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Verve Financial

The **parents' guide** to paying for university and student loans

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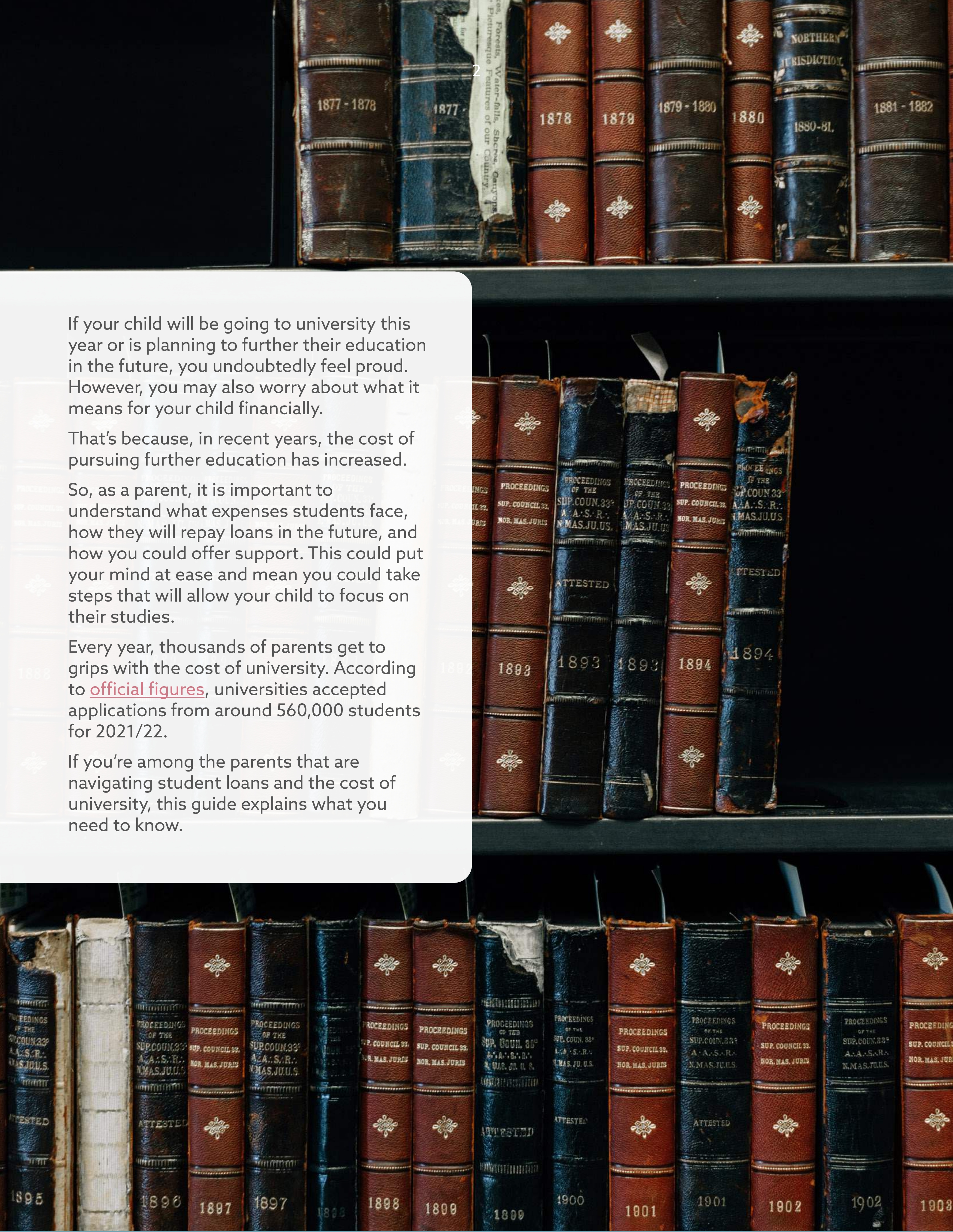


If your child will be going to university this year or is planning to further their education in the future, you undoubtedly feel proud. However, you may also worry about what it means for your child financially.

That's because, in recent years, the cost of pursuing further education has increased.

So, as a parent, it is important to understand what expenses students face, how they will repay loans in the future, and how you could offer support. This could put your mind at ease and mean you could take steps that will allow your child to focus on their studies.

Every year, thousands of parents get to grips with the cost of university. According to official figures, universities accepted applications from around 560,000 students for 2021/22.

