Chartered Financial Planners

Certified B Corporation

GUIDE

FUNDING HIGHER EDUCATION

Bringing you up to speed with the latest student loan changes and providing guidance on paying fees up front vs student loans.

progeny

CONNECTED FINANCIAL THINKING

FUNDING UNIVERSITY

Going to university is a significant life event. It's one filled with big decisions to make, from choosing your subject to where you want to study.

Entering higher education also comes with important financial considerations which could impact life long after graduation. It's important for any prospective student to be aware of the available funding options before beginning their journey into higher education.

Student finance can be complex to navigate, with frequent changes to be aware of. In this guide we discuss key changes and outline how you can help fund a higher education for you, your children or grandchildren.

CONTENTS

progeny CONNECTED FINANCIAL THINKING

Chartered Financial Planners

Certified B Corporation

THE CURRENT COSTS OF UNIVERSITY

Tuition fees

The maximum amount that universities in the UK can charge is £9,250 per year, and the majority do. This includes England, Scotland, Wales and Northern Ireland. Tuition fee loans are available to students to cover this cost.

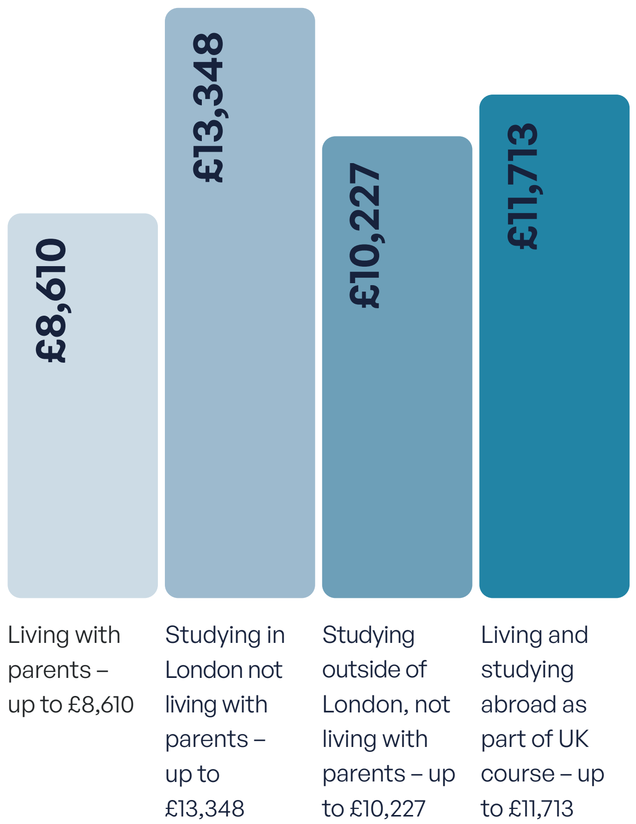
Parental contribution

For under-25s, a large proportion of a student's maintenance loan is dictated by an assessment of their parents' income. This does mean that students studying at the same university can get drastically different maintenance loans, and in some cases insufficient loans to cover living costs.

It is expected that students who do not receive the full maintenance loan instead receive a parental contribution to make up the difference. However, this is not always clear and some parents are not made aware of this expectation. It's worthwhile speaking with a financial planner to discuss your budgets if you are likely to have to support your child through university.

Maintenance and living costs

Maintenance loans are also available for living expenses. Depending on family income and where the student lives while they are studying (on campus or away from home), the maximum yearly amounts available during the 2024/25 academic year are as follows:



THE 2025/26 INCREASE IN FEES AND MAINTENANCE LOANS

If you have children or grandchildren going to university in 2025 and plan on funding this for them, you should make sure you are factoring in the rise in fees announced by the government in 2024.

