USING STUDENT LOANS FOR LIVING COSTS: CURRENT ISSUES IN SCOTLAND

In recent years, there has been a shift towards a greater reliance on loans to provide living cost support for low-income students from Scotland who study full-time on higher education courses at college or university.

This note identifies those issues raised by this shift which are most relevant to the current review of student support, which is charged with considering fairness and effectiveness, and also to the work of the new Commissioner for Fair Access. I would be happy to provide further detail on any of the points raised.

Lucy Hunter Blackburn, University of Edinburgh, February 2017

Summary

Four issues are discussed here which are relevant to the fairness and effectiveness of student support, and its impact on access.

- *Non-uptake of loans by some low-income students*

  23% of those on Young Student Bursary take only their grant entitlement, limiting their total state support to between £500 and £1875 a year.

- *Falling numbers taking up a bursary*

  The number of low-income Scottish students recorded as taking a means-tested bursary fell by 5.4% in 2015-16, following a slower general decline in recent years in the number claiming such support.

- *Unequal debt sharing*

  Students from households with incomes below £34,000 borrow one and a half times more on average per head in any year than those from better-off backgrounds. The difference will be greater still between those at the extremes of low and high income, especially at university.

- *Relatively low repayment protection for lower earners*

  Graduates on low incomes from Scotland are expected to pay a larger share of their salary at lower incomes than in England or Wales, and do so for longer than in any other UK nation.

Note: Sources for all figures quoted are listed at the end, with a selection of further research resources.

