

## Reformation of Student loans

### Who am I and why am I submitting evidence?

My name is Tony O'Brien. I am retired and live in Bromley south London.

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I am the father of three children with Plan 2 loans – my eldest child was in the first 2012 cohort – all of whom I advised to take out the maximum loan available for both university tuition fees and maintenance – on the common understanding, at that time, that student loans would operate like a graduate tax of 9%. Like all taxes, the rising threshold, as "advertised" by the government, press and media at the time, was an essential component of the scheme – so essential that I foolishly assumed this aspect would be written into and fixed in the T&C of the loan.

My natural interest in student loans turned to alarm in 2016 when Osborne became the first chancellor to freeze thresholds, barely one year into their active payback period. That alarm turned to anger and near panic when I received an email from DfE in 2017 informing me that any of the terms of the loan – the 9% payback, the loan term itself – could be changed for existing borrowers during its life time. I had previously been told in a phone conversation with Student Finance (SFC) that these terms were "set in stone". I can provide evidence of this phone recording to the committee as a concrete example of "mis-selling" by SFC.

**This is the single most egregiously unfair and toxic element of the student loan system, and yet it is barely mentioned in the press or by politicians.**

I therefore represent all those parents of students/graduates, and their children, who took out Plan 2 loans, and can justifiably claim to have been "mis-sold" what I consider to be toxic loans.

What increasingly dominates the debate is the concern and often contrived fury whipped up over accruing interest on student debt. Any yet no government has reneged on the Plan 2 interest scheme (like they have with thresholds). To the contrary, the Conservative government intervened in the high inflation years of 2022/23 to cap interest accruing on debt.

I am seriously concerned that the committee's terms of reference are too focussed on and dominated by the issue of interest accruing on student debt – e.g. the first four items in the Call for Evidence deal with this. **Not one item relates to the freezing of thresholds. All repaying graduates are unfairly treated when thresholds are "frozen", with the majority or young, lower earning graduates, just above threshold, suffering most with effective payback rates at 12+% above threshold.**

**Conversely, interest accruing on debt is only a real concern for the higher earning graduates.**

Naturally the community of high paid graduates, or their parents, have more influence in the press, media and politics than their lower paid peers, such that their concerns become over-represented and drown out the real concerns of the majority of student loans.

In submitting this evidence, I hope to redress that balance.

I have made a series of videos in February 2026 setting out what I thought were the main flaws with Plan 2 (and other) loan schemes, which also sought to dispel common mis-conceptions about interest accruing on debt :-

Student loan farce Part 1	<a href="https://youtu.be/3ezly2XuCC8">https://youtu.be/3ezly2XuCC8</a>
Student loan farce Part 2	<a href="https://youtu.be/GZXt-4ZRGMS">https://youtu.be/GZXt-4ZRGMS</a>
Student loan farce Part 3	<a href="https://youtu.be/mbITVo7BmXk">https://youtu.be/mbITVo7BmXk</a>

All the analysis of those videos, and the charts, plots and tables presented in this document and those videos were entirely my own work, and the originating Google spreadsheet can be accessed at

[https://docs.google.com/spreadsheets/d/1NI7h7ODEZnCQGqF9t6CPHK5p00L1CqhvGz1q1p6edqM/edit?usp=drive\\_link](https://docs.google.com/spreadsheets/d/1NI7h7ODEZnCQGqF9t6CPHK5p00L1CqhvGz1q1p6edqM/edit?usp=drive_link)

I have received no financial aid or any other form of support from anyone else, aside from general comments and advice from family members. Kate Ogden, IFS, kindly approved how I make use the IFS calculator in "Student Loan farce Part 3" to determine what level of graduate tax would raise the same revenue as Plan 5 loans. I have also been in correspondence with Nick Hillman , HEPI, and Andy Green, UCL Institute of Education

### **Key Recommendations**

[1.] Enact the necessary legislation, or amend the T&C of existing loans, to absolutely protect the terms of student loans during their lifetime against change to the detriment of the "borrower" (student/graduate), including a binding commitment to raise thresholds annually in line with the appropriate earnings index.

[2.] Commission the research, polling and consultation to determine which of two options should replace the student loan scheme

1. A graduate tax limited to the 2012+ cohorts (TGT)
2. A graduate tax applied to all UK graduates of working age (AAGT)

[3.] Replace student loan system for all existing student/graduates from 2012 with the optimal form of graduate tax recommended by [2.]

These recommendations are fiscally neutral because:-

[1.] all forecast revenues for student loans are on the basis of existing terms continuing for the lifetime of the loans, including a rising threshold.

[3.] any selected graduate tax scheme and proposed rates should be based on raising comparable revenue to the existing student loan schemes.

## Summary

### Changing loan terms and mis-selling

- The student "loan" plans, and in particular Plan 2 introduced by the 2010 coalition government, initiated and perpetuates a system in which government raises revenue through the means of personalised debt: A grotesque "social experiment" without precedent on this scale, in which a government can impose personal, punitive sanctions against default, and yet is totally free, in practice, to **change the terms of the loan during its 30 or 40 year lifetime to suit its own political agenda: An indefensible case of the government wanting it "both ways"**.
- The fact that the loan terms can be changed during its lifetime is little known, and is never made explicit to students when they sign up to the loan. I can provide evidence in a recorded phone conversation with the Student Finance Company (2016) in which I was assured the 9% payback rate and the 30 year loan term of Plan 2 loans were "set in stone" – a clear instance of "mis-selling"
- So far, successive governments have **only** "cheated" Plan 2 students by "freezing thresholds", which treats all repayers over threshold unfairly but disproportionately penalises the lower earner, and therefore the younger graduate earner. The threshold has been frozen seven times in the 13 year period from 2016-2029, most recently by the Labour chancellor, Reeves. This has cost the government huge "political capital", and alienated the younger, university educated electorate.
- But worse may yet be in store for Plan 2+ graduates should Reform win power in 2029 and fulfil its 2024 manifesto pledge to **extend the loan term to 45 years for existing borrowers. In effect then graduates are at the mercy of future governments who want to impose their own political agenda for the 30 or 40 years of the loan period.**
- A necessary first step then is to enact the legislation to **absolutely protect the terms of student loans during their lifetime against change to the detriment of the "borrower"**. That must include a binding commitment to raise thresholds annually in line with the appropriate earnings index, as originally "promised" in 2012.
- This is a **moral and socially just imperative** – it is not a matter of political doctrine. It will not (or should not) "cost" any government a penny in lost revenue.

### Accruing Interest on Debt

- While it is a crude and cruel mechanism, applying a "real interest" rate of debt accrual is a necessary progressive measure to ensure that higher earning graduate pays back in the same or progressively higher proportion of their earnings.
- The application of an "up to 3% real interest" in Plan 2 loans recognised this, informed by the Browne review of HE in 2011.
- A substantial minority of graduates (40+%) will not pay back their debt even at 0%, they are

entirely unaffected by whatever level of interest accrues on their debt. This proportion rises to a substantial majority even at modest interest rates of 2-3%.

- Reducing accrued interest means less revenue from higher earning graduates, and that lost revenue has typically been recovered from lower earning graduates through freezing thresholds and loan extension. Plan 5 loans are a prime example of this with the loan period extended from (Plan 2) 30 to 40 years and a lower threshold of £25,000 compared to the current plan 2 threshold of £29,385. This is **regressive and socially unjust**.
- Thus the interests of "higher earning" graduates are pitted against the "lower earning" graduate. "High earning" graduates (or their parents) will tend to occupy positions of influence in the media, politics and other influential spheres. This results in the current often contrived and hyperbolic furore over student debt interest accrual drowning out the proper concerns of changing loan terms and threshold freezing.

### **Alternatives : Graduate Tax (Graduate contribution)**

- In the limit of applying an infinite interest accrual rate on debt, a graduate tax results. Everyone pays back at x% over threshold for the lifetime of the loan. A tax is the fairest, most progressive scheme that accords with the now accepted "**axiom**":-
  - *"It is only fair that graduates who have received the benefit of an university education should contribute towards its costs ..."*
  - with the often unstated logical corollary "*...in proportion to the benefit (as future earnings) received*"
- The **second step** then is to replace student loans with a **graduate tax**, which will raise the **same** projected **revenues** as the current Plan 2 – Plan 5 schemes. **This will doubtless require a fresh mandate from the UK public at the next (2029) general election,**
- This will finally remove the sham and double standards of a loan system posing as a graduate tax – the "fiscal illusion" neatly laid bare by the OBR in 2019 (1). It will free existing "borrowers" from the anxiety of their "debt". Students will have a simple decision to make : Should I go to university and incur a graduate tax for my working life? Graduates will vote on the simple proposition in party manifestos: "We will increase/decrease graduate tax from x% to y%"
- There are two options for a **hypothecated graduate tax**:-
  - 1) one limited to existing Plan 2+ cohorts (2012 onwards)
  - 2) one applied to all UK graduates who are UK tax payers and of working age
- The first option – a targeted graduate tax (**TGT**) on those 2012+ student/graduate cohorts – would generate the same revenues as **Plan 2** or **Plan 5** at around **6% (for 30 years)** and **4% (for 40 years)** rates respectively.
- The second option, an "all age graduate tax" (**AAGT**), has these significant advantages :-
  - more socially just as tax burden not borne solely by the "cliff edge" cohorts 2012+
  - a wider tax base substantially **reduces the tax rate** required, forecast at between

- **1%** and **2.4%** in 2011(2), and **2.5%** in 2017 (3)
  - a wider tax base immediately raises more revenue and is less reliant on future university enrolment numbers,
  - as such, it immediately reduces the general tax payer's subsidy of university tuition
- **AAGT** schemes have been advised in 2011 (2) and 2017 (3) but ignored by the 2010 Coalition and 2016 Conservative governments respectively. However each delay necessarily raises the headline rate, and increasingly concentrates the revenue into more recent graduate cohorts, ultimately into precisely those 2012+ cohorts who alone bear most of the burden today. There is a limited time window in which to act if a substantially lower tax rate for **AAGT** compared to **TGT** is to be achieved. 2030 would appear to be the tipping point.
- **AAGT** is the fairer and more efficient option; **TGT** is the easier to implement, both on the grounds of cost and crucially public consensus. **AAGT** requires the majority consent of all UK working age graduates for legitimacy, whereas **TGT** requires the majority consent of the 2012+ graduate cohorts. Reducing the **9% payback rate over threshold** to somewhere between **4% and 6% over threshold would hugely benefit** the vast majority of 2012+ graduates so that their consent should not be in doubt. The "losers" are the top 10% of graduate earners, who might be expected to be mollified by a reduction in rate from 9% to somewhere between 4% and 6%.
- A crucial preliminary step to implement a graduate tax is the research needed to determine the better candidate of the two. This includes both the socio-economic research of the sort already performed by (1),(2) and (3) and **polling and consulting all UK graduates** to test their reaction to a **AAGT**. **It should not be assumed that graduates who have benefited hitherto from a "free university" education will be naturally adverse to an AAGT.** Many will have children who are 2012+ graduates on plan 2 and 5 loans, and would willingly pay a 2-3% tax in common with their children, in order to free their children from student loans. I am one of them.
- A significant portion of the implementation cost is making proper provision for graduates who have paid back their loans (including Plan 1 for **AAGT**), over paid on their loans or pre-paid their tuition fees. These graduates need to be fully or partly exempted from a graduate tax.
- For **TGT**, the target population is (should be) meticulously recorded in the Student Loan Company (**SLC**) accounts, so there should be no significant problem in its implementation. The same **SLC** records will identify those who have overpaid or fully repaid their debt so proper provision could be made for them to be partially or fully exempted from a graduate tax.
- Implementing an **AAGT** will be more problematic as it covers a wider population for whom collation of the necessary data will prove more problematic
- The implementation costs of a graduate tax system can be justified on the savings from running the SLC ( 2024/25: £40 million administrative costs/ £230 million programme costs). The ongoing costs of running a graduate tax system should not be significant as it is anticipated the system would be subsumed within general HMRC operations.