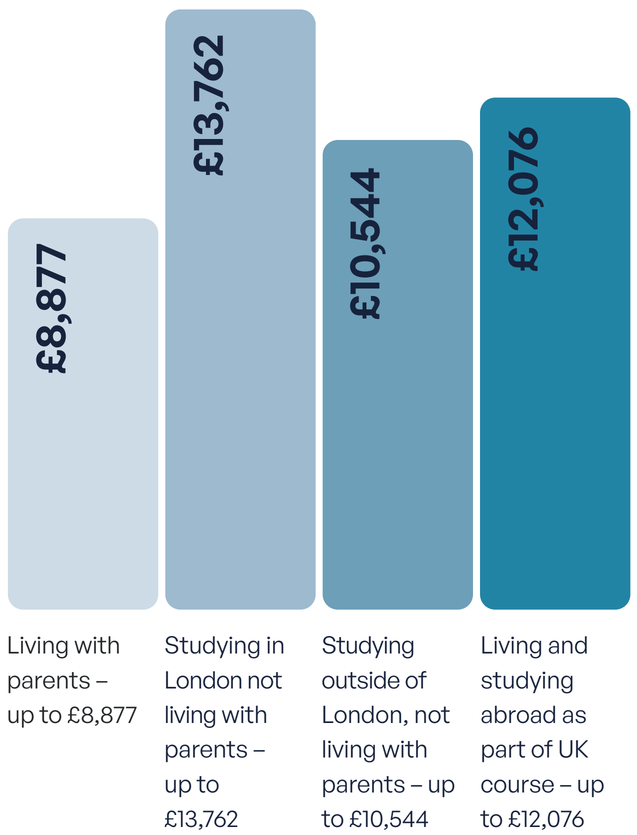
According to gov.uk, the cost of standard full-time courses is increasing from £9,250 to £9,535. This will be the first increase in fees since 2017.

Tuition fee increase

- The maximum cap for full-time student fees will go up by £285 making the yearly maximum fee limit cost £9,535.
- The maximum cap for part-time student fees will go up by £210 making the yearly maximum fee limit cost £7,145.
- The maximum cap for accelerated student fees will go up by £340 making the yearly maximum fee limit cost £11,440.

Maintenance loan increase

- £267 for students living at home, making the maintenance loan £8,877 yearly.
- £414 for students living away from home and studying in London, making the maintenance loan £13,762 yearly.
- £317 for students living away from home and studying outside London , making the maintenance loan £10,544 yearly.
- £363 for students studying overseas as part of a UK course, making the maintenance loan £12,076 yearly.



STUDENT LOAN CHANGES – PLAN 5

Student finance can be a complex aspect of the university experience, as well as a big financial commitment. It's important to keep up to date with any changing terms.

New students based in England face student loans on revised terms when they began their courses in Autumn 2023. The terms of Plan 5 are:

An additional decade

The maximum period their student loan can last for will be 40 years. This will start from the April after their course ends. For previous students, the maximum repayment term was typically 30 years. This additional decade means there is an increased likelihood that graduates will be paying the loan back for most of their working life.

A new repayment salary threshold

Student loan repayments will begin when the graduate earns an income of £25,000 or above at a rate of 9% of total income. This will be fixed until April 2027, after which inflation-linked increases are planned. The threshold for existing Plan 2 graduates is £27,295.

Interest matches inflation

The rate of interest matches inflation, measured by the Retail Prices Index (RPI). This is in comparison to RPI+ 3% for the previous generation of loans and thus could be seen as an interest rate cut. However, due to high inflation currently, both generations are capped at an interest rate of 7.8% (April 2024).

How do these changes impact graduates?

With this new reform in place, 70% of graduates are estimated to have their loans paid in full compared to a previous 25% repayment rate.

The reform also means that students may be repaying their loans for a longer period of time. It's likely that students will begin their repayments sooner after graduation than in previous years, as they are more likely to reach the new lowered income threshold of £25,000 in entry level employment.

Lower earners may feel the sting of a 9% repayment rate over a longer period of time with the extension of repayment to 40 years. However, the claim that this new reform targets low earners has been challenged by the government who say that those earning £26,000 for example will only be paying back an extra £2 per month from their salary.

REPAYMENT

A university education may seem like an expensive prospect, considering the cost of student loans. However, it's important to remember that what counts is how much you will actually repay monthly.

How much student loan you repay depends on your income, which includes the amount you earn and any bonuses and overtime you receive, before tax.

As noted above, under the new rules, a graduate pays 9% on anything earnt over £25,000 per annum gross.