Background

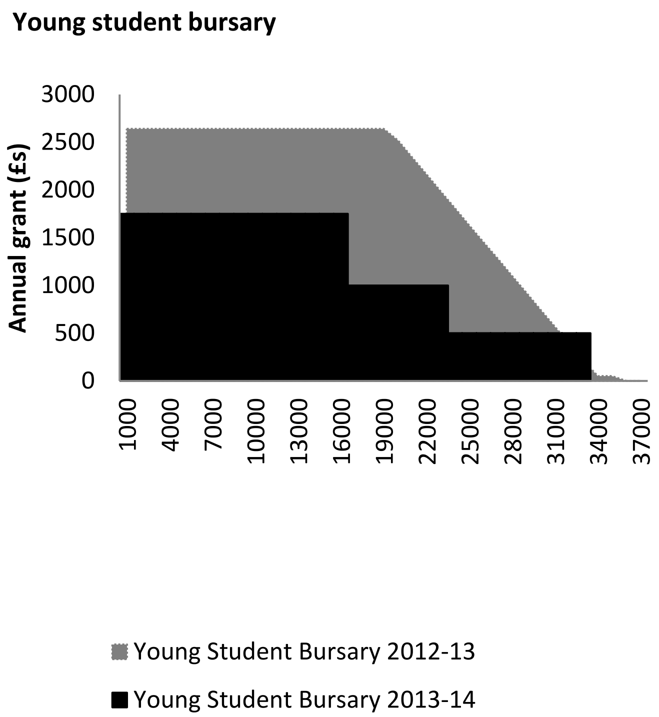
Student grants in context

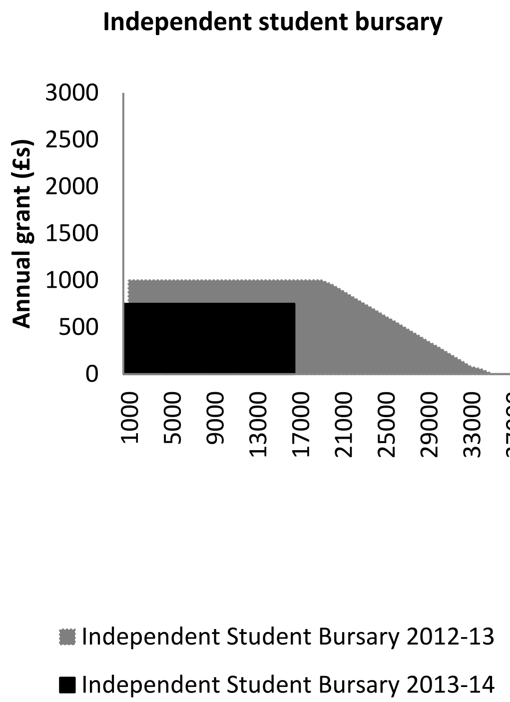
- A means-tested national maintenance grant was introduced in 1962.
- In 1977, a universal minimum grant was introduced, worth around £250 at current prices. It was abolished in 1985.
- Over the later 1980's, students gradually lost access to other cash living cost support, such as housing benefit and unemployment benefits.
- In 1990, the government introduced student loans. These were initially used to reinstate some support for those at higher incomes, and to fund any further increases in support to those at lower incomes. Grant was frozen.
- In 1998, part of the maintenance grant was replaced with loan. Loan repayments became more closely tied to earnings.
- In 1999, grants were entirely abolished for new entrants and replaced with loans.
- In 2001, a means-tested national maintenance grant (Young Student Bursary) was re-introduced in Scotland for new entrant young students, with a maximum value of £2,000 a year (c£2,700 at current prices). Loans continued to be used to provide further support. The level of income qualifying for maximum grant was raised substantially in 2005-06.
- All-age means-tested maintenance grants were re-introduced in the other UK nations between 2002 and 2004 at different amounts. They were abolished again in England only, for new entrants from 2016.
- In 2010, a means-tested national maintenance grant (Independent Student Bursary) was re-introduced in Scotland for mature students, with a maximum value of £1,000 (c£1,090 at current prices). Loans continued to be used to provide further support.

Recent developments in Scotland

In 2013-14, Young Student Bursary and Independent Student Bursary rates were substantially reduced, for new and existing students. The maximum YSB was reduced from £2,640 to £1,750. A stepped system replaced the previous tapered one, with steps down £1,000 and then £500 for YSB. ISB became a flat-rate payment of £750.

The income threshold qualifying for maximum support was also reduced, from £19,300 to £16,999. The upper income cut-off for YSB fell slightly, from £34,195 to £33,999. For independent students, it fell from £34,195 to £16,999.





Among young students, losses of £890 a year or more applied in most cases: those towards the top end of the income range lost least and a few of these made small gains. A few students lost £1640 (60%) of grant funding per year. The Scottish Government substituted loan for lost grant, and anticipated that students from low-income households would use this to make up the loss. Around 90% of ISB claimants fell into the group losing £250 a year.

At the same time, the Scottish Government released additional loan to increase the total amount of support students were entitled to claim, at all incomes, with the intention of reducing students' short-term hardship: it termed the maximum support available to those at the lowest incomes, through a combination of grant and loan, the "minimum income guarantee".

In 2015-16, £125 of grant was reinstated for those on incomes below £24,000. Most of the earlier cut to the threshold for maximum support was reversed in 2016-17: it was raised to £18,999, £300 below its 2012-13 cash value and around £1,300 below its 2012-13 real terms value.

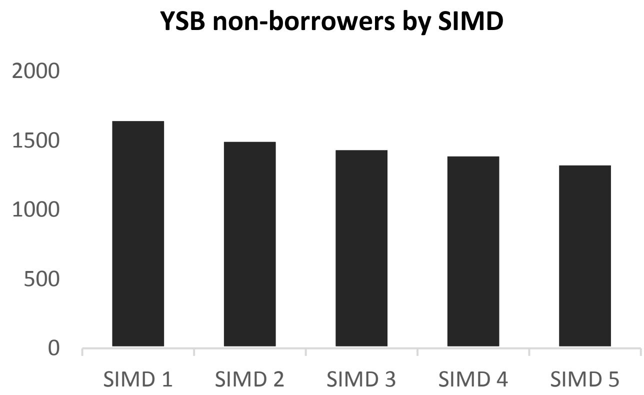
Annual support rates for Scottish-domiciled students 2016-17

