

Till debt us do part

PAUL REDMOND unravels the facts and figures behind the Great Student Debt debate

The issue of student debt is one of the hottest topics in higher education, but with the introduction of tuition fees, temperatures seem set to soar even higher. Debt has always been an integral part of the student experience – as common as freshers' fairs and lentil soup. Even in the so-called halcyon days of the 1970s – the days of full grants and “free” education, – debt still afflicted the lives of many students. So why is student debt such a big issue now?

I owe, I owe, it's off to work | we go!

During the past year, stories of spiralling debts and cash-strapped, poverty-stricken students have featured prominently in the news. Students, it appears, are more skint than ever before. According to one survey, the “average” student will this year graduate from university with debts of £9,000. Another pegs the figure nearer £12,000. If they might disagree on the numbers, the critics are unanimous on one thing: student debt is rising.

Faith in bricks and mortar boards

So why bother going to university? If levels of debt are so high, why are so many students – indeed, record numbers of them – continuing to enter higher education? Why don't they just get a job?

The answer to this question is less straightforward than it might seem. According to research, most students go to university to get a job – but a better job than they might have had without a having a degree. That going to university boosts your career



prospects, has been known for some time. Indeed, few personal investments reap more personal, cultural and social rewards than gaining a degree from a British university. Even today, with over two million students in the system, graduates don't just earn more than non graduates (£120,000 to be precise, over the course of a working lifetime), on average they are happier, healthier, less likely to be

unemployed and more likely to become pillars of their communities.

So, given this, what are we to make of one headline that claimed that by 2010 students will graduate owing £33,7004 – a debt which they will struggle for between 15 and 20 years to pay off? What's going on?

Safe as houses?

The fact is, for the majority of students, higher education continues to

represent an excellent long-term investment, but only insofar as they approach it in this way, ie as an investment. No one enters into a 25-year mortgage without carefully weighing up the pros and cons of buying versus renting, the costs of annual and monthly repayments, or the future value of the house. The new funding arrangements will mean that today's students will need to make similar calculations when choosing universities and degree courses. After all, for some, the financial commitments may last almost as long as a mortgage.

Studying now, paying later

Like it or not, if you're planning to go to university in 2006 tuition fees are going to play an unavoidable role in your future, shaping the decisions you make and, to some extent at least, the lifestyle you lead. The problem is, few people appear to have grasped just what is being proposed, or how tuition fees will impact on their personal finances⁵.

Below, I will explore the key points of tuition fees, before suggesting ways that you can make your money as a student go further.


Enter tuition fees

From September 2006, students enrolling at English and Welsh universities will incur tuition fees of up to £3,000 a year. Note the word "incur". Students will not be expected to pay anything at the point of entry. Instead, the Government will pay the £3,000 to the university before collecting the money from the student once they have graduated and earning £15,000 or more a year.

In other words, tuition fees will be collected by the state as part of the student loan. But it's not a bank loan. Borrow money from a bank and you end up paying back far more than you ever took out. With tuition fees, the rate of interest will be set at the rate of inflation (currently around 3 per cent), meaning that students will not be expected to pay back more than they borrowed.

Instead, students will pay back the amount they borrowed at a rate of 3

Pound stretchers

- 
- **If you have a student overdraft with a free overdraft, withdraw the maximum cash level of the overdraft and invest it in a saving's account where it will earn the highest levels of interest.** According to the NUS, doing this will cover almost 7 per cent of your annual food costs.
 - **Alternatively, invest in Premium Bonds: although not paying interest, money invested in PBs is secure and easily accessible, plus gamblers will be attracted by the chance to win two monthly draws for up to £1m.**
 - **Live at home – putting up with parents has major (financial) advantages. Are the folks really that bad?**
 - **Get a bicycle. One of the biggest hidden costs of student life is travel. Not only does cycling get you fit, it cuts down on petrol and parking costs.**
 - **Shop around for second hand books – the Internet has several excellent second-hand book sites. Never buy course books when new – even if your tutors wrote them.**
 - **Find a part-time job in a supermarket or restaurant where staff can take advantage of discount food sales. Better still, get a part-time job on campus. Not only will this reduce your transport costs, it will also give you added income.**
 - **Know your budget and stick to it. Review it monthly. Get organised, your future depends on it.**
 - **Choose modules that contain paid experience. Not only will this furnish you with added cash, the experience will look good on your CV.**
 - **Avoid making cash withdrawals more than once a week; resist the temptation of carrying your card with you everywhere you go. Try to pay with cash. Handing over hard cash is harder than swiping plastic.**
 - **Prioritise your entertainment. Being a successful student means you can't do it all, all the time.**
 - **Reduce your take-away and dining out intake. Learn to cook!**
 - **Ditch the Mobile – ask yourself: is it really good to talk?**
 - **Buy food in bulk: buy "own brands". Shop around; challenge the tyranny of the designer label.**

per cent of their income above the £15,000 threshold.

The return of the grant

It's true: grants are back – for some, at least. Despite the introduction of tuition fees, many students will probably be better off under the new system because of the reintroduction of new forms of financial support. Whether you receive a grant or not will depend on your family's earnings. Grants are currently available on a sliding scale for students whose household income is less than £21,185. However, recently, it has been announced that students with a household income of £17,500 or less would receive the full amount, while those whose families

made between that and £37,425 would get a partial grant.

The situation is slightly different for students in middle income brackets, whose household incomes exceed £37,000 (but are less than £50,000). Unlike the first group, such students will not receive a state grant, nor will they be likely to qualify for a bursary from

"Despite tuition fees, many students will probably be better off under the new system"

their university. At least, however, they will not have to pay any up-front fees (currently charged at £1,175 per year), thus saving £3,525 over three years.

Thus, leaving parental contributions aside, if a middle-income student

takes out the full student loan that they are entitled to (£4,400 per year), they will graduate after three years with a student loan of £13,200 plus the £9,000 they will owe from their tuition fees. Total loan: £22,200.

Admittedly, a debt this size is not to be taken lightly. But remember: repayments will only start when a student's earnings exceed £15,000 a year. Earn £20,000 and your repayments will be around £8.65 a week. Should your income fall, you will pay back less. After 25 years, if still not paid, the debt is wiped off the slate.

Students from families earning £50,000 and over will receive neither a grant nor a university bursary. In addition, they will only be eligible to three-quarters of the student loan – currently worth around £3,300 a year. Ironically, despite the press outcry, it is these students and their families, not those from the poorest backgrounds, who are likely to feel

the full impact of the new funding arrangements.

Warning! Students at work

Apart from tapping parents for extra money, more and more students are having to find part-time jobs to work to fund part of their higher education. The actual proportion of those employed during term-time is debatable.

According to the National Union of Students, approximately 42 per cent of students work on a part-time basis. The TUC argues that this figure is understated. Their research led them to claim recently that in six out of every ten students now works in order to pay for basic living costs.

Ultimately, it's a question of balance. While earning extra money undoubtedly comes in handy, too much part-time work can have a detrimental effect on course work. The NUS found that 38 per cent of students had missed lectures due to

work commitments, while almost one in five had missed course deadlines.

So, if working while studying comes with a warning label attached, what can students do to keep costs down while at university? Changes in how higher education is funded will mean that most students will graduate with some level of debt.

But if you plan your time as a student carefully, and manage your budgets, for many, the benefits of higher education will far out-weigh the costs incurred. Going to university is still the best career move in town.

Dr Paul Redmond is head of Career Development at Liverpool Hope University.

