Steps toward a fairer system of postgraduate taught funding in England

n u s

national union of students

Foreword

We are delighted to present this paper which outlines new proposals for postgraduate taught funding in England. A feasible model that promotes fair access to taught postgraduate courses is long overdue, and we are proud to put our names on it.

Taught postgraduate study in the United Kingdom is world class, and so are the graduates who are fortunate enough to take advantage of the diverse and intellectually stimulating courses on offer. Sadly, however, many students of equal ability and motivation are denied this life-changing opportunity because they cannot access the necessary funding to pay for their tuition or to support themselves for another year at university.

We find the financial set-up at postgraduate level to be grossly unfair. Whilst a handful of the brightest and most underprivileged graduates may be fortunate enough to find funding from the research councils or institutions, the majority of graduates from poorer backgrounds will not have access to the necessary funding to continue their studies. Moreover, many graduates are currently funding their study through potentially disastrous measures such as credit cards, overdrafts and personal loans. Many others will drop out of their courses, unable to find the finance to complete their degree, or too troubled by crippling debt to continue.

The proposals set out in this paper are by no means a perfect solution to these problems; but in a time of unprecedented economic turmoil, we feel that such a scheme would present a massive step in the right direction. We cannot sit back and allow bright, motivated graduates to be denied access to postgraduate study purely because of their financial status. Entry to postgraduate study should be based on merit, not social background.

We feel that it is important to outline, as this paper does so well, the broad and significant contribution that postgraduate study makes to this country's economic and social development. Postgraduate education is an invaluable resource to the country, and should be treated as such. However, the economic and social benefits of postgraduate education are often overlooked, and policymakers have generally ignored their importance. As a result, the postgraduate sector has no formal system of student finance and tuition fees have been left unregulated: a situation which could potentially lead to a serious crisis.

The postgraduate sector is unregulated, underfunded, and undervalued. We urge government to look closely at these proposals, as they have the potential to make a significant impact on social mobility, as well as generate wider social and economic benefits. We believe that without a financial burden on government, a system of taught postgraduate finance can be administered which can widen participation and provide fair access to those graduates who are currently denied a chance to study at a higher level.

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Summary

Postgraduate study is valuable for the economy and for society as a whole. Fee increases at undergraduate level have exacerbated an already-existing problem of severe funding shortages at postgraduate level. Currently access to postgraduate study depends not on ability, but on ability pay upfront – a system that is indefensible on a social justice level, unsustainable in the current higher education policy context and, increasingly complacent, when the contribution of postgraduate study to the extension and application of knowledge is considered.

This paper considers options for funding (primarily) taught postgraduate study to take account of several distinct forms and purposes for taught postgraduate study. We believe that a one-size-fits-all model does not meet the needs of students, employers, higher education providers or the country at large, because measures appropriate for one part of the system risk creating perverse incentives in others.

We propose three separate schemes to provide loans for taught postgraduates in three different segments of the postgraduate entry profile:

- One scheme to support initial access to the professions, targeted at those with greatest need and designed to ensure greater diversity in progression to the professions
- One scheme for employer-backed student loans for those wishing to study any kind of postgraduate qualification part-time alongside employment
- One more general scheme for supporting a controlled number of students to undertake a Masters whether full- or part-time

All these schemes would involve the creation of a discrete number of loans repayable on similar terms to undergraduate income-contingent loans. However, we suggest constructing schemes that eliminate the costs to government of failure to repay by more strictly controlling the supply of loans and some adjustment of the repayment terms. We believe these schemes, while imperfect, offer an entry point into working towards a system that offers fair access to those qualified for, and interested in, postgraduate study.

Although the loans proposed would not be directly linked to fees, in practice many students will wish to use their loan to pay all or part of their fee costs. Some postgraduate students without access to capital will need further support to meet both fee and living costs. Currently institutions offer fee waivers to deserving postgraduates; we would suggest that these funds be specifically retargeted at supporting postgraduate students who can demonstrate a financial need and further, that institutions be required to report on how fair access to postgraduate study is supported and enhanced through annual reporting via the access agreement or national equivalent.

We would exclude from our proposals those studying postgraduate courses that already attract financial support including teaching/PGCE, health and social care.

We have set the proposed scheme in the English context, but there is no reason why the proposals cannot, with some modifications, be applied elsewhere, particularly in Wales. Although Scotland and Northern Ireland have existing schemes to fund postgraduate study through the Postgraduate Students' Allowances Scheme in Scotland and Department for Employment and Learning funding in Northern Ireland, these schemes do not cover all forms of postgraduate study or, arguably, a sufficiency of postgraduate students.

Finally, this paper deals with outline policy and is not intended to provide fully developed proposals. Our estimates relating to costs and repayments are of necessity indicative, as the tools we have had available were not designed for this purpose. Were any or all of the proposed schemes to be taken forward more detailed economic analysis would be required.