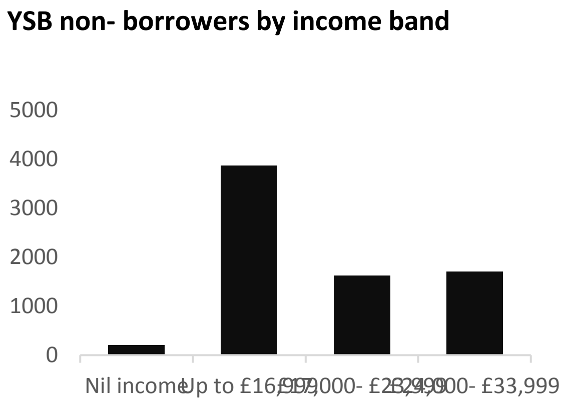
	Young students		Independent (mature) students	
Household income (£)	**Bursary (YSB)**	**Loan**	**Bursary (ISB)**	**Loan**
Up to 18,999	1,875	5,750	875	6,750
19,000-23,999	1,125	5,750	0	6,750
24,000-33,999	500	5,750	0	6,250
34,000 or more	0	4,750	0	4,750

Issue 1: Non-uptake of loan support by some low-income students

Just under one-quarter (23%) of students on YSB did not take out a student loan in 2015-16. This appears to be a long-standing pattern. For those on ISB, the proportion of non-borrowers was lower (15%).

Approaching half (44%) of those on YSB not taking a loan are from SIMD40 postcodes and just over half (55%) declare incomes below £17,000.





Non-borrowers are failing to claim up 92% of the total support they are entitled to. Their total state living cost support is limited to between £500 and £1875 a year.

There has been no research into the practical impact on students of limiting their public support to this extent, although it has potential to affect choices about what sort of higher education to pursue (how far away, for how long), how much paid employment to take on in term-time and the likelihood of dropping out. In some cases, non-borrowing may indicate greater general uncertainty about the value of participation, and act as a marker for higher risk of non-completion. **The scale of non-borrowing at low incomes therefore raises issues relevant both to the review of student funding and to the work of the Commissioner for Fair Access.**

Students in college, mainly on HN-level courses, are particularly likely not to use loans (32% are non-borrowers, compared to 19% of those in university). Non-borrowers will generally receive *less* support than those who are able to obtain a further education bursary at similar incomes.

Part of the answer may lie in improved information, both about loans themselves and also about the benefits of taking part in higher education. However, any initiative to encourage more borrowing by low-income students for *living* costs faces the obstacle of operating in an environment of high-profile, government-backed critical discourse in Scotland about student borrowing for *fee* costs.

Issue 2: Falling numbers taking up bursary

The number of students claiming any means-tested bursary has fallen in recent years, in absolute numbers and as a proportion of all students receiving support form SAAS. This will be partly due to the cuts to the upper thresholds for YSB and ISB, and their freezing in cash terms since 2013-14.

However, there was a particularly substantial fall in the number of students claiming a means-tested bursary in 2015-16, both in absolute terms and as a percentage of all Scottish-domiciled students (see table below). Statistics on earnings growth do not show a comparable sudden increase which would explain this. The number from low incomes could fall even as SIMD20 and SIMD40 intakes rise, as the correlation between students being from a low income and being in a lower SIMD quintile is not strong.

The possibility that lower grants *may* be starting to deter some low-income students deserves attention. There was no government publicity, and limited media coverage, ahead of the grant reduction in 2013, so some time lag in the change having an effect on student behaviour is feasible.

The figures may also reflect less willingness to claim bursary, for example if it has fallen to a level where some do not feel justified in asking their families to undergo means-testing. The fall is larger among those on lower grant rates. Why any such effect should be delayed is not clear. But these figures do raise the possibility of **a further hidden group of low-income students receiving less than their full entitlement**, either taking only the basic loan of £4,750 or nothing at all.

Number of claimants of means-tested maintenance grants from SAAS

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
YSB	–	–	–	33,150	32,310	30,480
ISB	–	–	–	17,400	16,985	16,135
Total [1] [2]	**55,490**	**52,960**	**51,515**	**50,550**	**49,295**	**46,615**
Year-on-year change		*-4.6%[3]*	*-2.7%*	*-1.9%[4]*	*-2.5%*	*-5.4%*
Year-on-year change: all SAAS-funded undergraduate Scottish domiciles		*0.2%*	*-0.1%*	*1.4%*	*1.0%*	*1.1%*
Maintenance grant cases as a percentage of all Scottish domiciled undergraduates	***45.5%***	***43.4%***	***42.2%***	***40.9%***	***39.5%***	***36.9%***

[1] *Total figures before 2010-11 are non-comparable, due to the introduction of ISB in that year. In earlier years, there was no national means-tested bursary for low-income mature students in Scotland.*