If you're among the parents that are navigating student loans and the cost of university, this guide explains what you need to know.

The cost of university: The average student will graduate with £45,800 of student debt

Most students going to university will need a student loan to cover the costs.

According to the government, it loans almost £20 billion to around 1.5 million students in England each year. As of March 2022, the value of outstanding student loans was £182 billion. The government predicts it will reach £470 billion by the mid-2040s.

For students that started university in 2021/22, it's estimated they will graduate with £45,800 of student debt on average. This figure is comprised of loans to cover tuition fees and living costs.

Universities can charge up to £9,250 for each academic year

In England, universities can charge up to £9,250 for the 2022/23 academic year.

In Scotland, tuition fees for undergraduate degrees are usually covered by the Student Awards Agency for Scotland (SAAS) for Scottish students. So, while a university can charge up to £9,250, this often does not need to be repaid by the student.

In Wales, tuition fees are capped at £9,000 for Welsh students and in Northern Ireland the limit is £4,630 for Northern Irish students.

The average undergraduate course lasts for three years. So, tuition fees can add up to £27,750 or more.

If your child chooses to take out a student loan to cover tuition fees, it's paid directly to the university.

The average student spends £810 a month on living costs

For many students, moving out and living independently is an important part of the university experience. But this comes at a cost.

Students can choose to take out a maintenance loan to cover some of their living expenses.

How much your child could receive will depend on a variety of factors, including your household income and where they will study.

In England, the loan can be as much as £12,667 for the 2022/23 academic year – adding up to more than £38,000 for a three-year course.

The student finance calculator can help you understand how much your child could borrow through a maintenance loan.

Maintenance loans are paid into a student's bank account in three instalments during the academic year. They can spend the money how they wish.

While the maintenance loan can cover some living costs, many students face a shortfall.

According to the 2021 National Student Money Survey, the average student faces living costs of £810 a month. However, an average maintenance loan provides only £470 a month. So, it's not surprising that 6 in 10 students feel like the maintenance loan isn't enough.

The below shows the largest expenses for the average student each month.

- Rent: £421
- Groceries: £101
- Going out: £47
- Takeaways and eating out: £41
- Household bills: £40

76% of students worry about making ends meet

A survey of students demonstrates how many worry about their finances.

More than three-quarters said they worry about making ends meet. Worryingly, 65% said financial concerns negatively affect their mental health and a third said their grades suffer as a result.

76% of students said they had considered dropping out of university at some point, with 41% citing money worries as the reason.

Helping your child understand what expenses they will have and how to effectively budget could help them get the most out of university.

Source: Save the Student

For students that face an income shortfall, maintenance grants, bursaries, and part-time employment could help them bridge the gap.

Some may also choose to use other forms of borrowing to pay for living expenses, such as credit cards or overdrafts. While these can be attractive to students, as many providers offer 0% interest rates initially, the repayments and interest can be high once they graduate.

Having a conversation with your child about the pros and cons of borrowing before they go to university can help them make informed decisions.

How do student loans work?

While the amount of student debt many people graduate with can seem overwhelming, keep in mind they don't work in the same way as traditional loans.

Students don't need to make loan repayments until they're earning above a certain threshold. So, if your child is unemployed or in a low-income job, they will not need to make any repayments.

The income threshold for students going to university in 2022/23, who will take out a Plan 2 student loan, is £27,295. In addition, if the loan is not repaid in full within 30 years, the debt is cleared.

From September 2023, the income threshold will fall to £25,000 and loans will be repaid for up to 40 years.

Many students will never pay back the full amount they borrow to go to university. According to government estimates, only 25% of those who started full-time undergraduate degrees in 2020 will pay back their loan in full.

4 in 10 teenagers don't understand how student loans work

Taking out a student loan is often the first big financial decision young adults will make. Yet, research suggests that 4 in 10 teenagers don't understand how student loans work.

It's vital they know how much they will be borrowing, how a loan could cover living expenses, and the effect repayments could have on their income in the future.

Source: Young Persons' Money Index 2020/21

How are student loan repayments made?

Once your child earns above the income threshold, their employer will usually automatically deduct the repayments from their salary in the same way they do for Income Tax or pension contributions.

The repayments for undergraduate going to university in 2022 are fixed at 9% of what your child earns above the income threshold as they will take out a Plan 2 student loan. The below shows how income would affect repayments for students starting university in 2022.