Introduction

Postgraduate study is of major national importance, valuable for social mobility, economic growth and supporting the growth and dissemination of specialist knowledge. Taught postgraduate degrees support access to professional career paths, including research careers, enable individuals to extend and deepen their knowledge of a particular subject, and support professional development of individuals at various points in their careers.

The value of postgraduate study to our economy and society should not be underestimated. Postgraduate students are key producers of knowledge. They are our future academics and researchers, and contribute greatly to our research and knowledge base. They are also producers of wealth. According to research from the London School of Economics, a Masters degree increases lifetime earnings by 15 per cent on average.[1] This also means an increase in tax revenues for government. Research provided by London Economics to BIS indicates that the net benefit of a Masters degree to the Treasury is around £67,000 for men and £44,000 for women.[2]

Currently access to postgraduate study is dependent on both ability and the ability to pay substantial upfront fees. Only the first of these is an appropriate condition for access at the postgraduate level. This is not solely a matter of social justice, but a means by which the talent pool for developing highly knowledgeable and capable individuals is reduced. The creation of a funding system should not follow evidence of inequity in access to postgraduate study; it is the condition for equity to occur.

A small number of top candidates have access to Research Council and institutional funding, but these apply mostly to traditional Masters students with a high potential for careers in academic research. The concentration of research funding in doctoral training centres and on 'high-impact' research fields has made these awards even more competitive, and many highly able students who are perfectly well qualified for higher-level study miss out every year.

With increases to undergraduate fees and cuts to the teaching grant we expect to see taught postgraduate fee increases, though it is unclear whether the UK-domiciled postgraduate student market will be able to sustain these. There is widespread concern about debt-aversion on the part of UK graduates in light of the £9,000 undergraduate fee cap – students facing up to £36,000 of undergraduate loan debt may feel less able to progress to postgraduate study and face further debt and upfront costs.[3]

1) Machin, S. and Murphy, R. The social composition and future earnings of postgraduates, Sutton Trust, 2010

2) Conlon, G. and Patrignani, P The Returns to Higher Education Qualifications, BIS Research Paper No. 45, BIS, 2011

3) See, for example, Postgraduate funding: the neglected dimension, British Academy, 2012; The Postgraduate Crisis, 1994 Group, 2012

Despite these concerns, ideas of how best to fund postgraduate study have been limited. It was recently reported that the Higher Education Minister David Willetts has claimed to be frustrated by the lack of debate over how to fund postgraduate study.[4] One notable exception is Dr Tim Leunig's proposal for Centre Forum, Mastering Postgraduate Funding[5], some of whose ideas we have reframed in our proposals.

Following Professor Sir Adrian Smith's review of postgraduate education for BIS in 2010[6] we have seen some increased focus on aspects of postgraduate education policy. The Higher Education Funding Council for England (HEFCE), on the prompting of BIS, has initiated a process of gathering data on postgraduate study with a view to understanding better the supply of postgraduates and patterns of postgraduate provision. The funding council has also commissioned research into postgraduate public information needs, including whether a national postgraduate student survey would be of value.

In the field of widening participation policy, theory and practice, there is occasional consideration of access to postgraduate study: in February 2012, for example, the Open University and the University of York co-hosted a conference on the theme of widening participation to postgraduate study.[7]

Interventions such as these, while most welcome, have not yet been able to tackle the contradiction in the current status of postgraduate taught study: government aims to ensure that access to undergraduate study is, at least on paper, equitable and meritocratic, whilst turning a blind eye to the thoroughly unmeritocratic system of entry to postgraduate study. We cannot state forcefully enough that, at present, access to postgraduate study in much of the UK depends on the ability to pay upfront. We cannot fix this injustice in one fell swoop, but we can make progress towards a more equitable system.

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4) Jump, P. 'We'd welcome ways to solve the postgrad funding puzzle', Times Higher Education, 20 September 2012

5) Leunig, T. Mastering Postgraduate Funding, Centre Forum, 2011

6) BIS, One step beyond: making the most of postgraduate education. Report of the BIS postgraduate review, 2010

7) Conference website, including videos of speaker presentations is here: http://www8.open.ac.uk/about/inclusion-and-curriculum/research-and-scholarship/widening-participation-postgraduate-education-access-after-the-white-paper

Foundations for designing a funding system

Postgraduate study is not an absolute right but an opportunity that talented people should be able to take advantage of, no matter what their social background. To fund everyone who simply desires to undertake postgraduate study would be counter-productive, as the economic and social premium attached to postgraduate study, as well as the international reputation of the sector, depend on maintaining an intellectually stimulating environment of highly able students with a deep interest in their subject.