## Context

Student 'loans' are not typical loans ; they are income contingent and the debt is wiped after 30 (Plan 2) or 40 (Plan 5) years. Furthermore the debt level does not affect credit ratings.

Therefore, making comparisons with mortgage debt, and mortgage interest rates – as the right wing press and politicians often do – is as meaningless as the proverbial "chalk is to cheese".

In many ways, the student loan scheme is a very good one. Given the need to borrow money to service the most expensive (by an order of magnitude) university tuition fees in Europe, and living costs while at university, a student loan give access to university education on the basis of a large **unsecured** loan on very good, affordable terms.

In the commercial world a young student would never be able to gain a 30 or 40 year unsecured loan for the typical £50K needed for a university education, and certainly not at the lower interest rates of a mortgage against a secured asset. And of course, a commercial loan would set repayments at a level to repay the debt in full – such an arrangement would be unaffordable for the vast majority of young people seeking a university education.

### Students loans are "toxic" and have been "mis-sold"

However, unlike a mortgage or a commercial loan, the student/graduate borrower has no absolute protection against the terms of the loan changing to their disadvantage during its lifetime, as confirmed by DfE in a letter to me back in 2017. This clearly states that any government, enjoying a large majority and dominating parliamentary committees, could make changes to any terms of the loan – including the pay back rate and the loan term itself – for existing borrowers. The "*subject to scrutiny and oversight of Parliament*" is in itself barely tenable, as the terms are controlled by "regulation" (not "legislation") and can be amended by the executive government without a parliamentary vote. It's presumably this loop-hole that has allowed successive chancellors to freeze the threshold seven times over a 13 year period as part of the annual budget exercise\*.

**Subject:** Department for Education: 2017-0017461 CRM:0446122  
**From:** "ACCOUNT, Unmonitored" <Unmonitored.ACCOUNT@education.gov.uk>  
**Date:** 06/04/2017 10:17  
**To:** Tony O'Brien

Dear Mr O'Brien

Thank you for your letter of 19 March, addressed to the Minister of State for Universities, Science, Research and Innovation, regarding the terms and conditions of student loans.

As I am sure you will appreciate, the minister receives a large amount of correspondence and is unable to reply to it all personally. Therefore, on this occasion I have been asked to reply on his behalf.

As noted in our previous letter to Bob Stewart MP on 6 March, the key terms and conditions of student loans, such as the 9% repayment rate and the 30-year cancellation period, are set out in the Education (Student Loans) (Repayment) Regulations.

If these regulations change, then the key terms and conditions of student loans may change for both new and existing borrowers. It is for each government to decide on its priorities for the repayment of student loans. Changes to these regulations are, however, subject to the scrutiny and oversight of Parliament.

\* The controlling regulations actually has an appendix 1 detailing how the thresholds should rise annually by a RPI threshold multiplier

This is the single most outrageously unfair aspect of student loans, and has been an inherent feature of all student loan plans, going back to Plan 1. However the scale of debt incurred with the tripling of university fees concomitant with the onset of Plan 2, make these loans "toxic" to the borrower.

**This indefensible imposition of a binding loan on graduates, for 30 or 40 years, which exacts severe penalties for default, yet allows governments to change the terms of the loan, exposes the fundamental illogic and illusion at the heart of student loans: Using personal debt to raise current and future government revenue.**

**No commercial lender would be allowed to offer such a loan on these terms.**

Furthermore the scheme is itself is open to the charge of "mis-selling", which, if proven, could lead to vast compensation liability to any government unfortunate enough to be in power at that time.

In 2016 I phoned Student Finance, and asked them "Given the loan term extends over a 30 year period – that's 5 or 6 governments – could any one of them change the terms of the loan – like the 9% payback or the 30 year term?" . After consultation with his supervisor, I was told both the 9% payback rate and the 30 year term were "set in stone", which completely contradicts the DfE email I later received. This phone conversation with Student Finance can be heard in (4).

Furthermore, there is absolutely no indication of the contingent nature of the 9% payback rate or the 30 year loan period in the main source of information provided to students – Student Finance England (sfe), "Student loans: A guide to Terms and Conditions".

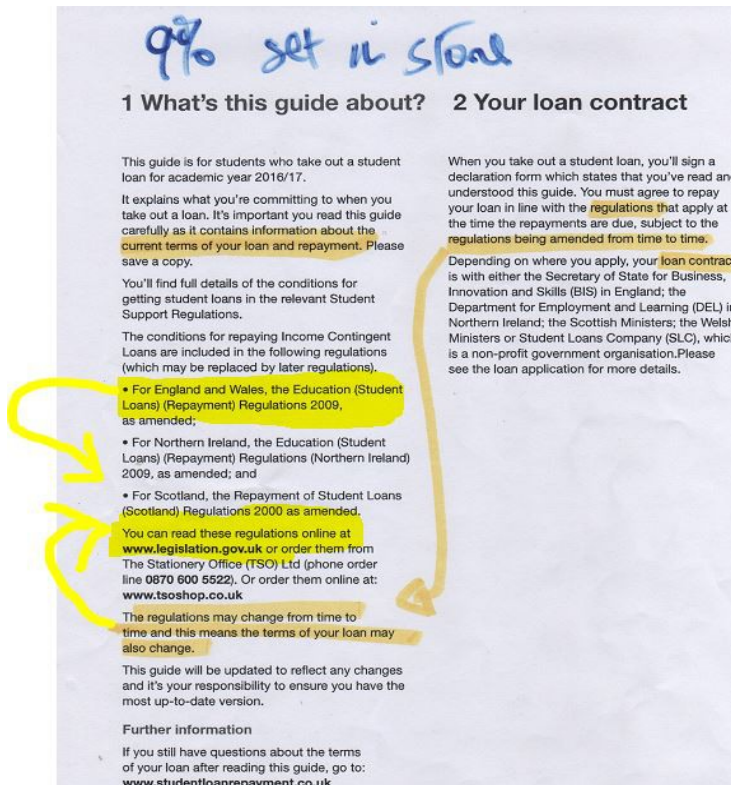
For instance there is no asterixing/starring of 9% in the panel below to indicate that this rate is subject to T&C and could change during the lifetime of the loan.

<b>Repayment plan 2</b>		
You'll repay 9% of your income over £480 a week, £2,083 a month or £25,000 a year. If your income changes, either rising or falling, your repayment amounts will automatically change to reflect this.		
Income each year before tax	Monthly income before tax	Approximate monthly repayment
£25,000	£2,083	£0
£27,000	£2,250	£15
£29,500	£2,458	£33
£31,000	£2,583	£45
£33,000	£2,750	£60

Plan 2 as presented in sfe's "Student loans : A guide to Terms and Conditions"

In fact the full T&C of the loan are nowhere explicitly stated in this document. Instead the student is informed that they can access the underlying regulations from the [www.legislation.gov.uk](http://www.legislation.gov.uk). Back in 2017 I tried to access the underlying regulations at this website and was overwhelmed by a

perplexing long list of regulations and amendments in response to my enquiry.



*The Student Loan T&C maze*

So the precise T&C are never made patently clear to the student, and are buried deep within the text of the Student Loan (Repayment) Regulations 2009. And if you manage to access this from the archive of [legislation.gov.uk](http://legislation.gov.uk), you are confronted by a document written in parliamentary legalese. Moreover it does NOT explicitly state that the repayment rate and loan term can be changed during the lifetime of the loans.

All this, combined with the prevailing sentiment conveyed by politicians, the media, parents and schools that student loans are like " a graduate tax operating at 9%", has led students, in their millions, signing long term contracts without being made fully aware of its inherent risks.

### Recommendation [1.]

**Enact the necessary legislation, or T&C of existing loans, to absolutely protect the terms of student loans during their lifetime against change to the detriment of the "borrower" (student/graduate), including a binding commitment to raise thresholds annually in line with the appropriate earnings index**

## Thresholds

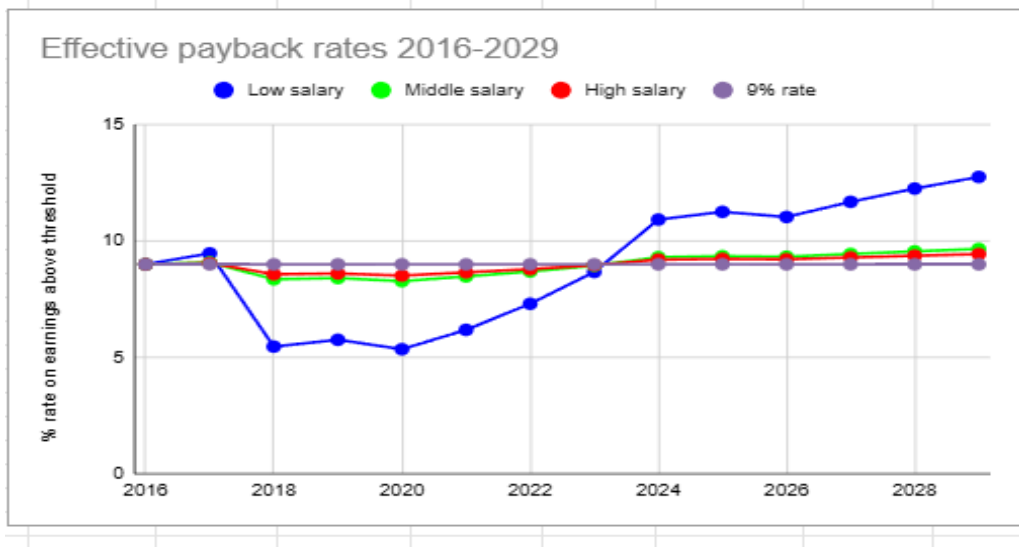
Successive governments have cynically manipulated the loan threshold since 2016, more often than not by "freezing" its value, typically a year after a government has won a general election and can envisage 3 or 4 years of secure office ahead.