[2] *Separate comparable YSB/ISB figures before 2013-14 are not available. Several smaller grant schemes were abolished in 2013-14 and those previously entitled split between YSB and ISB.*

[3] *The falls in 2011-12 and 2012-13 may be substantially due to the bedding in of ISB (-8.2% in 2011-12, -6.6% in 2012-13). YSB fell by much less (-2.5%, -0.4%).*

[4] *The reduced upper income threshold for ISB will have contributed to the fall in the number and percentage receiving a bursary in 2013-14.*

Issue 3: Unequal debt sharing

A combination of **higher loan amounts** and **higher take-up rates** means that lower-income students take out a disproportionate share of student loans in any year, with those below £34,000 accounting for just over one and a half times as much per head in loans in any year as those above.

Annual borrowing by income in 2015-16 (latest available year)

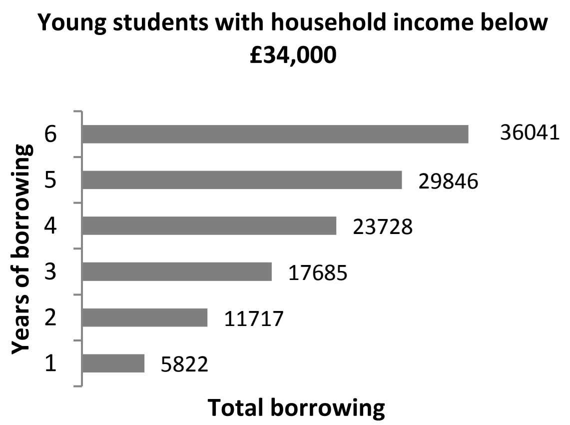
Household income	Average per head: active borrowers only	Average per head: across all students (borrowers and non-borrowers)	Percentage borrowing nothing
	£	*£*	*%*
< £34,000 a year	5,996	4,873	19
£34,000 or more a year	4,652	3,103	33
Ratio lower income: higher income	*1.29: 1*	*1.57: 1*	*0.56:1*

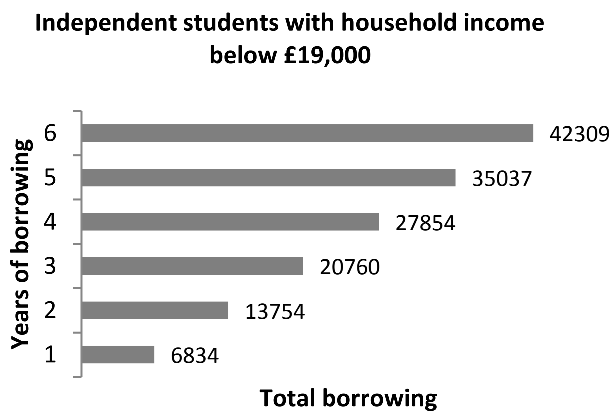
Non-borrowers are disproportionately likely to come from higher incomes. This is particularly likely to be true among students at university.

The available data cannot differentiate above £34,000, but the average for that group is likely to mask considerable variation within it, with non-borrowing more common as income rises. High-income borrowers are also more likely to be able to use student loans as a form of cheap credit for other purposes (including setting aside for future use, for example to fund internships or mortgage deposits).

The real range of debt difference between graduates will therefore be between £0, most common at the highest incomes, and the amounts shown below, applying to most of those from lower incomes.

Cumulative effect on borrowing of taking maximum entitlement to support, assuming full use of annual loan at current rate (£5,750 Young, £6,750 Independent) and no increase in current interest rate (1.25%)





Most (93%) of those who borrow take out the whole loan to which they are entitled. A standard honours degree takes four years. Students who move from HN to degree without gaining full standing may need to study for 5 or 6 years to reach the same level. Study to PGDE also adds a year's borrowing.

The concentration of student borrowing among those who started from lower incomes may be partly off-set by these students tending to spend a shorter time in higher education, and also being likely to earn less (although see below). That is, inequality in types of access to higher education and in the labour market may mitigate some of the impact of initial unequal borrowing on actual life-time repayments. However, among graduates with similar qualifications and similar life-time earnings, those who started from lower-income households will, on average, face a higher de facto graduate tax over their working lives.

