exchequer.

These resource flows are presented in figure 2.1.

1 The detailed findings are available on the IPPR website: http://www.ippr.org/reaching-higher-reforming-student-loans-to-broaden-access-to-postgraduate-study

Figure 2.1
Summary of resource flows (baseline scenario, 2012/13)



Note: Discrepancies between flows and overall impact totals are due to rounding.

Which graduates bear the greatest share of the cost?

Because loan repayments are made on earnings between £15,000 and £21,000, the vast majority of postgraduates are expected to repay the full cost of their loan. However, because the rate of interest charged on the outstanding level of debt increases with the level of graduate earnings, higher earners contribute a greater amount than lower earners. That is, postgraduates in higher income deciles have a lower RAB charge (or loan subsidy) compared to postgraduates in lower earnings deciles.

Table 2.1
Summary of RAB charge, by gender and income decile (full-time students, baseline scenario, 2012/13)

Males		Females	
1st decile	16.1%	1st decile	45.7%
2nd decile	11.1%	2nd decile	22.5%
3rd decile	8.4%	3rd decile	16.1%
4th decile	5.0%	4th decile	12.0%
5th decile	2.6%	5th decile	7.2%
6th decile	0.2%	6th decile	3.2%
7th decile	-2.3%	7th decile	-1.3%
8th decile	-3.7%	8th decile	-5.8%
9th decile	-8.3%	9th decile	-8.0%
Average RAB	*3.2%*	*Average RAB*	*10.2%*
Overall RAB	**6.9%**		

Note: Income decile is average for a person's lifetime. A negative RAB charge implies repayments in excess of the original loan value.

The overall estimate of the RAB charge for postgraduate student loans in the baseline scenario of 6.9 per cent compares to estimates of 40–45 per cent for undergraduate student loans.

Further analysis indicates that there is only one income decile group (first decile females) who would be expected not to repay loans in full. The estimated 'outstanding amount' for this group is £2,069, or £230 as an average across all loans taken out by female postgraduate students.

Table 2.2 shows the age at which these income decile groups would be expected to repay their postgraduate loans. Again, we forecast that the vast majority of postgraduate loans would be repaid in full.

Table 2.2
Age at which postgraduate loans are repaid in full, by gender and income decile (full-time students, baseline scenario, 2012/13)

Males		Females	
1st decile	44	1st decile	Never
2nd decile	43	2nd decile	48
3rd decile	43	3rd decile	45
4th decile	44	4th decile	44
5th decile	44	5th decile	45
6th decile	44	6th decile	46
7th decile	45	7th decile	47
8th decile	45	8th decile	48
9th decile	46	9th decile	48
Average	*44*	*Average*	*45*

Note: Income decile is average for a person's lifetime.

What do the alternative scenarios suggest?

The analysis modelled a range of alternative scenarios:

1. the baseline scenario (as above)
2. assuming the number of students eligible for fee support rises by 5 per cent
3. assuming the number of students eligible for fee support rises by 10 per cent
4. changing the rate of repayment to 5 per cent between £15,000 and £21,000
5. changing the rate of repayment to 9 per cent between £15,000 and £18,500
6. introducing student loans for 1,000 full-time four-year postgraduate students (for example, for research degrees, such as PhDs).

Increasing the number of eligible students (scenarios 2 and 3) does not change the relative contribution of student/graduates and the exchequer. However, assuming the same composition of the postgraduate student body as in the baseline model:

- adding 5 per cent more students (2,354 full-time students and 1,215 part-time students) means an extra cost to the exchequer of approximately £7 million: £5 million in HEFCE teaching grant funding and £2 million in RAB charge
- adding 10 per cent more students means an extra cost to the exchequer of £14 million: £10 million in HEFCE grant funding and £4 million in RAB charge.

These are not large figures.

Under scenario 2, higher education institutions receive an additional £50 million in tuition fees and HEFCE funding, with students/graduates contributing approximately £43 million of this increased institutional income.