Tax Year	Threshold				AWE Index				RPI			
	Actual	% increase since 2016	Pegged to actual AWE		Pegged to AWE/RPI	Pegged to RPI	Index (April to April)	AWE Year on year rate increase		%	Rate	
2016	21,000		21,000	21,000	21,000	21,000	156.10	156.10		1.3	1.0130	
2017	21,000	0.00%	21,377	21,377	21,377	21,735	158.90	158.90	1.018	1.018	3.5	1.0350
2018	25,000	19.05%	21,942	21,942	21,942	22,474	163.10	163.10	1.026	1.026	3.4	1.0340
2019	25,725	22.50%	22,803	22,803	22,803	23,148	169.50	169.50	1.039	1.039	3	1.0300
2020	26,575	26.55%	22,776	22,776	22,776	23,495	169.30	169.30	0.999	0.999	1.5	1.0150
2021	27,295	29.98%	24,498	24,498	24,498	23,989	182.10	182.10	1.076	1.076	2.1	1.0210
2022	27,295	29.98%	25,561	25,561	25,561	26,652	190.00	190.00	1.043	1.043	11.1	1.1110
2023	27,295	29.98%	26,960	26,960	26,960	29,690	200.40	200.40	1.055	1.055	11.4	1.1140
2024	27,295	29.98%	29,112	29,112	29,112	30,670	216.40	216.40	1.080	1.080	3.3	1.0330
2025	28,470	35.57%	30,605	30,605	30,605	32,050	227.50	227.50	1.051	1.051	4.5	1.0450
2026	29,385	39.93%	31,913	31,217	31,468	32,954	239.17	239.17	1.043	1.020		1.0282
2027	29,385	39.93%	33,277	31,842	32,356	33,883	249.39	243.95	1.043	1.020		1.0282
2028	29,385	39.93%	34,700	32,479	33,268	34,838	260.05	248.83	1.043	1.020		1.0282
2029	29,385	39.93%	36,183	33,128	34,206	35,821	271.16	253.81	1.043	1.020		1.0282

1st geometric mean of AWE rates 2017-2025 : 4.27%  
 2026-2029 projected at annual increase of : 2.00%  
 1st geometric mean of RPI 2016-2021,2024-25: 2.82%

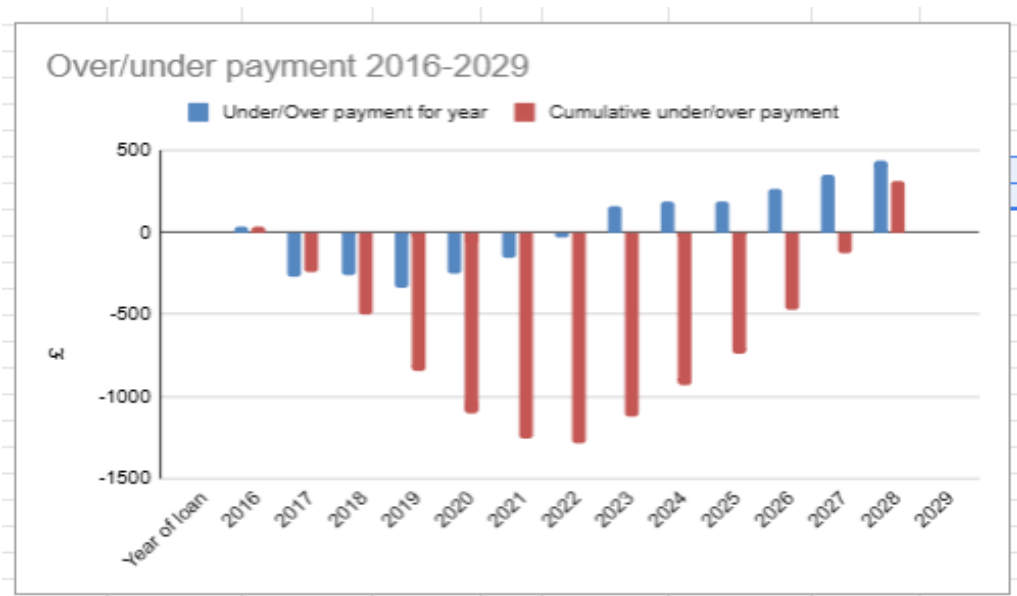
### History of thresholds : 2016-2029

One exception was the "hiking" of the threshold in 2018 by Hammond in the May government. I doubt that this was an act of benevolence towards Plan 2 and other graduates. More likely it was a measure to counter the enormous appeal of Corbyn's Labour 2016 campaign to the younger voter, including young graduates.



### Freezing Thresholds is regressive

The indisputable pattern that has emerged is one of governments manipulating thresholds to raise general revenue once elected, or raising the threshold to garner appeal. The graduate – and in particular the younger, lower earning graduate is left to deal with this unfairness and volatility.



### Cumulative under/over payment due to manipulation of thresholds :2016-2029

The "Hammond Hike" of 2018 has had the perhaps surprising effect that cumulatively graduates would have been no worse off over the period if Reeves had chosen to freeze the threshold for just 2027 and 2028. In fact she could have made the case that the "cynical manipulation of thresholds by previous Conservative and Coalition governments" had actually resulted in a net under payment, and she was merely restoring thresholds to where they should be. Instead she chose to trot out the usual tired old mantra of *"It's only fair that those who receive the benefit of university education should contribute to its cost"*, and continued the regressive policy of freezing thresholds into 2029.

To underscore the aforementioned obscurity and irrelevancy of the underlying regulations T&C - "Education (Student Loans) (Repayments) Regulations 2009" - here's the current account concerning thresholds.

#### How to calculate repayment threshold variable

8B. The repayment threshold variable is, in relation to a repayment threshold year, the sum of—

- (a) one, and
- (b) the percentage increase, expressed as a decimal, in the retail price index between the two Marches immediately before the commencement of the previous repayment threshold year.

#### Example

2.4% is the percentage increase in the retail price index.

— 2.4% expressed as a decimal is 0.024.

— The sum of 1 and 0.024 is 1.024.

The repayment threshold variable is 1.024.]

### Calculation of the threshold variable : Part 1 8B

**Plan 2 loan**

2.—(1) The repayment threshold for a plan 2 loan is—

- (a) £27,295 for the repayment threshold year ending on 5th April 2024 or 5th April 2025, and
- (b) for each repayment threshold year ending on or after 5th April 2026, the amount rounded up to the nearest £5 (if necessary) being the product of—
  - (i) the amount of the repayment threshold for the previous repayment threshold year, and
  - (ii) the repayment threshold variable.

(2) This paragraph is subject to regulation 44(6) (which applies a default threshold in certain circumstances).

**Application of the threshold variable : Schedule 1A Repayment Thresholds**

The regulations explicitly state that the threshold should rise annually in line with the rise of RPI. Yet the rider "*This paragraph is subject to regulation 44(6) (which applies a default threshold in certain circumstances)*" makes this commitment virtually meaningless.

**Recommendation [1.]**

**Enact the necessary legislation, or T&C of existing loans, to absolutely protect the terms of student loans during their lifetime against change to the detriment of the "borrower" (student/graduate), including a binding commitment to raise thresholds annually in line with the appropriate earnings index**

## Interest accrual

For many graduates – a sizeable minority of 40+% of those with earnings above "threshold", and perhaps a majority, once you include graduates who earn under threshold\* – the student loan operates as a graduate tax of 9% on earnings above threshold, **no matter what interest accrues on their debt, including 0%.**

This table illustrates these cases (in red and below the white boundary) where the graduate will pay back for the full 30 years of the Plan 2 loan term at 0%. As expected these are the cases of "lower" earning graduates (0 to £20K above threshold) and those with larger debts on graduation/completion of training (e.g. graduate doctors)

Loan could never be paid off and written off after end of loan term		Number of Years required to Pay Back Loan (Plan 2 - 30 year term)																			
		Pay back rate		9.00%		Loan term		30		Interest rate on debt		0.0%									
		Career average earnings in excess of threshold or FASOT (£K)																			
Outstanding debt written off after end of loan term		colour coded by top percentiles of salary before tax																			
		50%		40%		30%		20%		10%		5%		4%		Top 3%					
		5	10	15	20	25	30	35	40	45	50	55	60	65	70	75	80	85	90	95	100
Debt (£K)	10	22.2	11.1	7.4	5.6	4.4	3.7	3.2	2.8	2.5	2.2	2.0	1.9	1.7	1.6	1.5	1.4	1.3	1.2	1.2	1.1
	15	33.3	16.7	11.1	8.3	6.7	5.6	4.8	4.2	3.7	3.3	3.0	2.8	2.6	2.4	2.2	2.1	2.0	1.9	1.8	1.7
	20	44.4	22.2	14.8	11.1	8.9	7.4	6.3	5.6	4.9	4.4	4.0	3.7	3.4	3.2	3.0	2.8	2.6	2.5	2.3	2.2
	25	55.6	27.8	18.5	13.9	11.1	9.3	7.9	6.9	6.2	5.6	5.1	4.6	4.3	4.0	3.7	3.5	3.3	3.1	2.9	2.8
	30	66.7	33.3	22.2	16.7	13.3	11.1	9.5	8.3	7.4	6.7	6.1	5.6	5.1	4.8	4.4	4.2	3.9	3.7	3.5	3.3
	35	77.8	38.9	25.9	19.4	15.6	13.0	11.1	9.7	8.6	7.8	7.1	6.5	6.0	5.6	5.2	4.9	4.6	4.3	4.1	3.9
	40	88.9	44.4	29.6	22.2	17.8	14.8	12.7	11.1	9.9	8.9	8.1	7.4	6.8	6.3	5.9	5.6	5.2	4.9	4.7	4.4
	45	100.0	50.0	33.3	25.0	20.0	16.7	14.3	12.5	11.1	10.0	9.1	8.3	7.7	7.1	6.7	6.3	5.9	5.6	5.3	5.0
	50	111.1	55.6	37.0	27.8	22.2	18.5	15.9	13.9	12.3	11.1	10.1	9.3	8.5	7.9	7.4	6.9	6.5	6.2	5.8	5.6
	55	122.2	61.1	40.7	30.6	24.4	20.4	17.5	15.3	13.6	12.2	11.1	10.2	9.4	8.7	8.1	7.6	7.2	6.8	6.4	6.1
	60	133.3	66.7	44.4	33.3	26.7	22.2	19.0	16.7	14.8	13.3	12.1	11.1	10.3	9.5	8.9	8.3	7.8	7.4	7.0	6.7
	65	144.4	72.2	48.1	36.1	28.9	24.1	20.6	18.1	16.0	14.4	13.1	12.0	11.1	10.3	9.6	9.0	8.5	8.0	7.6	7.2
	70	155.6	77.8	51.9	38.9	31.1	25.9	22.2	19.4	17.3	15.6	14.1	13.0	12.0	11.1	10.4	9.7	9.2	8.6	8.2	7.8
	75	166.7	83.3	55.6	41.7	33.3	27.8	23.8	20.8	18.5	16.7	15.2	13.9	12.8	11.9	11.1	10.4	9.8	9.3	8.8	8.3
	80	177.8	88.9	59.3	44.4	35.6	29.6	25.4	22.2	19.8	17.8	16.2	14.8	13.7	12.7	11.9	11.1	10.5	9.9	9.4	8.9
	85	188.9	94.4	63.0	47.2	37.8	31.5	27.0	23.6	21.0	18.9	17.2	15.7	14.5	13.5	12.6	11.8	11.1	10.5	9.9	9.4
90	200.0	100.0	66.7	50.0	40.0	33.3	28.6	25.0	22.2	20.0	18.2	16.7	15.4	14.3	13.3	12.5	11.8	11.1	10.5	10.0	
95	211.1	105.6	70.4	52.8	42.2	35.2	30.2	26.4	23.5	21.1	19.2	17.6	16.2	15.1	14.1	13.2	12.4	11.7	11.1	10.6	
100	222.2	111.1	74.1	55.6	44.4	37.0	31.7	27.8	24.7	22.2	20.2	18.5	17.1	15.9	14.8	13.9	13.1	12.3	11.7	11.1	

**Table 1: Interest free debt – years to repay debt at 9% above threshold**

Once interest accrues on debt, at say RPI + 3% (as for Plan 2 high earners) the cases where graduate repays for the full 30 years of the loan term will encompass a big majority of the graduate population. That the majority of Plan 2 students will pay back for the full 30 years of the loan term is now uncontested.