Demand for taught postgraduate qualifications does not only come from young graduates seeking to enhance their subject knowledge or to qualify for a specific profession. A large part of demand comes from returners to education in their thirties or forties, seeking to study part-time in subjects relevant to their career development and to industry, in some cases funded by employers. A good solution will take account of these different contexts, not create a 'one-size-fits-all' model.

Understanding of the barriers to undertaking postgraduate study are in the main derived from impressions rather than hard data. We know very little about unmet demand for taught postgraduate study, or about the social makeup of the postgraduate population. The impact of a government-backed funding scheme would likely have its own stimulating effect on demand. As such, initiating small-scale, controlled schemes that can be piloted and grow, rather than a catch-all scheme that might lead to unforeseen consequences is probably a sensible way to proceed.

In the ideal world, it would be possible to make the case for greater public investment in postgraduate education. We can justify some level of upfront public investment, because postgraduate study can (and should) be used to extend human capacity and as an engine for economic growth. If government wants the UK to continue to compete in a knowledge-based global economy, it must consider closely the long-term economic benefits of public investment in postgraduate study. There are also added long-term benefits to the Treasury in higher tax revenues, which have the potential to dwarf the original public cost of investment. Currently, however, we are faced with a coalition government that is imposing cuts across all government departments. Only a fiscally neutral solution will suffice at present, especially given cuts to the Education Maintenance Allowance and Aimhigher.

It is almost impossible to create a national eligibility scheme based on socio-economic status at postgraduate level. At the age of 21, graduates become independent from their parents and so parental income is not a useful indicator of need; still less when the prospective postgraduate is in her thirties and has a career and a family to support. As such, trying to create a national, targeted, means-tested scheme is not going to work. Work to enhance access at institutional level may be possible, however, as individual circumstances can be more readily taken into account. We would argue that institutions should develop a local evidence base of where the greatest need is at postgraduate level and target the funding that is currently used in this direction particularly in supplying maintenance support.

We would also argue that if any publicly-funded postgraduate loan schemes were to be created it would be reasonable to ask institutions who participated in the schemes to report annually on the strategic and practical measures they were taking to improve access to postgraduate study. This would ensure a level of public accountability and an incentive for good practice to develop and be shared. The existing access agreement or Nations equivalents provide an appropriate structure for reporting to take place.

In a system where postgraduate fees are uncapped, any large-scale injection of money into the system without some kind of controls on fee levels presents a significant risk of fee inflation, increasing long-term costs to the student and putting further strain on the public finances. Some level of regulation is needed to begin to mitigate the damaging effects of the market. However, a generalised fee cap is undesirable from the point of view of postgraduate education providers and would greatly restrict postgraduate student numbers. Arguments that competition would have a deflationary effect on fee levels are unsubstantiated: perceived quality/prestige, cost of delivery, and the Research Council fee payment maximum seem in most cases to be determinants of postgraduate fees, not competition between institutions.

A scheme which is intended to widen participation will of course ensure that graduates pay back loans only when they can afford it and in proportion to income. Thus, the challenge of any proposed system is eliminating or significantly reducing the cost to government of any failure to repay. We would, however, expect the rate of failure to repay to be lower than for undergraduates in part because of the lower debts involved, and in part because we would expect those with postgraduate degrees (on average) to progress to better-paid jobs than those with only an undergraduate degree. BIS's own data confirms that the mean net premium for those holding a Masters-level qualification is estimated at £59,000 for men and £42,000 for women.[8] This will not be true across all subject areas, however and it is possible that the size of the premium associated with certain high-end postgraduate courses (the MBA for example) is skewing the mean figures to some degree.

Currently some employers invest in funding or co-funding postgraduate study for their employees for both Masters and doctoral degrees. It is likely that small and medium enterprises, especially those working at the frontiers of the knowledge economy, would wish for their staff to have access to the latest technological advances, but this would represent a significant investment for companies with low turnover and tight profit margins. It is very important that proposed solutions do not create disincentives for business to invest in postgraduate study; ideally the solution would support growth in industry investment and employer co-funding.

Subject-spread of taught postgraduate study is currently overlooked - in a difficult market, higher education providers will cut the courses for which they cannot sustain enough demand, but the disciplines require a decent subject spread for knowledge to flourish.

8) Conlon, G. and Patrignani, P. 'The Returns to Higher Education Qualifications', BIS Research Paper No. 45, BIS, 2011

What we propose

We have identified three basic segments in taught postgraduate provision and we propose that a slightly different funding solution be implemented for each one. This would allow adjustments to be made appropriate to the needs of the disciplines, employers, students and the professions, without having an adverse effect or creating perverse incentives. It would also give prospective postgraduates some choice as to how they wish to access postgraduate study.

In all cases we propose managing cost and the risk of inflation by limiting the number of loans or amount of finance available thus avoiding creating an incentive for unrestricted growth in either fees or postgraduate places. Where schemes are found to be effective we envisage that they could grow, possibly through increases in direct or proxy private investment.