- A worker with an income of £23,000 would not need to make repayments
- A worker with an income of £28,000 would make repayments of £63.45 a year
- A worker with an income of £35,000 would make repayments of £693.45 a year.

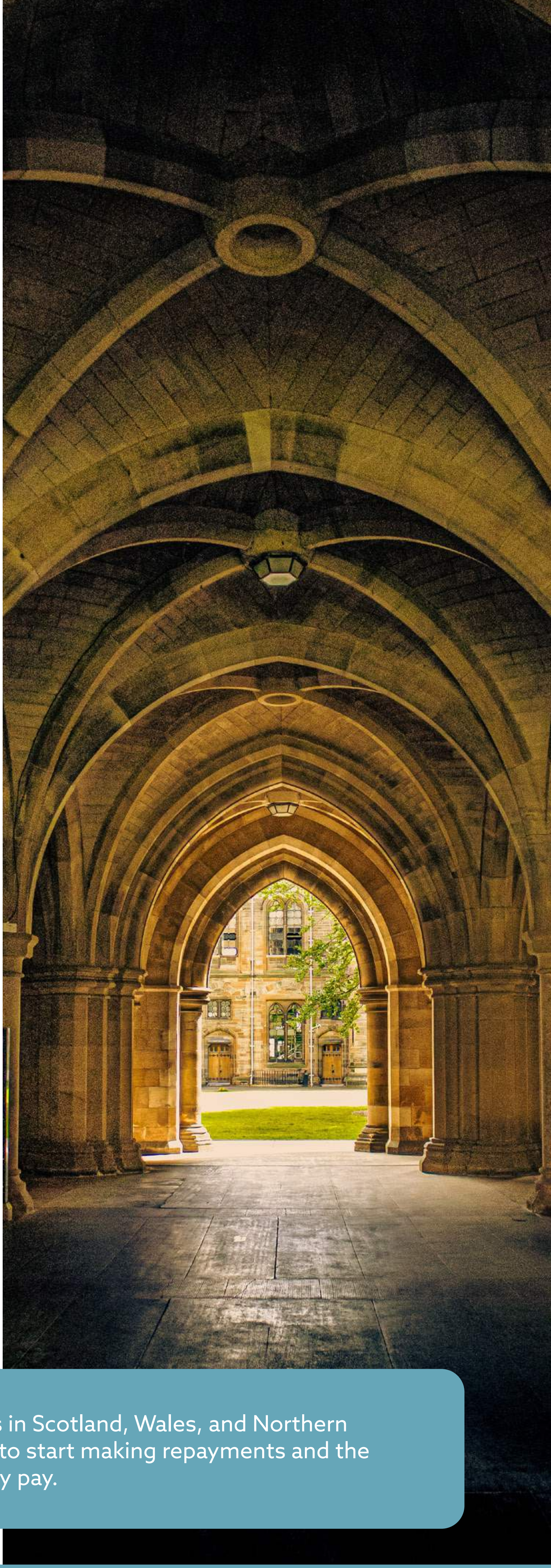
As you can see, how student loans work mean that repayments are usually manageable. As repayments are tied to income, you don't need to worry about what will happen if your child struggles to find a job or needs to take time off work.

How is interest added to a student loan?