Table 2 shows the cases where graduates will repay for the full 30 years of the Plan 2 loan with interest accruing at 6%, chosen as long term RPI of 3% plus the "real" interest of 3% for high earners – the Plan 2 interest scheme.

\* Until the first Plan 2 cohort matures in 2045, these numbers can only be forecast.

**Table 2: Years to repay debt : interest accruing at 6% - RPI of 3% + 3% real interest**

Loan could never be paid off and written off after end of loan term		Number of Years required to Pay Back Loan (Plan 2 - 30 year term)																								
		Pay back rate 9.00%		Loan term 30						Interest rate on debt 6.0%																
		Career average earnings in excess of threshold or FASOT (£K) colour coded by top percentiles of salary before tax																								
Outstanding debt written off after end of loan term		50%		40%		30%		20%		10%					5%			4%			Top 3%					
		5	10	15	20	25	30	35	40	45	50	55	60	65	70	75	80	85	90	95	100					
Debt (£K)	10		18.9	10.1	7.0	5.3	4.3	3.6	3.1	2.8	2.5	2.2	2.0	1.9	1.7	1.6	1.5	1.4	1.3	1.2	1.2					
	15			18.9	11.9	8.8	7.0	5.8	4.9	4.3	3.8	3.4	3.1	2.9	2.6	2.5	2.3	2.1	2.0	1.9	1.8					
	20				37.7	18.9	13.1	10.1	8.2	7.0	6.0	5.3	4.8	4.3	3.9	3.6	3.4	3.1	2.9	2.8	2.6	2.5				
	25					30.7	18.9	13.9	11.1	9.3	7.9	7.0	6.2	5.6	5.1	4.7	4.3	4.0	3.7	3.5	3.3	3.1				
	30						27.6	18.9	14.5	11.9	10.1	8.8	7.8	7.0	6.3	5.8	5.3	4.9	4.6	4.3	4.1	3.8				
	35							46.5	25.8	18.9	15.0	12.5	10.8	9.5	8.5	7.6	7.0	6.4	5.9	5.5	5.2	4.8	4.6			
	40								37.7	24.6	18.9	15.4	13.1	11.4	10.1	9.1	8.2	7.5	7.0	6.5	6.0	5.7	5.3			
	45									33.4	23.8	18.9	15.7	13.5	11.9	10.6	9.6	8.8	8.1	7.5	7.0	6.5	6.1			
	50										52.2	30.7	23.2	18.9	16.0	13.9	12.3	11.1	10.1	9.3	8.5	7.9	7.4	7.0		
	55											42.6	28.9	22.7	18.9	16.2	14.3	12.7	11.5	10.5	9.7	9.0	8.4	7.8		
	60												37.7	27.6	22.3	18.9	16.4	14.5	13.1	11.9	10.9	10.1	9.4	8.8		
	65													56.6	34.6	26.6	22.0	18.9	16.6	14.8	13.4	12.2	11.3	10.5	9.7	
	70														46.5	32.4	25.8	21.7	18.9	16.7	15.0	13.7	12.5	11.6	10.8	
	75															41.2	30.7	25.2	21.5	18.9	16.8	15.2	13.9	12.8	11.9	
	80																60.0	37.7	29.5	24.6	21.3	18.9	16.9	15.4	14.1	13.1
	85																	49.6	35.3	28.5	24.2	21.1	18.9	17.0	15.6	14.4
90																		44.0	33.4	27.6	23.8	21.0	18.9	17.1	15.7	
95																			62.9	40.4	31.9	26.9	23.5	20.9	18.9	17.2
100																				52.2	37.7	30.7	26.3	23.2	20.8	18.9

Viewed another way, every case in Table 2 under the "blue boundary" will "default" on their debt – i.e not pay it off fully. This level of "default" of course was fully anticipated back in 2012, and is encapsulated in the RAB score, which has risen from 30% in 2012 to currently 50% with some forecasts suggesting it may rise to 60% in the coming decade.

With 40 year loan terms, the situation for Plan 5 lessens the numbers of "defaulters" somewhat, but Plan 2 graduates number ca 4 million while the first 2023 cohort of Plan 5 students have yet to pay back on their debt.

However, while the cold hard facts suggest that most graduates should simply "not worry" about their student debt, the psychological impact of being termed and potentially stigmatised as a "debtor" and seeing your debt mounting, with any hope of repayment receding, with accruing interest **must be acutely stressful for many. Particular so when the terms of the loan can be changed "at a stroke".**

Such anxiety, fuelled by the oft-contrived and hyperbolic hysteria from the right wing press and politicians, must surely lead some graduates into making the decision to pay off their debt prematurely. **This is almost always a bad decision on purely financial grounds, for if nothing else, the income contingent and debt forgiveness features of student loans are insurance against future low earnings.**

Both actual and proposed changes – notably the Conservative government's introduction of Plan 5 loans resulting from the Augar report – and Reform's 2024 election pledge to remove interest accrual and extend the loan period from 30 years (Plan 2) to 45 – have pandered to this hype, which represents the interests of the very well paid graduate.

**Reducing or eliminating interest accrual is a "regressive" measure, and when combined with the active targeting of lower earning graduates by extending the loan period to make up for the lost revenue, you accomplish "peak regression", as illustrated in this sequence of tables.**

Extra Years required to Pay Back Loan with accrued interest and/or extending loan period																					
Pay back rate		9.00%		Loan term		45		Interest rate on debt		0.0%		Basis loan term		30							
Career average earnings in excess of threshold or FASOT (£K)																					
colour coded by top percentiles of salary before tax																					
		50%		40%		30%		20%		10%		5%		4%		Top 3%					
		5	10	15	20	25	30	35	40	45	50	55	60	65	70	75	80	85	90	95	100
Debt (£K)	10	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	15	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	20	14.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	25	15.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	30	15.0	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	35	15.0	8.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	40	15.0	14.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	45	15.0	15.0	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	50	15.0	15.0	7.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	55	15.0	15.0	10.7	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	60	15.0	15.0	14.4	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	65	15.0	15.0	15.0	6.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	70	15.0	15.0	15.0	8.9	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	75	15.0	15.0	15.0	11.7	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	80	15.0	15.0	15.0	14.4	5.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	85	15.0	15.0	15.0	15.0	7.8	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	90	15.0	15.0	15.0	15.0	10.0	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	95	15.0	15.0	15.0	15.0	12.2	5.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	100	15.0	15.0	15.0	15.0	14.4	7.0	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	

Table 3: "Peak Regressive" : Reform's plans for 0% interest and 45 loan term

Compared to a "baseline" of a 30 term and 0% accrual loan, Reform's proposed changes impose the greatest hardship on the lower earning graduate, or lower to mid earning graduate with a large initial debt on graduation. The high earning graduate is rewarded by paying off their debt earlier than they would if interest accrued, but this lost revenue is taken from the lower earning graduate.

Their reforms are targeted at precisely that set of graduates who would never pay off their debt even if no interest accrued on it (beneath the white boundary in the table). In most cases, these graduates would simply end up paying back at 9% over threshold for an extra 15 years – half as many years again as their "contracted" 30 years- i.e typically **50% more with Reform's plans**. A significant minority – over 40% of graduates – would likely fall into this category.

Extra Years required to Pay Back Loan with accrued interest and/or extending loan period																					
Pay back rate		9.00%		Loan term		40		Interest rate on debt		3.0%		Basis loan term		30							
Career average earnings in excess of threshold or FASOT (£K)																					
colour coded by top percentiles of salary before tax																					
		50%		40%		30%		20%		10%		5%		4%		Top 3%					
		5	10	15	20	25	30	35	40	45	50	55	60	65	70	75	80	85	90	95	100
Debt (£K)	10	7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	15	10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	20	10.0	7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	25	10.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	30	10.0	10.0	7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	35	10.0	10.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	40	10.0	10.0	10.0	7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	45	10.0	10.0	10.0	10.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	50	10.0	10.0	10.0	10.0	7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	55	10.0	10.0	10.0	10.0	10.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	60	10.0	10.0	10.0	10.0	10.0	7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	65	10.0	10.0	10.0	10.0	10.0	10.0	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	70	10.0	10.0	10.0	10.0	10.0	10.0	7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	75	10.0	10.0	10.0	10.0	10.0	10.0	10.0	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	80	10.0	10.0	10.0	10.0	10.0	10.0	10.0	7.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	85	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	90	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	7.2	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	95	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
	100	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	7.2	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	

Table 4: Plan 5 Loans are barely less regressive with RPI @ 3%

Plan 5 loans, introduced in 2023, are barely less regressive (compared to Plan 2) , again

penalising the low to mid earning graduate and favouring the higher earner graduate who can afford to pay off their debt quicker.