In each case, loans would be provided by the Student Loans Company, but on slightly different terms to undergraduates. For example, the loans could have different interest rate accrual tapers linked to different purposes, repayment could involve a higher payment rate, or could start at a lower threshold. We would certainly maintain a 30-year cancellation provision, from the date that the postgraduate loan was received. Establishing the right combination would require detailed modelling and testing.

The access to the professions segment

Currently many taught postgraduate courses exist to prepare individuals for a specific professional career in law, journalism, accountancy and others. While we may wish to quibble with this narrow definition of ‘the professions’, there is no doubt that the professions as traditionally defined are also traditionally rather socially exclusive. Courses that prepare graduates for specific professions are in high demand and as such command a high price tag.

Although barriers associated with social capital are undoubtedly part of the problem, inaccessible but necessary qualifications must have their part to play. We would not wish, however, for any graduate to be able to take out a loan to pay for such a course; this would be inflationary and in any case there is limited value in training more people than are needed to sustain the professions.

As such we propose a specific access scheme for access to the professions, to be designed and managed in partnership with whichever professional bodies wish to be involved.

Eligibility for the scheme would be limited to graduates who were eligible for the full maintenance grant as an undergraduate and who could demonstrate high levels of academic achievement and a clear ambition and propensity for the profession in question. Strong references would be required. Applications should be specifically welcomed from those with a disability, from a minority ethnicity that is poorly represented and, where gender balance is an issue, from women. Mature graduates should not be excluded (especially as this would be illegal), but those seeking to change profession after some years in the workplace would not be eligible. A loan to cover fees up to an approved maximum (possibly with different levels in different subject areas) and a 'full' one-year maintenance loan would be included.

We would expect the rate of repayment of these loans to be very high, given that the scheme would cover high-achieving future professionals but believe that government should incur any cost of failure to repay, as part of the social mobility agenda.

We also believe that a scheme such as this could be expanded through seeking philanthropic investment from the private sector.

The part-time professional development segment

Around half of all postgraduate students study part-time and it is fair to assume that in most cases these are individuals in employment seeking to develop knowledge and skills that will support their career path, though some will have chosen to study part-time as a way of spreading out costs. Employer co-funding is a recognised way of funding postgraduate study, and a means by which employers recruit and retain the top talent and ensure their staff have the most up-to-date knowledge. Recruiting and supporting high capability individuals will be of particular importance to business working at the frontiers of the knowledge economy, but where a business is relatively small there may not be enough money available to support employees through postgraduate study.

Those studying part-time alongside employment do not have need for maintenance support, of course.

We propose the creation of a system in which employers are able to buy into a scheme that enables their employees to access loans for postgraduate study. This would shift the risk of this element of the loans system onto employers and away from government; employers would pay an upfront cash fee to government of around 12 per cent of the course fee, which taken collectively would offset the RAB charge on the loans issued.

Limits would need to be set on the amount of loan money any one company had access to in a year, which could then be divided among employees as the company saw fit. The scheme could be tailored to take account of the size of any company and seek subscriptions appropriate to the number of employees likely to require this level of training. In essence each employer would pay a subscription for the number of employees it wished to fund. We would estimate that by using this scheme employers would be able to back loans for about ten staff for the same overall cost as paying the course fees of one member of staff upfront.

Employers could continue directly to part-fund postgraduate degrees and apply conditions to individuals drawing on employer funding as they do currently. Likewise, courses that are developed in partnership with employers could continue as they do, but there would be an incentive for more of these courses to develop, ensuring postgraduate study that is targeted at this specific group would be actually meeting the needs of employers while giving individuals the opportunity to gain further qualifications and ultimately command a higher salary (which would boost tax revenues).

This method of funding would potentially be appropriate for doctoral study as well as taught postgraduate study, particularly for the professional doctorate. The implications of the larger fee loan required would need to be explored, but again if a company had access to a specific sum of money to be divided among employees as necessary this would just be a case of factoring this in when making the decisions about who to fund and how much loan to offer.

The ‘traditional’ segment

Once we extract the professional preparation and professional development parts of the postgraduate field we would expect to find that numbers remaining would be significantly reduced. Some of those remaining will also be funded through the Research Councils or other external funders either through Masters-level funding or as part of a 1+3 studentship.

This still leaves an access challenge for people who are not fortunate enough to obtain such funding, but still have the talent and motivation to pursue a broad-based or research-focused Masters degree and lack the funds to do so. We propose a fee loan structure here in which the interest charged on loans issued under this element is high enough to make the overall structure cost-neutral in resource accounting terms (i.e. a nil RAB charge).

This would be a centrally-managed system in which the number of loans is restricted and in which loans are allocated to subject areas, ensuring an appropriate spread and adjusted year-on-year.