Scenarios 4 and 5 do not alter the level of income received by higher education institutions. However, both have a significant impact on the relative contribution of students/graduates and the exchequer:

- reducing the repayment rate by four percentage points, from 9 per cent to 5 per cent, increases the RAB charge associated with postgraduate loans from around 7 per cent to around 30 per cent, representing an additional cost to the exchequer of £225 million
- narrowing the repayment band by £2,500, from £6,000 to £3,500, increases the RAB charge to approximately 25 per cent, or an additional cost to the exchequer of £186 million.

Higher education institutions are unaffected under these scenarios.

Finally, scenario 6 models the costs associated with adding 1,000 postgraduate students, each intending to undertake a four-year degree (and assuming an annual progression rate of 90 per cent). With a maximum of £10,000 in funding available to these postgraduates in each of the four years of study, higher education institutions are approximately £38 million better off as a result of the increased number of students. Of this increased institutional income:

- the exchequer contributes approximately £26 million, of which £22 million is associated with the RAB charge (estimated at approximately 64 per cent) with the remaining £4 million associated with increased HEFCE teaching funding
- students/graduates contribute the remaining £12 million (being the 36 per cent of the £34 million in total postgraduate loans issued that is repaid).

Of the total costs associated with this increase in postgraduate numbers, the exchequer contributes approximately 68 per cent; graduates contribute approximately 32 per cent.

3. CRITICISMS AND RECOMMENDATIONS

The analysis carried out for IPPR by London Economics leads us to conclude that a postgraduate loans system, modelled on the existing undergraduate loans system, would be workable and affordable. Because such loans would be paid back before a graduate started to pay back their undergraduate loans, the level of unpaid loans (the so-called RAB charge) is very low, at just 7 per cent, much less than the 40-45 per cent estimated RAB for undergraduate loans. The cost to the exchequer under our baseline model is around £103 million a year in teaching grants and £44 million in unpaid loans. This is eminently affordable, especially when compared with the subsidy provided for undergraduate loans which is £4.2 billion (CFHE 2013: 128).

There are some issues which will require further consideration.

First, there will be concerns among some universities that by providing loans in this way we are setting a price cap on postgraduate study that is too low. However, although the loan would be capped at £10,000, universities could continue not to cap fees – the total level of tuition fees could be higher than this loan cap level. While the loan amount might not cover the total cost of all courses, this would still represent a considerable improvement on the current model.[2]

Second, there are concerns about flows of EU students. Under EU law, these students would be entitled to take out these postgraduate loans to study in the UK, as they are with loans for undergraduate study. There is a concern within government that it is harder to ensure these students' repayment because they are more likely to leave the UK after completing study and it is administratively more difficult to follow their progress into the labour market. However, this is already an issue with undergraduate loans, and one that should be examined at the EU level as part of efforts to contain costs there.

Third, there are concerns about the government's exposure in the event that larger-than-expected numbers were to apply. Under scenarios 2 and 3 above, we have shown that a 5–10 per cent variation would not result in huge financial implications for the exchequer. However, the government could consider restricting eligibility, for example, to those who achieved a 2:1 at undergraduate level, as one means of limiting additional exposure.

Finally, the government would have to fund the original outlay of providing the loans in the first place. While this does not affect the deficit (because the loans will be repaid), it would in the short term increase the country's total net debt by £1.009 billion under the baseline scenario. However, given that 93 per cent of this money will be recouped in graduate repayments (according to a baseline RAB charge of around 7 per cent), we believe this is an investment worth making.

Given the increasing importance of postgraduate study to social mobility, there is a powerful case in principle for ensuring that access is not inhibited by ability to pay. There is a real danger that improvements in access at undergraduate level will be undermined by a 'glass ceiling' at postgraduate level, as students with money are

2 It is worth noting that the average fee charged for a taught postgraduate course for UK/EU students in 2013/14 was £6,000 (Matthews 2013).

able to take masters courses that differentiate them in the labour market while those from less well-off backgrounds cannot. Our research shows that in the long run the cost to government from such a move should be low. We therefore recommend that the government move quickly to introduce such a system for taught postgraduate courses.

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