		Extra Years required to Pay Back Loan with accrued interest and/or extending loan period																											
		Pay back rate 9.00%					Loan term 30					Interest rate on debt 6%					Basis loan term 30												
		Career average earnings in excess of threshold or FASOT (£K)																											
		colour coded by top percentiles of salary before tax																											
		50%				40%				30%				20%				10%				5%				Top 3%			
		5	10	15	20	25	30	35	40	45	50	55	60	65	70	75	80	85	90	95	100								
Debt (£K)	10	7.8	7.7	2.7	1.4	0.9	0.6	0.5	0.4	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1									
	15	0.0	13.3	7.7	3.6	2.1	1.4	1.0	0.8	0.6	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2									
	20	0.0	7.8	15.2	7.7	4.2	2.7	1.9	1.4	1.1	0.9	0.7	0.6	0.5	0.5	0.4	0.4	0.3	0.3	0.3									
	25	0.0	0.0	2.2	11.5	16.1	7.7	4.7	3.2	2.3	1.8	1.4	1.1	1.0	0.8	0.7	0.6	0.5	0.5	0.4									
	30	0.0	0.0	0.0	7.8	13.3	14.3	7.7	5.0	3.6	2.7	2.1	1.7	1.4	1.2	1.0	0.9	0.8	0.7	0.6									
	35	0.0	0.0	0.0	4.1	10.6	14.4	12.8	7.7	5.3	3.9	3.0	2.4	2.0	1.6	1.4	1.2	1.1	0.9	0.8									
	40	0.0	0.0	0.0	0.4	7.8	12.2	15.2	11.9	7.7	5.5	4.2	3.3	2.7	2.2	1.9	1.6	1.4	1.2	1.1									
	45	0.0	0.0	0.0	0.0	5.0	10.0	13.3	15.7	11.3	7.7	5.7	4.4	3.6	2.9	2.5	2.1	1.8	1.6	1.4									
	50	0.0	0.0	0.0	0.0	2.2	7.8	11.5	14.1	16.1	10.8	7.7	5.9	4.7	3.8	3.2	2.7	2.3	2.0	1.8									
	55	0.0	0.0	0.0	0.0	0.0	5.6	9.6	12.5	14.7	15.4	10.5	7.7	6.0	4.8	4.0	3.4	2.9	2.5	2.2									
	60	0.0	0.0	0.0	0.0	3.3	7.8	11.0	13.3	15.2	14.3	10.2	7.7	6.1	5.0	4.2	3.6	3.1	2.7	2.4									
	65	0.0	0.0	0.0	0.0	1.1	5.9	9.4	11.9	14.0	15.6	13.5	9.9	7.7	6.2	5.2	4.4	3.7	3.2	2.9									
	70	0.0	0.0	0.0	0.0	0.0	4.1	7.8	10.6	12.7	14.4	15.9	12.8	9.8	7.7	6.3	5.3	4.5	3.9	3.4									
	75	0.0	0.0	0.0	0.0	0.0	2.2	6.2	9.2	11.5	13.3	14.8	16.1	12.3	9.6	7.7	6.4	5.4	4.7	4.1									
	80	0.0	0.0	0.0	0.0	0.0	0.4	4.6	7.8	10.2	12.2	13.8	15.2	15.8	11.9	9.5	7.7	6.5	5.5	4.8									
	85	0.0	0.0	0.0	0.0	0.0	0.0	3.0	6.4	9.0	11.1	12.8	14.3	15.5	15.0	11.6	9.3	7.7	6.6	5.6									
90	0.0	0.0	0.0	0.0	0.0	0.0	1.4	5.0	7.8	10.0	11.8	13.3	14.6	15.7	14.3	11.3	9.2	7.7	6.6										
95	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.6	6.5	8.9	10.8	12.4	13.8	14.9	15.9	13.7	11.0	9.1	7.7										
100	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.2	5.3	7.8	9.8	11.5	12.9	14.1	15.2	16.1	13.3	10.8	9.1										

Table 6: Plan 2 with RPI @ 3%

		Payback as % of Total Career Earning over Threshold																											
		Pay back rate 9.00%					Years remaining 30					Interest rate on debt 6.00%																	
		Career average earnings in excess of threshold or FASOT (£K)																											
		colour coded by top percentiles of salary before tax																											
		50%				40%				30%				20%				10%				5%				Top 3%			
		5	10	15	20	25	30	35	40	45	50	55	60	65	70	75	80	85	90	95	100								
Debt (£K)	10	9.00%	5.66%	3.03%	2.09%	1.60%	1.29%	1.09%	0.94%	0.83%	0.74%	0.67%	0.61%	0.56%	0.52%	0.48%	0.45%	0.42%	0.40%	0.37%									
	15	9.00%	9.00%	5.66%	3.57%	2.63%	2.09%	1.73%	1.48%	1.29%	1.15%	1.03%	0.94%	0.86%	0.79%	0.74%	0.69%	0.64%	0.61%	0.57%									
	20	9.00%	9.00%	9.00%	5.66%	3.92%	3.03%	2.47%	2.09%	1.81%	1.60%	1.43%	1.29%	1.18%	1.09%	1.01%	0.94%	0.88%	0.83%	0.78%									
	25	9.00%	9.00%	9.00%	9.00%	5.66%	4.18%	3.33%	2.78%	2.38%	2.09%	1.86%	1.68%	1.53%	1.40%	1.29%	1.20%	1.12%	1.05%	0.99%									
	30	9.00%	9.00%	9.00%	9.00%	8.29%	5.66%	4.36%	3.57%	3.03%	2.63%	2.33%	2.09%	1.89%	1.73%	1.60%	1.48%	1.38%	1.29%	1.22%									
	35	9.00%	9.00%	9.00%	9.00%	7.74%	5.66%	4.51%	3.76%	3.24%	2.84%	2.54%	2.29%	2.09%	1.92%	1.78%	1.65%	1.55%	1.45%	1.37%									
	40	9.00%	9.00%	9.00%	9.00%	9.00%	7.39%	5.66%	4.62%	3.92%	3.41%	3.03%	2.72%	2.47%	2.26%	2.09%	1.94%	1.81%	1.70%	1.60%									
	45	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	7.14%	5.66%	4.72%	4.06%	3.57%	3.19%	2.88%	2.63%	2.42%	2.24%	2.09%	1.95%	1.84%									
	50	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	6.95%	5.66%	4.80%	4.18%	3.70%	3.33%	3.03%	2.78%	2.56%	2.38%	2.22%	2.09%	2.09%									
	55	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	8.68%	6.81%	5.66%	4.86%	4.28%	3.82%	3.46%	3.16%	2.91%	2.69%	2.51%	2.35%									
	60	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	8.29%	6.69%	5.66%	4.92%	4.36%	3.92%	3.57%	3.27%	3.03%	2.81%	2.63%									
	65	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	7.98%	6.59%	5.66%	4.97%	4.44%	4.02%	3.67%	3.38%	3.14%	2.92%	2.92%									
	70	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	7.74%	6.52%	5.66%	5.01%	4.51%	4.10%	3.76%	3.48%									
	75	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	7.55%	6.45%	5.66%	5.05%	4.57%	4.18%	3.85%									
	80	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	8.84%	7.39%	6.39%	5.66%	5.08%	4.62%	4.24%									
	85	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	8.54%	7.25%	6.34%	5.66%	5.11%	4.67%									
90	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	8.29%	7.14%	6.30%	5.66%	5.14%	4.72%										
95	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	8.08%	7.04%	6.26%	5.66%	5.17%										
100	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	7.90%	6.95%	6.23%										
AVERAGE		9.00%	8.82%	8.51%	8.17%	7.79%	7.42%	7.05%	6.69%	6.32%	5.94%	5.57%	5.20%	4.83%	4.45%	4.07%	3.70%	3.33%	3.03%										

Table 7: Payback as a percentage of total earnings over threshold over lifetime of loan

Tables 6 and 7 show that Plan 2 loans are at least progressive through the addition of the real interest rate of up to 3% (as advised by the Browne Review of HE 2010). Now the payback rates\* for the top 10% earners with initial debt over £40K are beginning to rise towards the 9% rate of all lower and mid earning graduate.

However, as Table 6 demonstrates, a real interest rate of 3% creates a "ridge of unfairness" around the blue boundary. If graduates end up falling into these cases they can look both up and down

\* As a % of earnings over threshold for the lifetime of the loan

the income scale at their peers, and understandably feel unduly and arbitrarily hardy treated.

Increasing interest accrual rates to an infinitely high value accomplishes an universal payback rate of 9% . All graduates pay back 9% over threshold for the lifetime of the loan -a **graduate tax of 9%**.

It is the most progressive form of a loan system and the **only one that satisfies the "axiom"**:-  
*"It is only fair that graduates who have received the benefit of an university education should contribute towards its costs ..."*

with the often unstated logical corollary *"...in proportion to the benefit (as future earnings) received"*

		Extra Years required to Pay Back Loan with accrued interest and/or extending loan period																			
		Pay back rate 9.00%			Loan term 30			Interest rate on debt 100%												Basis loan term 30	
		Career average earnings in excess of threshold or FASOT (£K)																			
		colour coded by top percentiles of salary before tax																			
		50%		40%		30%		20%		10%			5%		4%		Top 3%				
		5	10	15	20	25	30	35	40	45	50	55	60	65	70	75	80	85	90	95	100
Debt (£K)	10	7.8	18.9	22.6	24.4	25.6	26.3	26.8	27.2	27.5	27.8	28.0	28.1	28.3	28.4	28.5	28.6	28.7	28.8	28.8	28.9
	15	0.0	13.3	18.9	21.7	23.3	24.4	25.2	25.8	26.3	26.7	27.0	27.2	27.4	27.6	27.8	27.9	28.0	28.1	28.2	28.3
	20	0.0	7.8	15.2	18.9	21.1	22.6	23.7	24.4	25.1	25.6	26.0	26.3	26.6	26.8	27.0	27.2	27.4	27.5	27.7	27.8
	25	0.0	2.2	11.5	16.1	18.9	20.7	22.1	23.1	23.8	24.4	24.9	25.4	25.7	26.0	26.3	26.5	26.7	26.9	27.1	27.2
	30	0.0	0.0	7.8	13.3	16.7	18.9	20.5	21.7	22.6	23.3	23.9	24.4	24.9	25.2	25.6	25.8	26.1	26.3	26.5	26.7
	35	0.0	0.0	4.1	10.6	14.4	17.0	18.9	20.3	21.4	22.2	22.9	23.5	24.0	24.4	24.8	25.1	25.4	25.7	25.9	26.1
	40	0.0	0.0	0.4	7.8	12.2	15.2	17.3	18.9	20.1	21.1	21.9	22.6	23.2	23.7	24.1	24.4	24.8	25.1	25.3	25.6
	45	0.0	0.0	0.0	5.0	10.0	13.3	15.7	17.5	18.9	20.0	20.9	21.7	22.3	22.9	23.3	23.8	24.1	24.4	24.7	25.0
	50	0.0	0.0	0.0	2.2	7.8	11.5	14.1	16.1	17.7	18.9	19.9	20.7	21.5	22.1	22.6	23.1	23.5	23.8	24.2	24.4
	55	0.0	0.0	0.0	0.0	5.6	9.6	12.5	14.7	16.4	17.8	18.9	19.8	20.6	21.3	21.9	22.4	22.8	23.2	23.6	23.9
	60	0.0	0.0	0.0	0.0	3.3	7.8	11.0	13.3	15.2	16.7	17.9	18.9	19.7	20.5	21.1	21.7	22.2	22.6	23.0	23.3
	65	0.0	0.0	0.0	0.0	1.1	5.9	9.4	11.9	14.0	15.6	16.9	18.0	18.9	19.7	20.4	21.0	21.5	22.0	22.4	22.8
	70	0.0	0.0	0.0	0.0	0.0	4.1	7.8	10.6	12.7	14.4	15.9	17.0	18.0	18.9	19.6	20.3	20.8	21.4	21.8	22.2
	75	0.0	0.0	0.0	0.0	0.0	2.2	6.2	9.2	11.5	13.3	14.8	16.1	17.2	18.1	18.9	19.6	20.2	20.7	21.2	21.7
	80	0.0	0.0	0.0	0.0	0.0	0.4	4.6	7.8	10.2	12.2	13.8	15.2	16.3	17.3	18.1	18.9	19.5	20.1	20.6	21.1
	85	0.0	0.0	0.0	0.0	0.0	0.0	3.0	6.4	9.0	11.1	12.8	14.3	15.5	16.5	17.4	18.2	18.9	19.5	20.1	20.6
90	0.0	0.0	0.0	0.0	0.0	0.0	1.4	5.0	7.8	10.0	11.8	13.3	14.6	15.7	16.7	17.5	18.2	18.9	19.5	20.0	
95	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.6	6.5	8.9	10.8	12.4	13.8	14.9	15.9	16.8	17.6	18.3	18.9	19.4	
100	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.2	5.3	7.8	9.8	11.5	12.9	14.1	15.2	16.1	16.9	17.7	18.3	18.9	

Table 8: Peak Progressive: A graduate tax of 9%

		Payback as % of Total Career Earning over Threshold																			
		Pay back rate 9.00%			Years remaining 30			Interest rate on debt 100.00%													
		Career average earnings in excess of threshold or FASOT (£K)																			
		colour coded by top percentiles of salary before tax																			
		50%		40%		30%		20%		10%			5%		4%		Top 3%				
		5	10	15	20	25	30	35	40	45	50	55	60	65	70	75	80	85	90	95	100
Debt (£K)	10	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	
	15	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
	20	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
	25	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
	30	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
	35	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
	40	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
	45	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
	50	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
	55	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
	60	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
	65	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
	70	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
	75	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
	80	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
	85	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%
90	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	
95	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	
100	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	
AVERAGE		9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	

Table 9: All graduates pay back 9% over threshold for lifetime of loan

This "virtual graduate tax" then has a solid grounding in social justice, with all 2015+

graduate cohorts paying back at 9% over threshold for the lifetime of the loan, and as a percentage of total earnings, this will rise progressively up the income scale.