The maximum loan amount available would have to be controlled and, crucially, where an institution wished its students to take advantage of the loan, it would have to agree to keep fees to an agreed maximum for those courses for full-time students and pro-rata for part-time. There would be no restriction on the amount of places the institution could offer on these terms. We suggest that £6,000 would be a reasonable loan amount and agreed fee maximum - some will find this excessive and others inadequate. The actual amount is to some extent irrelevant; it will depend on what is affordable.

Prospective students would be able to apply centrally for a loan, which they could subsequently take to any institution, thus ensuring that students had choice in where they studied and enabling monitoring of levels and patterns of demand. The process, by definition, would be competitive – and would involve a baseline level of attainment being set, with the possibility of demonstrating equivalent attainment by other experience. The risk here is that students could be awarded a loan but then subsequently fail to be accepted for a course – but this can be managed with a 'holdover' mechanism allowing the student to reapply in up to two subsequent years before losing the entitlement.

The benefits of this scheme are obvious: improved access to postgraduate study, support for a healthy subject spread, without having an inflationary effect on fees. In particular, the scheme is designed to provide much needed-regulation of postgraduate fees. Institutions are already feeling the pressure to raise fees in order to compensate their potential losses from cuts in public funding. A graduate loan scheme without a fees cap would likely create a race-to-the-top situation, where institutions overinflate fees knowing students can offset some of the upfront costs. We have seen market failure at undergraduate level push fees to towards the maximum; we do not want the same happening at postgraduate level.

We would be concerned that a small number of institutions would not use these schemes and would continue to offer Masters courses at higher prices targeted in the main at the international market or in particular subjects (the MBA being the archetype here). We have considered this and feel that the benefits that would accrue across the rest of the system are worth the compromise and would hope that moral pressure would do its work in time.

The costs and benefits to government

Government is set to make significant gains from our proposed loan scheme. Of course, many of these gains will be contingent on minimising the costs of the scheme, both in terms of government borrowing, and in terms of administration.

Regarding the cost of the scheme, we argue that government is in a very strong position. Our proposals minimise the RAB cost to government by keeping the loan size comparatively small (a total of just £6,000, compared to over £35,000 for the average fee and maintenance loan for an undergraduate degree) and by restricting the number of loans available. Other factors, such as the continued availability of research council funding, can also help to minimise the size of the scheme. As such the scheme can start relatively small and be allowed to grow sustainably with demand.

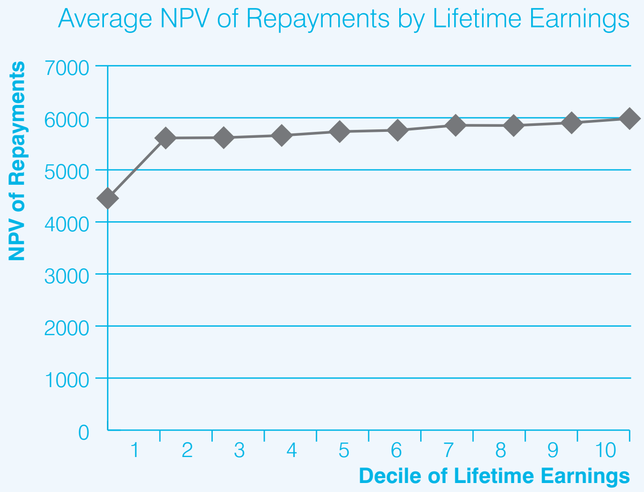
Although we propose a centrally-managed system, the administration costs can be reduced by utilising existing institutional structures. Loans can easily be administered through partnership between HEFCE, the Research Councils and the Student Loans Company. For instance, it is possible that the loans can be applied for through the Joint electronic Submission system (Je-S) already used by Research Councils for student funding applications. The loans would not be means tested, so the bureaucracy in the application process can be cut considerably.

We have argued that the terms of the loan, such as the interest rate and the repayment threshold, need to ensure cost-neutrality across the board. The exact terms can only be finalised after careful modelling and costing. However, we suggest that a system based on the current undergraduate loan scheme, but with a repayment threshold of £15,000, rather than £21,000, is likely to generate a RAB charge of almost zero, which should enable the scheme to grow and loans to be offered to more students. We would retain the sliding scale of interest wherein graduates on higher salaries pay a higher rate of interest on their loan (see appendix for more detail).

Our figures are based on calculations using the government's own loan repayment 'ready reckoner'. The ready reckoner estimates that the RAB charge on a loan with a repayment threshold of £15,000 would be around 6 per cent, meaning that government would make a loss of £360 per loan.[9] *Figure 1* shows the repayment rates on our proposed scheme by average income. Note that the largest proportion of losses to government are found in the first lifetime earnings decile. We believe this estimate overstates the losses to government, because the ready reckoner is based on the future income of all graduates, many of whom will have weak degrees and earn considerably less than a postgraduate cohort.