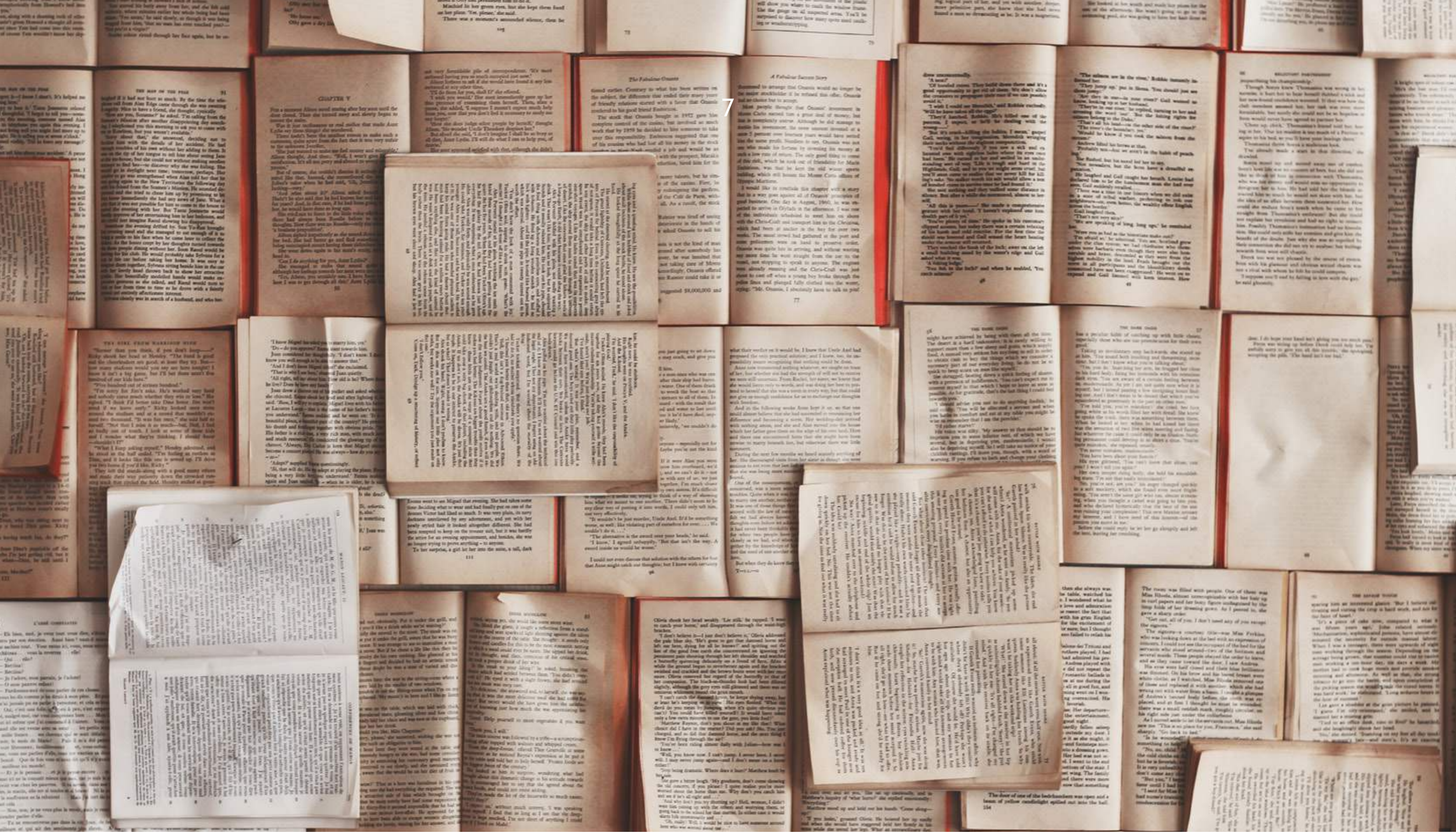
Since 2012, above-inflation interest may be added to student loans.

The interest rate will depend on how much your child earns and the inflation rate, there is also a government cap in place.

The graduate pays the interest in the same way as the loan. So, while a graduate may be charged interest, they may not need to make repayments if their income is low, and it will also be written off when the rest of the loan is.



Please note, that there are some differences in Scotland, Wales, and Northern Ireland that may affect when your child needs to start making repayments and the interest rate they pay.



Should you pay your child's tuition fees or encourage them to make overpayments?

Understandably, you don't want your child to graduate with debt.

Usually, it makes sense to pay off debt as quickly as possible or avoid it altogether. However, the current student loan system means that it rarely makes sense to overpay. This is especially true if it means your child would struggle to reach other goals, like buying their first home.

If you're in a position to do so, you may want to cover your child's fees rather than them taking out a loan. This can ease worries about student debt, but again other financial support, such as supplementing the maintenance loan while they're studying or providing a gift later in life, can make more sense.

That's because many students will never pay off their loan.

It's important to weigh up your options to understand what is right for you.