This will be compounded by low-income households also being more likely to be lower-wealth households. Those leaving university with the highest student debts in Scotland are therefore likely also to be those who will benefit least over their later lives from inter-generational wealth transfers.

This is not an issue of access, but it is evidently one of *fairness*, which brings it within the remit of the current student support review.

Issue 4: Relatively low repayment protection for low-earners

The student loan system in Scotland has a lower repayment threshold (£17,495) than that used in England or in Wales (£21,000). Northern Ireland also uses the lower threshold. Unpaid debt is written off without penalty after 35 years in Scotland, compared to 30 in the rest of the UK. The weaker protection for low earners has two effects.

(i) A greater immediate impact on take-home pay

Table 3 below shows how deductions start more quickly and are larger at low incomes in Scotland and Northern Ireland.

Table 3: Annual repayments of student loan by income

Gross income	**Scotland/NI**	**England/Wales**
15000	0	0
20000	225	0
25000	635	360
30000	1085	810

(ii) More debt is repaid in total per pound borrowed

In 2013, the Scottish Parliament Information Centre compared the repayment of £16,000 in the Scottish system with £36,000 in the English one. It found that, due to the lower repayment threshold and longer period before write-off, in the Scottish system the bottom 20% of life-time earners were projected to re-pay a slightly larger amount in England, even though their total debt was smaller.

The gap between the Scottish and English thresholds has closed slightly since then, so these exact figures may no longer hold. However, it will remain possible that some low earners in Scotland will have higher actual total life-time repayments than those who have borrowed substantially more in England or Wales. Interest is lower in Scotland: however, for many lower-earning borrowers in England, the interest is now notional, as outstanding debt is likely to be written off before the initial amount borrowed is repaid.

In the 2016 Holyrood elections, all parties promised to increase the repayment threshold to £21,000 or above, and some (including the SNP) to reduce the write-off period to 30 years. The Scottish Government's review of student funding has now been asked in general terms "to explore" changes to the repayment threshold and write-off period, to report in late 2017, implying no change before 2018 at the earliest. It is not clear whether the review is expected to fulfil at minimum the terms of the SNP manifesto commitment.

SOURCES FOR FIGURES QUOTED

Background

Data taken from SAAS website on 2012-13 and 2013-14 entitlements by author in late 2012/early 2013 (no longer available).

2016-17 entitlements from SAAS website.

Issue 1: Non-uptake of loan support by some low-income students

Data kindly provided by SAAS in summer 2016 for author's MSc dissertation. Final text sent to Scottish Government, SAAS, SFC, NUS Scotland, the Scottish Parliament Education and Skills Committee, Universities Scotland and Colleges Scotland in October 2016. Provided to office of the Commissioner for Fair Access in January 2017 and Student Support Review in February 2017. Copies available from author.

Issue 2: Falling numbers taking up bursary

Data from annual SAAS statistics, Higher Education Student Support in Scotland 2015-16, particularly Table A8. Total Scottish domiciled students from Table A2.

Effect of reducing threshold for ISB from figures: data can be found in response to Parliamentary written answer **S4W-18319.**

Issue 3: Unequal debt sharing

Calculated by author using data from annual SAAS statistics, Higher Education Student Support in Scotland 2015-16, particularly Table A6.

Cumulative borrowing by year calculated by author.

Figure for percentage of borrowers talking out whole loan entitlement from data provided by SAAS to author for MSc.

Issue 4: Relatively low repayment protection for low-earners

Calculation of repayments by author.

SPICe calculation of repayments in Figure 1 (p.14) here.

RESEARCH RESOURCES

Many of the links below lead to the full text, but some only abstracts.