It is highly probable that there will be no losses to government from the scheme at all, because postgraduates are less likely than undergraduates to have lifetime earnings in the lowest deciles.

Figure 1



It is also worth mentioning that the above estimates are based on government borrowing costs at 2.2 per cent above inflation. At present, however, the interest on government borrowing is at a record low, making it a perfect time to invest in human capital to help stimulate economic growth. This would require the Treasury passing on the low cost of borrowing to BIS, which it currently does not do. If it were to do so, the ready reckoner estimates that the scheme would have no difficulty in breaking even.[10]

9) For this estimate we added a fourth year to the ready reckoner model and started repayments after this year. We also ran the model by adding the cost of the extra year over the three undergraduate years and recalculated the interest to match a four-year period. The results of both estimates were within 1 per cent of each other, the latter estimating a 5.2 per cent RAB charge. We also estimated the added RAB charge if the PG loan was added to an existing UG loan. This had to be calculated at the current threshold of £21,000 and based on baseline fees of £8,136 and a maintenance loan of £3,750. Our estimate suggested that adding a £6,000 PG loan would increase the overall RAB charge by 5.3 per cent, from 28.4 per cent to 33.7 per cent.

10) Our ready reckoner estimate suggests that the RAB charge would be -4.9% (in other words, creating a surplus of around £300 per loan) if the discount rate of 2.2% is lowered to zero.

There are a number of long-term benefits of the scheme to government. Postgraduate qualifications help generate, on average, a lifetime income 15 per cent higher compared to an undergraduate qualification. Thus, investing in postgraduate education will generate higher tax revenues, along with the added effect of more jobs, more consumable wealth, and therefore higher economic growth.

A further direct benefit to government comes from the scheme's potential to lower graduate unemployment. Around one in five graduates remain out of work six months after leaving university. Providing students with access to postgraduate funding can help to reduce this figure by keeping young people in education, where they can develop to their full potential, instead of in the dole queue, where too many graduates currently are. This has the potential to lower the welfare bill by keeping young people off benefits.

The benefits to higher education institutions

With the future of funding at postgraduate level uncertain, institutions will be looking to find a more secure source of income. Increasing the number of home students in postgraduate study and guaranteeing their funding for course fees through a loan scheme will provide institutions with a higher degree of certainty about future funding. It therefore seems reasonable that most institutions would commit voluntarily to such a scheme in order to ensure a guaranteed income.

Some institutions may be reluctant to agree to a £6,000 cap on tuition fees. However, the cap is around £2,000 higher than the current average taught masters fees in most library-based subjects. Thus, a £6,000 cap gives institutions some considerable leeway without allowing fees to become massively overinflated. Furthermore, institutions have the flexibility of making some courses exempt from the loan scheme, where fees need to be higher to cover costs, or where there are enough sources of funding such as alumni donations to allow fair access without the loan scheme.

We believe that a loan scheme offers an effective balance between the institutional desire to secure future sources of income and the need to maintain a degree of competition between institutions to ensure fee levels do not become overinflated. With such a scheme in place, institutions will be able to expand and enhance their postgraduate provision, without worrying about funding it a few years down the line. Moreover, because the loans will be attached to the student and not a specific institution or course, the institutions will have a further incentive to develop their graduate schools in order to market their courses to students.

The benefits to students

We have already discussed the obvious benefits to students in terms of widening access to postgraduate study. It is worth going through some of the financial benefits more closely.

In our 'Broke and Broken' report on taught postgraduate finance, we found that around half of all self-funded postgraduate taught students had considered leaving their course due to financial reasons. We also found it highly concerning that over 15 per cent of respondents had claimed to be funding at least part of their study through credit card and overdraft debt.[11]

Like institutions, students also need a degree of security and stability in their funding, so that they can take a course without the worry of whether they will have the money to complete it. A government-backed loan scheme can provide students with a secure form of funding where the repayment is income-contingent, unlike the borrowing on personal loans, credit cards and overdrafts.

Not only will the funding be secure, it will also be cheaper in most cases. Taking out a Professional and Career Development Loan (PCDL) is the current alternative source of finance on the market. Unlike the proposed loan scheme, repayments on the PCDL are not income-contingent, and students have to start repayments upon completion of their course regardless of whether they have found a job.

Figure 2 shows a comparison of the PCDL with the proposed loan scheme. We can see that for someone on a salary of £23,500 (the average starting salary for a postgraduate[13]), the monthly repayments in the proposed system are half that of the PCDL, and the total repaid is around £150 less. At £30,000, repayments are still below that of the PCDL, and because the loan is repaid in just five years, the total repaid is over £600 less. We can also assume that most people's salaries will increase over the repayment period, meaning that the repayment would be quicker and the total paid out even less.