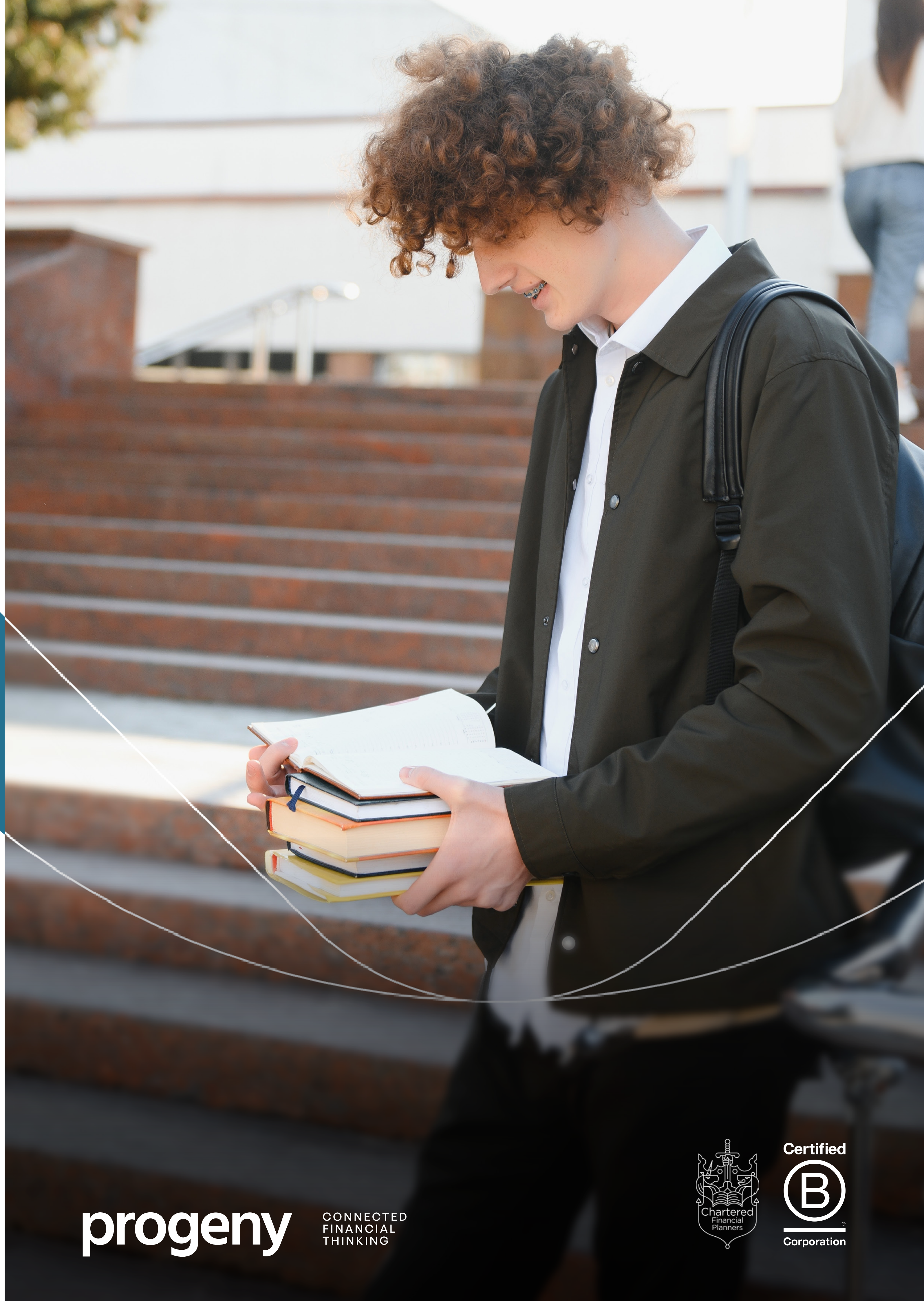
Any outstanding loan at the end of the term (i.e. 40 years for plan 5) is wiped entirely.

It is also wiped on death so there would be no additional burden on your beneficiaries.

Given the nature of these loans, the biggest question facing many students and their families as they make their financial plans for higher education is:

If they or their family can afford it, is the student better off paying the tuition fees up front, or is taking out a loan still a viable option?

Whilst impossible to accurately predict an individual's potential earnings over a 40-year period, it is imperative that at least some analysis is completed before any decision is made. The best way to look at this is via the use of case studies and calculators on the next page.



CASE STUDY

The student

A student entering university in the academic year 2024 on a three-year course will usually be liable for tuition fees totalling £27,750. They can pay these up front, or they can choose to take out a loan which they will begin to pay back after graduation. By the time they come to start repayments, the loan is likely to have accrued additional interest raising the amount owed to around the £30,000 mark.

Family benefactor

For our case study, let's say the student's grandparents have earmarked £30,000 to give their grandchild to be used in some constructive way in their young adulthood – for example, to go towards their education or in getting their foot on the property ladder.

Other assumptions

RPI and Earnings Growth remain at 3% per annum throughout the period of the loan.

Scenario 1 – The student takes out a tuition fees loan

In this scenario the student takes out a loan to cover their fees and leaves university with a debt of approximately £30,000.