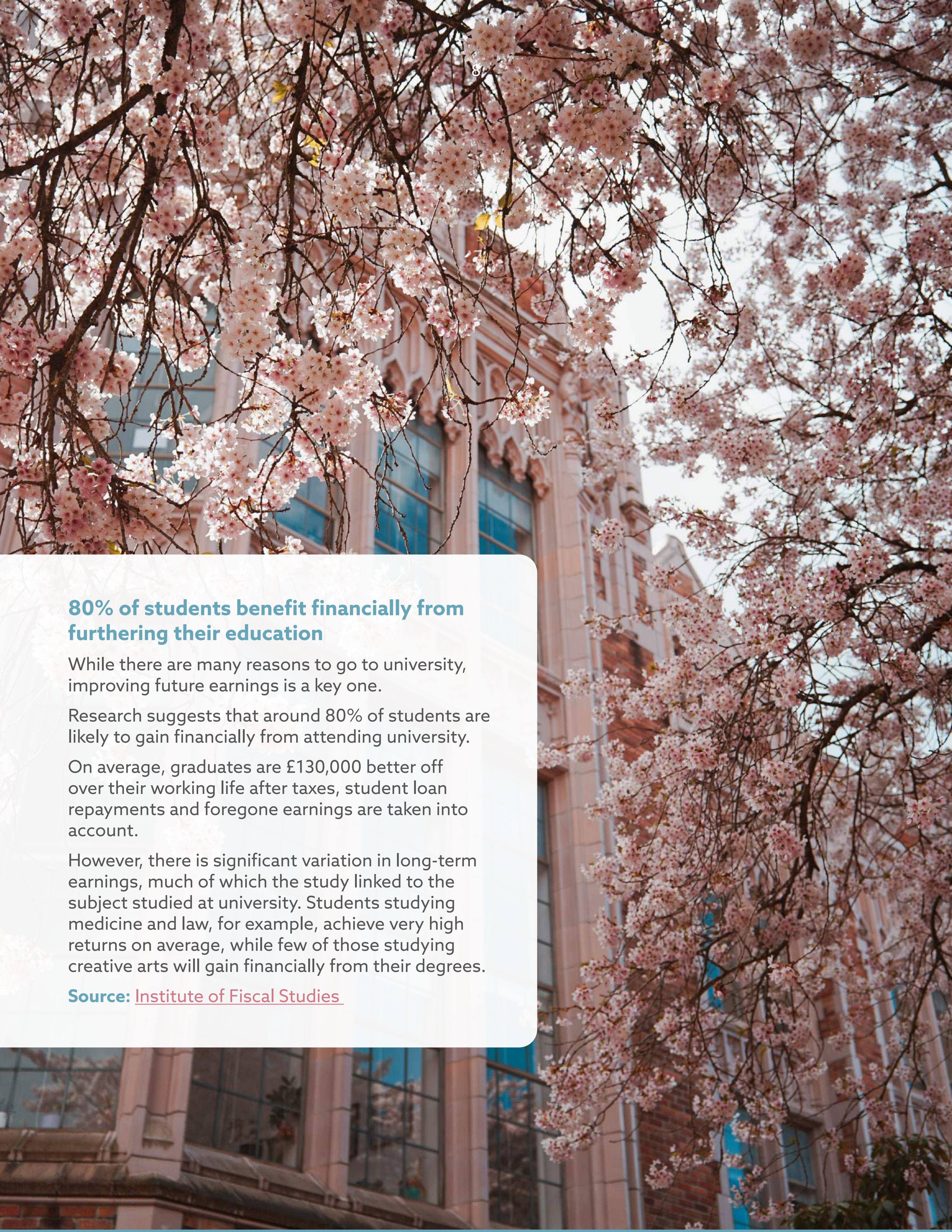
There are no penalties if you or your child chooses to repay the student loan early.

Will a student loan affect your child's credit report?

If your child will be taking out a student loan, you may worry about how it will affect their financial options in the future.

A student loan won't show up on your child's credit report. So, they will still be able to take out a mortgage or other forms of borrowing with outstanding student debt.

However, it could affect how much your child could borrow if a lender assesses their income, which will be lower if they're making repayments.



80% of students benefit financially from furthering their education

While there are many reasons to go to university, improving future earnings is a key one.

Research suggests that around 80% of students are likely to gain financially from attending university.

On average, graduates are £130,000 better off over their working life after taxes, student loan repayments and foregone earnings are taken into account.

However, there is significant variation in long-term earnings, much of which the study linked to the subject studied at university. Students studying medicine and law, for example, achieve very high returns on average, while few of those studying creative arts will gain financially from their degrees.

Source: Institute of Fiscal Studies

How to fund postgraduate education

Faced with a competitive job market, more students are choosing to pursue postgraduate education.

According to the Higher Education Statistics Agency, the number of postgraduate students increased by 16% in 2020/21 when compared to a year earlier.