Figure 2[12]

PCDL	Loan Scheme: Salary £23500	Loan Scheme: Salary £30000
Maximum 5 Years Repayment Period	**Repayment would take approx. 9.3 years**	**Repayment would take approx. 5 years**
9.9% Interest	3.5% Interest	4.5% Interest
£126 per month	£63.75 per month	£112.50 per month
Total repaid £7560	Total repaid £7410	Total repaid £6940

11) Broken and Broken: taught postgraduates on funding and finance, NUS, 2010

12) Figures for the graduate loan scheme are approximate and should be used as rough guidelines only.

13) This is according to figures on starting salaries found in the BIS report, One step beyond.

Conclusion

We recognise that our proposed system does not guarantee full and fair access to postgraduate study. We have attempted to design a system fit for the world as it is, sensitive to the different needs of the various stakeholders in postgraduate study, and one that improves access and that could be expanded if it proved to be effective and we were in a friendlier economic climate. We have not written the final chapter on postgraduate funding by any means; our proposals are, rather, the preface to a real success story in the struggle for fairness and excellence in postgraduate study.

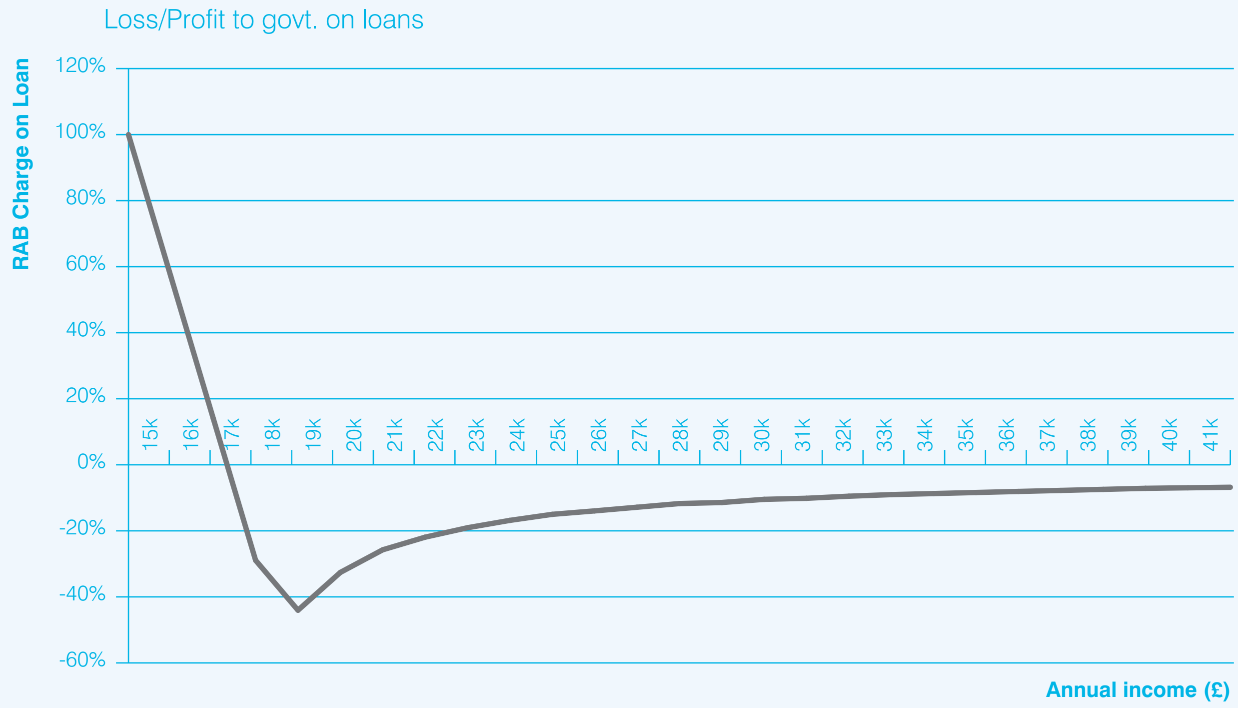
We believe that postgraduate study should not be seen as offshoot of undergraduate study, operating with a similar rationale, but should be approached as a specific case. The postgraduate sector is an intellectually stimulating environment, full of conscientious students striving to achieve. We must understand how postgraduate study works to ensure it continues to maintain its worldwide reputation and its key position in economic and social development. As we begin to make the important steps towards a fair and effective funding system, we must keep these thoughts in mind, and make appropriate adjustments to ensure a system that, if it does not guarantee access, at least extends opportunities.

Appendix - Graduate Loan Repayment Projections

Repayment Thresholds

Our decision to propose a repayment threshold of £15,000 instead of £21,000 on graduate loans is based on our repayment projections. Keeping the current threshold would mean that students would take longer to pay back their loans, costing them more in the long run and making it more difficult for government to recapitalise the scheme with repayments. Government will be repaid the full net present value cost of the initial loan so long as the person maintains an average salary of £18,000 over the repayment period, whereas at the £21,000 level the government would regain the full cost only on average earnings over £25,000. *Figure A1* shows the relationship between average earnings and the cost (or surplus) to government.