The pros and cons

The new graduate in this example will begin paying off their debt as soon as they earn over £25,000 per year, contributing 9% of the income they earn over this threshold. The outcomes differ significantly depending on the graduate's salary once they start work.

For these figures below we have used a basic repayment calculator to see the potential repayment costs and as a result these figures are not guaranteed:

Starting Salary	Repayment
£30,000	Makes total repayments of £38,807 but remaining balance of £32,918 is wiped after 40 years.
£40,000	Makes total repayments of £41,399 and clears debt 21 years after finishing university.
£50,000	Makes total repayments of £36,398 and clears debt 13 years after finishing university.

In very general terms, it tends to be graduates earning in the £30-£40k bracket that tend to pay the most, especially with the student loan being extended to 40 years rather than 30 years.

A pressing question with taking on a debt of this nature is whether it will have an impact on any other areas of their financial life, the obvious one being borrowing to buy a property. Strictly speaking, student loans don't show up on borrowers' credit files. However, some mortgage lenders factor the repayment of student loans into their affordability tests when assessing whether to grant a mortgage, so servicing this debt could have some effect on the lenders' ultimate decision.

In our example, the upside of the student's decision to take out the loan is that their grandparents' gift of £30,000 is free to be used for other purposes, one of which could be being put towards a deposit for a property.

Scenario 2 – Paying off the tuition fees up front

In this scenario the student's grandparents use the money they had earmarked for them to pay for their tuition fees up-front so they graduate from university debt-free.

The pros and cons

The obvious benefits are that the graduate will have no tuition fee debt hanging over them as they begin their personal and professional adult life. However much they go on to earn as graduates, they will never need to worry about an additional monthly 9% 'tax' on their salary over the earnings threshold now or at any point in their future.

This also means that the repaying of a student loan won't impact or restrict any of their future financial activity. While a student loan doesn't sit on the individual's credit files, the outgoing monthly repayment can still be picked up by increasingly-savvy mortgage lenders' affordability tests.

Unlike in the first scenario however, the graduate has now used their financial gift, and therefore will begin their adult life without any assets behind them to potentially purchase a property or maybe start their own business. The counterbalance to this is that the aim or expectation of going to university for many is that, depending on their choice of career and salary, it will increase their earning power in the workplace. Additionally, since in this example they leave higher education free of a debt to service, they will be able to build up their own assets more quickly.

THE MANY REALITIES

We've used a basic example to weigh up the pros and cons of paying the tuition fees up front versus taking out a loan.

We created this out of the most common situation experienced as professionals, but each individual case will be different and there will be any number of potential permutations depending on the individual's exact circumstances.

For example, the student might have more funds at their disposal, or they may have a gift set aside in a trust for later in their life which changes their priorities and alters their decision. In our example, we've assumed that the student is of typical university-attending age (i.e. late teens), but mature students, perhaps after a spell in employment, may have more assets built up or may own a property already which again alters their perspective.

Many people go to university to increase their earning potential, but this is not always the main reason. The graduate might have a clear idea of their likely future earnings in a lower or middle paying career and be resolved to the likelihood that they will never earn enough to pay off the loan in full. This might change how they view the gift of a lump sum in early adulthood.

HOW WE CAN HELP

There are many factors to consider when it comes to student finance and funding university, but hopefully this guide has given you some indication of the options available around fees.

If you would like to discuss your plans for funding higher education, gifting to family or any of the other issues touched on in this guide, please get in touch to speak to one of our dedicated and trusted financial planners.

In addition to this, we can give advice on:

- Cashflow modelling - so that you can plan ahead for funding your children's or grandchildren's education
- Investing for children – exploring tax efficient ways to invest for your children to help them build their own funds for their future, including trusts
- Family succession planning – where their legacy after university may be to continue yours

How can you help your children and grandchildren?

In an ideal world, your dependants wouldn't need to worry about either paying their fees up front or having the financial support to purchase their first property when they graduate.

To finance both would be very rewarding, and a financial planner can help you to realise the possibilities of this more clearly.

It is almost impossible to know what salary bands lay ahead for new graduates, so the future repayment costs are almost an unknown. This makes it difficult to make a fully informed decision, but like we have in the case studies above, you can consider some pros and cons.

progeny CONNECTED FINANCIAL THINKING

Chartered Financial Planners

Certified B Corporation

Version: 1.0

---

progeny CONNECTED FINANCIAL THINKING

theprogenygroup.com
@theprogenygroup
+44 344 225 0660