Although that same of group of graduates who feel victimised by the current Plan 2 scheme are no better off, they know that their higher paid peers are paying as much or more in proportion to their income – just like an income tax! There is a sound moral basis to the scheme not an arbitrary, ever shifting improvisation dictated by the current government's priorities.

It should be stressed that the tables presented so far present deterministic cases based on the simple "maths" of student loans, and make no statements about the number of graduates who will fall into these cases. The first empirical probabilities for these cases won't emerge until the first 2012 student (2015 graduate) cohort matures in 2045.

Until then only projections and forecasts are available, such as those used in the IFS student loan calculator (5).

However the tables have presented percentiles taken from ONS data on UK income distribution (7) to indicate the likely numbers of graduates associated with the "Earnings above Threshold" dimension in the tables. This serves to remind the reader that the **number of affected graduates** in the analysis does **not equate** to the **number of cells** in the body of the table – there will be markedly more concentrated number of graduates towards the left lower earning side of the tables, as suggested by Table 10.

		Cohort size:- 400,000		Allocation of loans in Bottom 40%:- 20.00%		Distribution of cohort																				Totals																			
		Bottom 40%		60%		50%		40%		30%		20%		10%					5%		4%			Top 3%				100.00%																	
		40.00%		10.00%		10.00%		10.00%		5.00%		5.00%		5.00%		5.00%		1.00%		1.00%		1.00%		1.00%		1.00%		0.50%		0.50%		0.33%		0.33%		0.33%		0.75%		0.75%		0.75%		0.75%	
		8.00%		11.52%		11.52%		11.52%		6.52%		6.52%		6.52%		6.52%		2.52%		2.52%		2.52%		2.52%		2.02%		2.02%		1.86%		1.86%		1.86%		2.27%		2.27%		2.27%					
		-10		-5		5		10		15		20		25		30		35		40		45		50		55		60		65		70		75		80		85		90		95		100	
Debt (£K)	10	0.25%	80	115	115	115	65	65	65	65	65	65	65	25	25	25	25	25	25	25	25	25	25	25	20	20	19	19	19	19	19	19	19	23	23	23	23	23	23	23	805				
	15	0.25%	80	115	115	115	65	65	65	65	65	65	65	25	25	25	25	25	25	25	25	25	25	25	20	20	19	19	19	19	19	19	19	23	23	23	23	23	23	23	805				
	20	0.50%	160	230	230	230	130	130	130	130	130	130	130	50	50	50	50	50	50	50	50	50	50	50	40	40	37	37	37	37	37	37	37	45	45	45	45	45	45	45	1610				
	25	0.75%	240	346	346	346	196	196	196	196	196	196	196	76	76	76	76	76	76	76	76	76	76	76	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	61	2414			
	30	1.00%	320	461	461	461	261	261	261	261	261	261	261	101	101	101	101	101	101	101	101	101	101	101	81	81	81	81	81	81	81	81	81	81	81	81	81	81	81	81	81	81	3219		
	35	4.00%	1280	1844	1844	1844	1044	1044	1044	1044	1044	1044	1044	404	404	404	404	404	404	404	404	404	404	404	324	324	297	297	297	297	297	297	297	364	364	364	364	364	364	364	12876				
	40	10.00%	3200	4610	4610	4610	2610	2610	2610	2610	2610	2610	2610	1010	1010	1010	1010	1010	1010	1010	1010	1010	1010	1010	810	810	743	743	743	743	743	743	743	910	910	910	910	910	910	910	32190				
	45	15.00%	4800	6914	6914	6914	3914	3914	3914	3914	3914	3914	3914	1514	1514	1514	1514	1514	1514	1514	1514	1514	1514	1214	1214	1114	1114	1114	1114	1114	1114	1114	1364	1364	1364	1364	1364	1364	1364	48286					
	50	17.00%	5440	7836	7836	7836	4436	4436	4436	4436	4436	4436	4436	1716	1716	1716	1716	1716	1716	1716	1716	1716	1716	1376	1376	1263	1263	1263	1263	1263	1263	1263	1546	1546	1546	1546	1546	1546	1546	54724					
	55	15.00%	4800	6914	6914	6914	3914	3914	3914	3914	3914	3914	3914	1514	1514	1514	1514	1514	1514	1514	1514	1514	1514	1214	1214	1114	1114	1114	1114	1114	1114	1114	1364	1364	1364	1364	1364	1364	1364	48286					
	60	6.00%	1920	2766	2766	2766	1566	1566	1566	1566	1566	1566	1566	606	606	606	606	606	606	606	606	606	606	606	486	486	446	446	446	446	446	446	446	546	546	546	546	546	546	546	19314				
	65	6.00%	1920	2766	2766	2766	1566	1566	1566	1566	1566	1566	1566	606	606	606	606	606	606	606	606	606	606	606	486	486	446	446	446	446	446	446	446	546	546	546	546	546	546	546	19314				
	70	5.00%	1600	2305	2305	2305	1305	1305	1305	1305	1305	1305	1305	505	505	505	505	505	505	505	505	505	505	505	405	405	371	371	371	371	371	371	371	455	455	455	455	455	455	455	16095				
	75	5.00%	1600	2305	2305	2305	1305	1305	1305	1305	1305	1305	1305	505	505	505	505	505	505	505	505	505	505	505	405	405	371	371	371	371	371	371	371	455	455	455	455	455	455	455	16095				
	80	4.00%	1280	1844	1844	1844	1044	1044	1044	1044	1044	1044	1044	404	404	404	404	404	404	404	404	404	404	404	324	324	297	297	297	297	297	297	297	364	364	364	364	364	364	364	12876				
85	5.00%	1600	2305	2305	2305	1305	1305	1305	1305	1305	1305	1305	505	505	505	505	505	505	505	505	505	505	505	405	405	371	371	371	371	371	371	371	455	455	455	455	455	455	455	16095					
90	3.00%	960	1383	1383	1383	783	783	783	783	783	783	783	303	303	303	303	303	303	303	303	303	303	303	243	243	223	223	223	223	223	223	223	273	273	273	273	273	273	273	9657					
95	1.00%	320	461	461	461	261	261	261	261	261	261	261	101	101	101	101	101	101	101	101	101	101	101	81	81	81	81	81	81	81	81	81	81	81	81	81	81	81	81	81	81	3219			
100	1.25%	400	576	576	576	326	326	326	326	326	326	326	126	126	126	126	126	126	126	126	126	126	126	101	101	93	93	93	93	93	93	93	93	93	114	114	114	114	114	114	4024				
Totals		100.00%	32000	46095	46095	46095	26095	26095	26095	26095	26095	26095	10095	10095	10095	10095	10095	10095	10095	10095	10095	10095	8095	8095	7429	7429	7429	7429	7429	7429	7429	9095	9095	9095	9095	9095	9095	9095	9095	400,000					
			45980	45289	21724	13374	6328	2675					227																											135,597					
			46095	45980	25965	25834	25378	24334					8404	6890	3660	3054	2448	1558	830	390	167	93																		321,905					
																																									42.12%				

Table 10: One model for distribution of graduate cohort of 400,000

## Graduate Tax

The revenue raised by all graduates paying back at 9% over threshold for the lifetime of the loan must raise significantly more revenue than Plan 2 or Plan 5 loan schemes, with RAB scores rising from 30% in 2012, 50% now and forecast to rise perhaps to 60% in the coming decades.

That begs the obvious question. **Why not scrap the whole sorry farrago of student loan schemes and replace it with a graduate tax at a lower rate?**

**Why impose this manifestly unjust system of personalised debt on existing graduates and future students when a simple transparent tax could raise as much revenue?**

This has all the concomitant benefits-

- **Eliminates tuition fees** – these are entirely illusory and worked out "backwards" from the difference between the total cost of running HE and government subsidy. They in no way represent the value or quality of the service provided by the universities – witness the outrage from students who studied during COVID – nor the real cost of providing the service – all courses are charged at the same rate, meaning arts and humanities courses (cheaper to run) subsidise science courses (expensive to run). Furthermore the anticipated "market", in which universities would compete in price, never materialised: Universities simply acted together as a cartel to impose the maximum tuition fees carte blanche – not one of them was willing to lower fees for fear that their offering would be viewed as inferior
- **Eliminates the Student Loan Company (SLC)** currently costing around £300 million p.a.(2024/35 accounts: £40 million administrative costs/ £230 million programme costs)
- **Clear voting issue** – a graduate tax would be a visible and high ranking item on any serious political party's agenda
- **Simplicity** - when deciding on going to university the "value proposition" reduces to "is it worth paying a graduate tax for most (all) of my working life"? There is no agonising on whether to prepay fees, overpay repayments, and no potential for making very bad decisions to repay debt in full prematurely.
- **Peace of mind** – arguably the biggest benefit would be removing all students from being treated as "debtors" on a binding loan agreement with severe default penalties. A graduate tax would signal a clear, moral basis for all graduates, compared to the "plan silos" that are developing, in which the interests of one silo of graduates are pitted against those of another silo.

## What Rate of Graduate Tax?

The IFS calculator (5) can be used to give an indication of the headline rates of a graduate tax, **limited to the 2012+ cohorts**. The defaults (in brackets) relate to the revenues raised on a 2025 cohort modelled according to the current Plan 5. By selecting "graduate tax", and adjusting other parameters suitably, one can find the tax rate that will match the revenues raised by Plan 5 on the basis of the calculated outcome – "Long-run cost of loans per borrower".

Here a **4% graduate tax for 40 years** with thresholds rising in line with average earners, closely matches and slightly outperforms (slightly less cost per borrower) Plan 5.