Figure A1



Note that the largest surplus to government is found in the incomes between £18,000 and £21,000 because of the interest accumulated over a longer repayment period. At higher incomes, the interest rate is higher, but the repayment period far shorter, meaning that less is repaid overall. Setting the repayment threshold at £15,000 has meant that the total repaid on the loan will be large in this lower range of incomes; however, as the average starting salary for a postgraduate is around £23,500, and assuming that salaries will increase over a person's lifetime, we doubt that many recipients of the loan will fall into this income band.

Figures A2 and A3 give us an idea of the differences in length of repayment between the £15,000 and the £21,000 repayment thresholds. Note the major difference in repayment lengths at an income level of £25,000: at the £21,000 threshold, it would take someone over three times longer to pay off their loan compared to the £15,000 threshold, costing them considerably more overall.

Figure A2

Figure A3

Interest Rates

Another important decision was on the interest rate. Obviously, using the current rate of interest seemed like the simplest option. We looked at the possibility of a flat interest rate of 3 per cent above inflation, instead of the proportional rate currently used as an option to ensure a zero RAB charge. We also looked at changing the threshold on which the maximum level of interest would be charged down from £41,000 to £21,000. Both would increase government revenue, but would also increase the cost of loans to those on lower incomes. We deemed this to be unfair and against the government's own commitments to a more progressive loan scheme at undergraduate level.

Figure A4

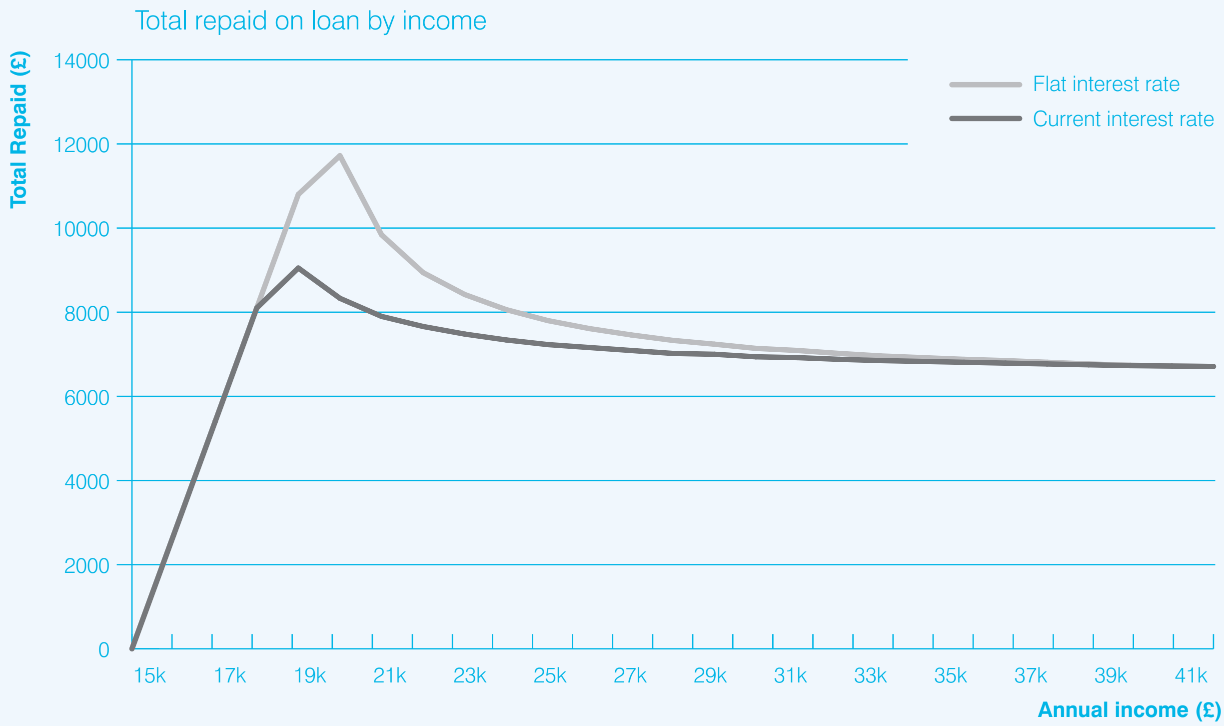


Figure A4 shows that a flat interest rate would increase the total cost of the loan to students, particularly those at the lower income levels. This is deemed unacceptable, particularly as government is likely to reach close to cost neutrality on the current interest rate anyway. If government were to look at increasing returns through interest, we suggest it look at increasing the maximum level of interest while keeping the rate proportional to income.

Notes

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