On student attitudes to debt

Aldrovanni, S., Wood, A., Maltby, J., & Brown, G. (2015). Students' concern about indebtedness: a rank based social norms account. *Studies in Higher Education, 40*(7), 1307-1327. Retrieved from http://www.tandfonline.com/doi/abs/10.1080/03075079.2014.881349

Callender, C., & Jackson, J. (2008). Does the fear of debt constrain choice of university and study? in *Studies in Higher Education, 33*(4), 405-429. http://eprints.lse.ac.uk/20999/

Christie, H., & Munro, M. (2003). The Logic of Loans: students' perceptions of the costs and benefits of the student loan. *British Journal of Sociology of Education, 24*(5), 621-636. Retrieved from http://www.tandfonline.com/doi/abs/10.1080/0142569032000127170

Harrison, N., Chudry F., Waller R., & Hatt, S. (2015). Towards a typology of debt attitudes among contemporary young UK undergraduates. *Studies in Higher Education, 39*(1), 85-107. http://eprints.uwe.ac.uk/18752/

Harrison, N., Agnew S., & Serido, J. (2015). Attitudes to debt among indebted undergraduates: A cross-national exploratory factor analysis. *Journal of Economic Psychology,* 46, 62-73. http://www.sciencedirect.com/science/article/pii/S0167487014000889

Haultain S., Kemp, S., & Chernyshenko, O. (2010). The structure of attitudes to student debt. *Journal of Economic Psychology,* 31, 322-330. http://www.sciencedirect.com/science/article/pii/S0167487010000103

Minty, S. (2015). Young people's attitudes towards student debt in Scotland and England. In S. Riddell, E. Weedon & S. Minty (Eds.), *Higher Education in the UK: Diverging or Converging Systems?* Edinburgh: Edinburgh University Press.

On student decision-making in the Scottish system

Christie, H., Munro, M., & Rettig, H. (2001). Making ends meet: Student incomes and debt. *Studies in Higher Education*, *26*(3), 363-383. Retrieved from http://www.tandfonline.com/doi/abs/10.1080/03075070120076318

Forsyth, A., & Furlong, A. (2000). *Socio-economic Disadvantage and Experience in Further and Higher education.* Bristol: Policy Press. Retrieved from http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.527.6475&rep=rep1&type=pdf

Forsyth A., & Furlong A. (2003). *Losing Out? Socioeconomic Disadvantage and Experience in Further and Higher Education.* Bristol: Policy Press. Retrieved from https://www.jrf.org.uk/report/socio-economic-disadvantage-and-experience-higher-education

On non-borrowing in Scotland

Blackburn, L. (2017). *Borrowing behaviour by young low income students from Scotland: an exploratory study*. Unpublished MSc dissertation (available on request).

On the distribution of student debt

Hunter Blackburn, L. (2015). Student funding in the UK: post-devolution Scotland in a UK context. In S. Riddell, E. Weedon & S. Minty (Eds.), *Higher Education in the UK: Diverging or Converging Systems?* Edinburgh: Edinburgh University Press.

On the effect of national grant on participation

Dearden, L, Fitzsimons, E., & Wyness, G. (2014). Money for nothing: Estimating the impact of student aid on participation in higher education. *Economics of Education Review, 43*, 66-78. Retrieved from http://www.sciencedirect.com/science/article/pii/S0272775714000910

On living at home

Artess J., McCulloch A., & Mok P. (2014). *Learning from Futuretrack: studying and living at home,* BIS Research Paper No 167. London: Department for Business, Innovation and Skills. Retrieved from https://www.hecsu.ac.uk/assets/assets/documents/Futuretrack_BIS_Learning_from_futuretrack_studying_and_living_at_home.pdf

Christie, H. (2007). Higher education and spatial (im)mobility: non-traditional students and living at home. *Environment and Planning, 29*, 2445-2463. Retrieved from http://www.geos.ed.ac.uk/homes/rgroves/christiepub1.pdf.

On student income and expenditure

The periodic student income expenditure survey was last conducted in Scotland in 2007, but later ones have been undertaken in England and in Wales.

Pollard, E, Hunt, W., Hillage, J., Drever, E., Chanfreau, J., Coutinho, S., & Poole, E. (2013). *Student income and expenditure survey 2011/12.* BIS Research Paper Number 115. London: Department for Business, Innovation and Skills.

Pollard, E., Williams, M., Hunt, W., Hillage, J., Drever, E., Chanfreau, J., Coutinho, S., & Poole, E. (2014). *Student income and expenditure survey 2011/12: Welsh-domiciled students.* Cardiff: Welsh Government.

Warhurst, C., Commander, J., Nickson, D., Symeonides, A., Furlong, A., Findlay, J., Wilson, F., & Hurrell, S. (2009). *Higher and further education students' income, expenditure and debt in Scotland 2007-08.* Edinburgh: Scottish Government.