### 4% Graduate tax for 40 years raises same revenue as Plan 5

We assume graduates make some contribution to the costs of university, through either a student loan system, or a graduate tax.

**Select how graduates contribute:**

1: Income contingent loan

2: Graduate tax

**Select type of payment rate:**

1: Single payment rate

2: Payment rate varies with earnings

3: Payment rate varies with years since graduation

**Payment threshold (below which no payments are made)**

£0 £30,200 £70,000

**Payment rate (as a % of earnings above the payment threshold)**

0% 4% 50%

**Select how payment threshold(s) change over time:**

1: Increase with average earnings

2: Increase with RPI

3: Frozen until specific year; then increased with RPI

4: Frozen indefinitely

Under a system with a graduate tax, repayments are assumed to continue regardless of the loan balance and repayments made. This is a special case of an income contingent loan system with an infinite interest rate. A graduate tax could still be set to end a specific number of years after graduation.

**Loan term (in years)**

0 40 50

**Cost (DFE indicators)**  
Total long-run government cost (discounted, RPI real): £1.5bn (£3.5bn)  
of which loans: £0.1bn (£2.1bn)  
of which grants: £1.4bn (£1.4bn)  
**Long-run gov. cost of loans per borrower (discounted, RPI real): £0.2k (£4.3k)**  
RAB charge: 0% (10%)

**Cost (ONS indicators)**  
Total accounting write-off: £0.1bn (£2.1bn)  
Write-off share: 0% (10%)

**Repayments**  
**Average repayments (discounted, RPI real): £44.5k (£40.3k)**  
Average repayments (undiscounted, CPI real): £50.6k (£44.3k)  
Share with no debt written off: 43% (83%)  
Share with no or negative RAB charge: 43% (83%)

[Download results](#)

Repayments by lifetime earnings decile (CPI real, undiscounted)

Repayments by lifetime earnings decile (RPI real, discounted)

Repayments by lifetime earnings decile (CPI real, undiscounted), as a % of lifetime earnings

RAB charges by lifetime earnings decile

Share with no debt written off by lifetime earnings decile

Average repayments by age and lifetime earnings

A graduate tax of just over 5% for 30 years would also raise comparable revenues to the current Plan 5 loan scheme.

We assume graduates make some contribution to the costs of university, through either a student loan system, or a graduate tax.

**Select how graduates contribute:**

1: Income contingent loan

2: Graduate tax

**Select type of payment rate:**

1: Single payment rate

2: Payment rate varies with earnings

3: Payment rate varies with years since graduation

**Payment threshold (below which no payments are made)**

£0 £30,200 £70,000

**Payment rate (as a % of earnings above the payment threshold)**

0% 5% 50%

**Select how payment threshold(s) change over time:**

1: Increase with average earnings

2: Increase with RPI

3: Frozen until specific year; then increased with RPI

4: Frozen indefinitely

Under a system with a graduate tax, repayments are assumed to continue regardless of the loan balance and repayments made. This is a special case of an income contingent loan system with an infinite interest rate. A graduate tax could still be set to end a specific number of years after graduation.

**Loan term (in years)**

0 30 50

**Cost (DFE indicators)**  
Total long-run government cost (discounted, RPI real): £4.8bn (£3.5bn)  
of which loans: £3.4bn (£2.1bn)  
of which grants: £1.4bn (£1.4bn)  
**Long-run gov. cost of loans per borrower (discounted, RPI real): £6.9k (£4.3k)**  
RAB charge: 15% (10%)

**Cost (ONS indicators)**  
Total accounting write-off: £3.4bn (£2.1bn)  
Write-off share: 15% (10%)

**Repayments**  
**Average repayments (discounted, RPI real): £37.8k (£40.3k)**  
Average repayments (undiscounted, CPI real): £42.1k (£44.3k)  
Share with no debt written off: 37% (83%)  
Share with no or negative RAB charge: 37% (83%)

[Download results](#)

Repayments by lifetime earnings decile (CPI real, undiscounted)

Repayments by lifetime earnings decile (RPI real, discounted)

Repayments by lifetime earnings decile (CPI real, undiscounted), as a % of lifetime earnings

RAB charges by lifetime earnings decile

Share with no debt written off by lifetime earnings decile

Average repayments by age and lifetime earnings

The "winners" of a 4-6% graduate tax are obviously all those graduates who are forecast to pay back over threshold at 9% for the full loan term of 30 or 40 years. With the current plan 2 arrangement, that's a big majority of the 4 million Plan 2 graduates.

The "losers" are the top 5% earning graduates or particularly those with small outstanding debt (red ringed area below). The outstanding debt may be small because the debt on graduation was small (recent Plan 2 graduates), or, more likely, because the graduate has been paying off their loan for many years (early Plan 2 cohorts).

For an equitable graduate tax scheme, these cases must be given the opportunity to pay off the relatively small amounts of outstanding debt (in proportion to their total annual earnings) during a short (2 year) transition period, and then exempted from paying a graduate tax.

Such a provision will reduce the forecast revenue and raise the graduate tax rate. The balance between these various factors – tax rate, transition period, lost revenue through early full repayment – is one aspect of the necessary research and consultation recommended in [2.]

		Difference in Total Payback £K : Graduate tax vs Student Loan																			
Student Loan	Pay back rate	9.00%	Loan term		30	Interest rate on debt											6.0%				
GraduateTax	Tax rate	5.50%	Tax period		30																
		Career average earnings in excess of threshold or FASOT (£K)																			
		colour coded by top percentiles of salary before tax																			
		50%		40%		30%		20%		10%		5%		4%		Top 3%					
		5	10	15	20	25	30	35	40	45	50	55	60	65	70	75	80	85	90	95	100
Debt (£K)	10	-5	0	11	20	29	38	46	55	63	71	80	88	96	105	113	121	130	138	146	154
	15	-5	-11	-1	12	22	31	40	48	57	65	74	82	90	99	107	116	124	132	140	149
	20	-5	-11	-16	-1	12	22	32	41	50	59	67	76	84	93	101	109	118	126	135	143
	25	-5	-11	-16	-21	-1	12	23	33	42	51	60	69	78	86	95	103	112	120	128	137
	30	-5	-11	-16	-21	-21	-1	12	23	33	43	52	61	70	79	88	96	105	114	122	131
	35	-5	-11	-16	-21	-26	-20	-2	12	23	34	44	53	63	72	81	89	98	107	115	124
	40	-5	-11	-16	-21	-26	-32	-20	-2	12	24	34	45	54	64	73	82	91	100	108	117
	45	-5	-11	-16	-21	-26	-32	-37	-20	-2	12	24	35	45	55	65	74	83	92	101	110
	50	-5	-11	-16	-21	-26	-32	-37	-42	-20	-2	12	24	35	46	56	65	75	84	93	102
	55	-5	-11	-16	-21	-26	-32	-37	-42	-43	-20	-3	11	24	35	46	56	66	76	85	94
	60	-5	-11	-16	-21	-26	-32	-37	-42	-47	-42	-20	-3	11	24	35	46	57	67	77	86
	65	-5	-11	-16	-21	-26	-32	-37	-42	-47	-53	-41	-20	-3	11	24	36	47	57	67	77
	70	-5	-11	-16	-21	-26	-32	-37	-42	-47	-53	-58	-40	-20	-3	11	24	36	47	58	68
	75	-5	-11	-16	-21	-26	-32	-37	-42	-47	-53	-58	-63	-40	-20	-4	11	24	36	47	58
	80	-5	-11	-16	-21	-26	-32	-37	-42	-47	-53	-58	-63	-65	-40	-20	-4	11	24	36	47
	85	-5	-11	-16	-21	-26	-32	-37	-42	-47	-53	-58	-63	-68	-64	-39	-20	-4	10	24	36
90	-5	-11	-16	-21	-26	-32	-37	-42	-47	-53	-58	-63	-68	-74	-63	-39	-20	-4	10	23	
95	-5	-11	-16	-21	-26	-32	-37	-42	-47	-53	-58	-63	-68	-74	-79	-62	-39	-21	-4	10	
100	-5	-11	-16	-21	-26	-32	-37	-42	-47	-53	-58	-63	-68	-74	-79	-84	-61	-39	-21	-5	

FASOT - Future Average annual Salary Above Threshold  
 Net Present Value - 0% earnings growth

### Winners and losers : 5.5% graduate tax vs Plan 2 - £K

		Difference in Total Payback as % earnings over threshold : Graduate tax vs Student Loan																			
Student Loan	Pay back rate	9.00%	Loan term		30	Interest rate on debt		6.0%													
	GraduateTax	Tax rate	5.50%	Tax period		30															
		Career average earnings in excess of threshold or FASOT (£K)																			
		colour coded by top percentiles of salary before tax																			
		50%		40%		30%		20%		10%		5%		4%		Top 3%					
		5	10	15	20	25	30	35	40	45	50	55	60	65	70	75	80	85	90	95	100
Debt (£K)	10	-3.50%	-0.16%	2.47%	3.41%	3.90%	4.21%	4.41%	4.56%	4.67%	4.76%	4.83%	4.89%	4.94%	4.98%	5.02%	5.05%	5.08%	5.10%	5.13%	5.14%
	15	-3.50%	-3.50%	-0.16%	1.93%	2.87%	3.41%	3.77%	4.02%	4.21%	4.35%	4.47%	4.56%	4.64%	4.71%	4.76%	4.81%	4.86%	4.89%	4.93%	4.96%
	20	-3.50%	-3.50%	-3.50%	-0.16%	1.58%	2.47%	3.03%	3.41%	3.69%	3.90%	4.07%	4.21%	4.32%	4.41%	4.49%	4.56%	4.62%	4.67%	4.72%	4.76%
	25	-3.50%	-3.50%	-3.50%	-3.50%	-0.16%	1.32%	2.17%	2.72%	3.12%	3.41%	3.64%	3.82%	3.97%	4.10%	4.21%	4.30%	4.38%	4.45%	4.51%	4.56%
	30	-3.50%	-3.50%	-3.50%	-3.50%	-2.79%	-0.16%	1.14%	1.93%	2.47%	2.87%	3.17%	3.41%	3.61%	3.77%	3.90%	4.02%	4.12%	4.21%	4.28%	4.35%
	35	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-2.24%	-0.16%	0.99%	1.74%	2.26%	2.66%	2.96%	3.21%	3.41%	3.58%	3.72%	3.85%	3.95%	4.05%	4.13%
	40	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-1.89%	-0.16%	0.88%	1.58%	2.09%	2.47%	2.78%	3.03%	3.24%	3.41%	3.56%	3.69%	3.80%	3.90%	
	45	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-1.64%	-0.16%	0.78%	1.44%	1.93%	2.31%	2.62%	2.87%	3.08%	3.26%	3.41%	3.55%	3.66%	
	50	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-1.45%	-0.16%	0.70%	1.32%	1.80%	2.17%	2.47%	2.72%	2.94%	3.12%	3.28%	3.41%
	55	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-1.31%	-0.16%	0.64%	1.22%	1.68%	2.04%	2.34%	2.59%	2.81%	2.99%	3.15%	
	60	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-2.79%	-1.19%	-0.16%	0.58%	1.14%	1.58%	1.93%	2.23%	2.47%	2.69%	2.87%
	65	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-2.48%	-1.09%	-0.16%	0.53%	1.06%	1.48%	1.83%	2.12%	2.36%	2.58%
	70	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-2.24%	-1.02%	-0.16%	0.49%	0.99%	1.40%	1.74%	2.02%	2.26%
	75	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-2.05%	-0.95%	-0.16%	0.45%	0.93%	1.32%	1.65%	1.93%
	80	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.34%	-1.89%	-0.89%	-0.16%	0.42%	0.88%	1.26%	1.58%
	85	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.04%	-1.75%	-0.84%	-0.16%	0.39%	0.83%	1.19%
90	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-2.79%	-1.64%	-0.80%	-0.16%	0.36%	0.78%	
95	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-2.58%	-1.54%	-0.76%	-0.16%	0.33%	
100	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-3.50%	-2.40%	-1.45%	-0.73%	-0.16%	

**Winners and Losers: 5.5% graduate tax vs Plan 2 - % of lifetime earnings over threshold**

The Plan 5 vs Graduate tax @ 4%, both on a 40 year basis, give comparable results.