In England, students that would like to complete a master's degree can apply to the Student Loans Company for a loan of up to £11,836 to pay for their course in 2022.

Unlike undergraduate courses, the money is paid to the student in instalments, rather than directly to the university, and they can use it to cover living expenses.

Repaying the loan for a postgraduate course works in a similar way to undergraduate loans.

Once your child is earning £21,000 a year, they will need to start making repayments of 6% of their income that is above this threshold. This is on top of any repayments they make to repay a student loan used for an undergraduate course.

If their income doesn't exceed the threshold or they stop working, they won't need to make repayments. After 30 years, any remaining debt is cleared.

For those wanting to further their education still, there is a doctoral student loan which allows people to borrow up to £27,892 for a course.

If someone takes out a loan for both master's and doctoral courses, 6% of their income above £21,000 will be deducted to pay for both.

Postgraduate loans accumulate interest. The rate varies and there is a government cap in place.

There are different loan options and income thresholds for postgraduate courses in Scotland, Wales, and Northern Ireland.

Making your child's education part of your financial plan

While loans provide a way for students to pay tuition fees and some of their living costs, you may still want to provide additional financial support.

Many students find there is a gap between their outgoings and maintenance loans. Family support can mean they can focus on their studies.

> Before you decide what financial support you'll offer, check if your child is entitled to any additional help from their chosen university.
>
> Some students could benefit from a fee waiver, bursary, or scholarship. These are often used to support low-income families, but they may also be linked to academic or sporting ability.

Working part-time can provide students with useful work experience and soft skills, but it can also distract them from their education.

According to Save the Student, 66% of students work part-time and a further 6% earn money through self-employed work.

A financial helping hand could mean your child can make their course a priority.

The research also found that some students are getting into debt to meet living costs. Almost a third used overdrafts, 16% used credit cards, and 3% had taken out a loan.

Whether you want to help out with course books, pay for accommodation, or provide a regular income while they study, having a clear plan makes sense for you and your child.

Making it part of your budget and understanding how it could affect your income now and in the future is important. For instance:

- How would taking a lump sum out of your investment portfolio to pay for accommodation affect your retirement plans?
- Could making regular contributions from your income affect your lifestyle or other long-term goals?

Financial planning can help you answer these questions and put in place a plan that will support your child's education and other priorities you may have.

From your child's perspective, understanding what financial support you can offer them could help them better manage their own finances and have peace of mind.

> As well as lending a financial helping hand, an insight into how to manage money can help students.
>
> Sitting down with your child to create a budget and explain the expenses they need to consider can be invaluable. It's a step that can lead to them feeling more confident about their finances and making better decisions.
>
> It's a good time to talk about borrowing too. Many banks will try to entice students with overdrafts or credit cards that have great introductory offers for students. In some cases, these can be useful, but it's vital they understand how to borrow efficiently and the long-term effect it could have.

Why starting early could pay off

It's never too soon to start thinking about how you'd support children if they wanted to further their education.

Even if your child is still young, there are things you can do now. Saving or investing through a Junior ISA (JISA) could provide them with a lump sum when they are 18, which they could use to pay for university.

For the 2022/23 tax year, you can add up to £9,000 to a JISA on behalf of a child. If you contributed the maximum amount from birth until they were 18, and the JISA limit remained the same, you'd have added £162,000 to the JISA.

The amount in the JISA at the end of the period would depend on interest or investment returns. If you decide to invest, keep in mind that the value of investments can rise as well as fall. You may get back less than you invested.

Your child can open a JISA if they don't have a Child Trust Fund and are under the age of 18. Currently, 16- and 17-year-olds get two ISA allowances – £9,000 for a JISA and £20,000 for an adult cash ISA for the 2022/23 tax year.

Starting sooner rather than later not only means you can spread out contributions, you also have longer to benefit from interest or investment returns.

Making long-term education plans for your family means they could have more options when they reach adulthood.

Please note: For ISAs, investors do not pay any personal tax on income or gains. Tax treatment varies according to individual circumstances and is subject to change.

The value of investments can fall as well as rise. You may get back less than you invested.

Contact us to discuss making your child's education part of your financial plan

Whether your child is heading to university this year or it's something that's still years away, making their education part of your financial plan can give you confidence.

It means you can offer financial support and already understand how it will affect other goals you may have. You may also want to take additional steps to create an education fund for your child, such as investing on their behalf while they are young.

We can help you understand what your options are.

Please contact us to discuss your needs and goals:

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