However, given a graduate tax should be implemented at the earliest opportunity – say by 2030 at the latest – the graduate population will be dominated the Plan 2 "silo". It might be expected – but needs to be proven by detailed consultation with this group – that they would prefer a graduate tax operating over the shorter 30 year period at a higher rate of say 6%, compared to one extending over a further 10 year period at 4%. For Plan 5 graduates, it might reasonably be expected that the offer of 6% at 30 years compared to 9% at potentially the full 40 years of the loan would be overwhelmingly accepted.

Again, all this is a matter for the research recommended in [2.]

**An "All Age Graduate" Tax**

So far, only a targeted graduate tax (TGT) aimed at 2012+ cohorts has been considered.

Returning the to seeming "axiom" that is the foundation of the student loan system:-

*"It is only fair that graduates who have received the benefit of an university education should contribute towards its costs"*

This mantra is regularly churned out - from Jo Johnson, minister responsible for universities back in 2016, various Education ministers and Chancellors since, through to Rachel Reeves in 2026 - most of whom received a free university education but have conspicuously avoided making their own personal contribution. Instead they have loaded the bulk of this responsibility on the student cohorts from 2012 onwards.

This is arrant hypocrisy on their part and clearly socially unjust. If you can make a case for

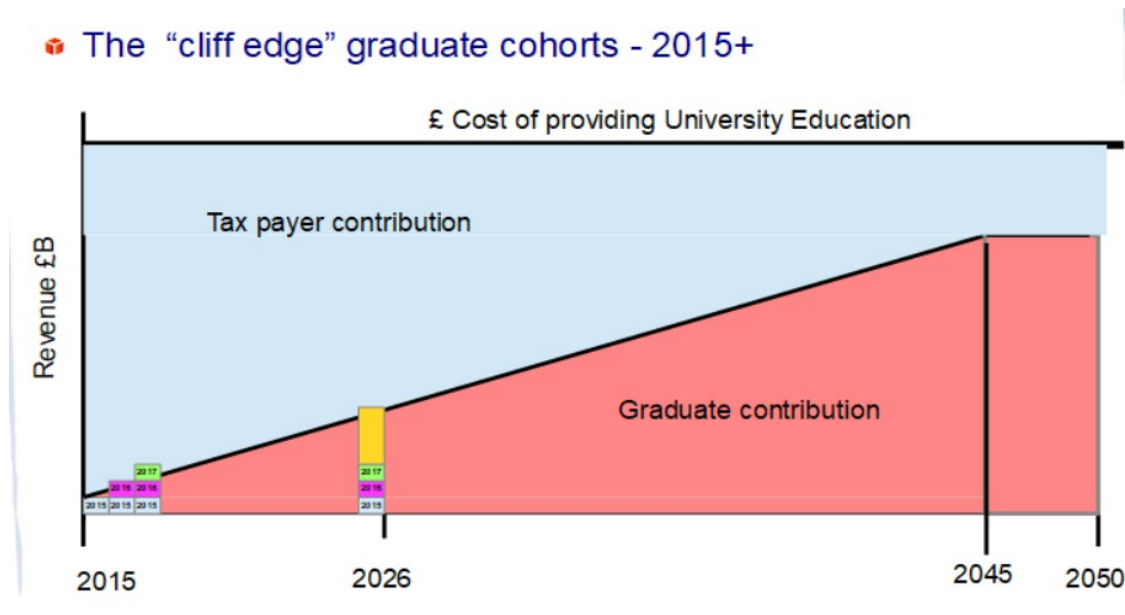
the unfair treatment of the WASPI women generation, you can make a similar case for the 2012+ student cohorts.

Why shouldn't all working (or living) "UK"\* tax residents, who benefited from a "UK" University education make the same contribution, based on a "benefit" received in terms of their career earnings?

Aside from having this solid moral basis, an "all age graduate" tax (**AAGT**), with its wider tax base, will reduce the overall tax rate – an obvious advantage to the 2012+ cohorts – and is immediately more effective at raising revenue.

If implemented, it would be the first true policy that addressed the oft quoted "inter generational inequality" of the UK, in which the older generation have too often benefited at the expense of the younger.

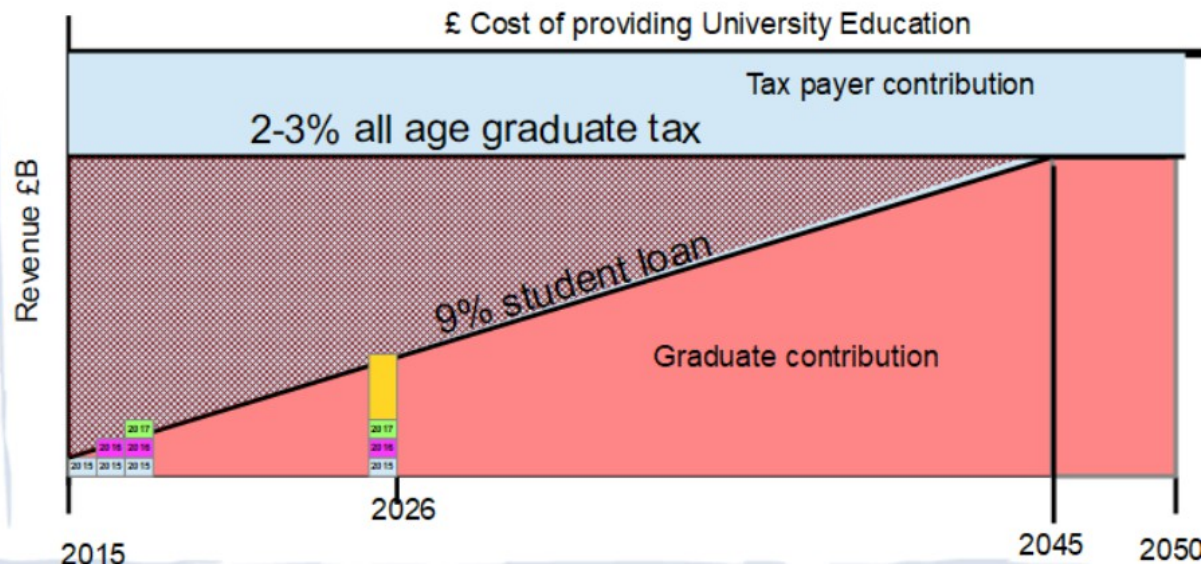
The immediate greater efficiency of an AAGT compared to a TGT comes from the consideration of student loan repayment revenues in the period 2026-2045.



Given the bulk of revenues is coming from Plan 2 or Plan 5 repayments, the full capacity and steady state revenue stream to the govment will only be achieved in 2045. Currently, in 2026, with a third of the cohorts paying back, the revenues are under a third\*\* of this forecast revenue stream. This means the general UK tax payer is paying the deficit in the meantime.

\* UK is used advisedly here – Scottish graduates who attended Scottish universities would need to be treated very differently. Here "UK graduates" is taken to mean UK tax residents who graduated from an English or Welsh university

\*\* The revenue per cohort will be expected to increase through time as income generally increase with age, so although 11 of the 30 cohorts are now in the "system", the older cohorts will progressively contribute more revenue



With an AAGT, the wider tax base immediately makes good this deficit reducing the general tax payer contribution. Put another way, implementing an AAGT immediately establishes the equilibrium or steady state, with one young cohort of graduates entering and one old cohort of graduates retiring (or dying) each year.

An AAGT also makes the forecast future revenue much less sensitive to future university enrolment numbers.

AAGT schemes have been proposed as the better option to student loans several times

- 2010 – Ebdon, Tetlow, Million+ (2) -1%-2.4%
- 2017 – Green, Mason, UCL Institute of Education (3) - 2.5%
- 2020 - Green, HPNET (6) – 4% from 2020

Each delay means a rise in the tax rate, as the older cohorts of graduate retire or die, and the population becomes increasingly dominated by the 2012+ cohorts. Logically the AAGT tax rate must tend to 5-6% rate (over 30 years) of the TGT once the population is entirely made up of 2012+ cohorts.

### **Implementation and running costs**

The most significant implementation cost of either a TGT or AAGT lie in identifying the target set of tax payers. For TGT this should not be problematic, as the Student Loan Company (SLC) should hold a comprehensive and sufficiently detailed record of all those who took out a loan and their repayment history. For AAGT this is admittedly more problematic, as the record of who graduated from UK universities in from (say) 1970 onwards, will be dispersed amongst the university institutions and may be incomplete.

In either case, proper provision must be made to students who either pre-paid their tuition fees, or graduates who have fully repaid their debt, or overpaid on their debt. For TGT, the SLC should be the primary comprehensive source. Students who prepaid tuition fees, won't appear in the SLC records (unless they took out a maintenance loan) and so would not be targeted for the tax. Similarly graduates who had fully repaid their loans should be readily identifiable and exempted from the tax.

The situation for "over payers" – those who paid more than 9% overthreshold but have not fully paid off their debt – and those who pre-paid but with an outstanding debt on a maintenance loan – is more problematic but not insurmountable.

For an AAGT, identifying pre-payers of tuition fees or full repayers of debt prior to Plan 2 is significantly more complicated. It would probably require some form of self-identification and validation from older UK graduates.

It is expected that a simple tax coding scheme, or the sort already used for income tax, could be used to exempt pre- and full repayers from a graduate tax.

That's is why the research recommended in [2.] is vital to select between TGT and AAGT : broadly AAGT is the fairer and more efficient solution, TGT is the easier (and less costly) to implement.

Given a graduate tax could be subsumed within the general HMRC tax regime, its running costs should not be significant and certainly much less than running the SLC (ca £300m p.a).

### **Who should decide?**

In the case of a TGT, the natural constituency is the set of 2012+ cohorts, since they alone will bear the cost.

The implementation of an AAGT would require majority consensus from the larger population of all UK graduates. Again this consensus could be demonstrated by extensive polling , but more likely by putting it to the test at the next general election.

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