SCHOOL OF ECONOMICS AND MANAGEMENT

Still Left Behind?

Updating the Microsimulation of BAföG Non-Take-Up in Germany

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Contents

Abstract

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Keywords: 3 – 5 key words
JEL codes: Find appropriate codes all https://www.aeaweb.org/econlit/jelCodes.php?view=jel

1 Introduction

2 Related Literature

- What we provide to the literature (short)
  - What other studies have looked into

3 Data

- What source is the data from? - Describe the Sample - How many individuals in our sample? - Describe what data we have, what dataset, what variables from the dataset - Create a descriptive table over all variables used and the outcomes, sample sizes etcetera - Limitations of our data

4 The German Study Aid System

The Federal Training Assistance Act (g. Bundesausbildungsförderungsgesetz, BAföG) was introduced in 1971 with the aim to promote equal opportunities in the education system and unlock educational potential (Meier et al., 2024).

- Write about how pupils are funding their education

4.1 European Student Aid Systems

Schwarz and Rehburg (2004) address a worldwide trend that took place in the 1970s, where higher education expanded from being elite to becoming more accessible for the general population. This trend was also prominent in Europe, and brought about an exceptional increase in student enrolment. With these developments, European nations had to take greater responsibility for supporting students financially. In doing so, different nations adopted different methods and shaped their support systems in different ways. It is thus not possible to claim a common European method of student financial aid.

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According to Gwosć and van der Beek (2022) there are two main design principles when it comes to public student funding, the welfare principle and the provision principle. They conduct an empirical comparison between two groups of countries in Europe, where one group consists of countries that apply the welfare principle and the other of countries that follow the provision principle. The results indicate that countries that follow the latter have a significantly greater share of students that receive public aid on average, and that public aid accounts for a greater proportion of the receiver's overall earnings. Moreover, the probability of students in these countries reporting serious financial issues is lower.

The authors also look into what can roughly be translated into participation equity - which refers to proportionate representation of different social groups in higher education. They find that, to a slight extent, the countries that follow the provision principle do worse than the countries that follow the welfare principle (Gwosć and van der Beek, 2022).

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For example, the nations differ when it comes to distribution and administration of financial aid. On one hand, there are the Nordic countries where financial aid is managed by national authorities, and on the other hand there are countries like Germany, where local authorities bear the responsibility (Schwarz and Rehburg, 2004).

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There is however a common trend in that the main form of student aid across Europe is in the form of grants, i.e. monetary public support that is not to be repaid. These grants can cover general cost of living or more particular needs like tuition fees or accommodation. Student loans are the alternative (or even complement), where public monetary support needs too be repaid, typically after ones studies have been completed. Typically, such loans come with low interest rates (although there are exemptions to this), often lower than interest rates on private loans in a given country (Schwarz and Rehburg, 2004).

4.2 Federal Training Assistance Act ("Bundesausbildungsförderungsgesetz")

The **Federal Training Assistance Act** (DE: **Bundesausbildungsförderungsgesetz**) is a student loan supplied by the **Federal Ministry of Education and Research** (DE: **Bundesministerium für Bildung und Forschung**). BAföG is designed to financially support students, with the primary aim of ensuring equal access to higher education. The eligibility criteria for the loan is therefore very strict to make sure that only students who are genuinely in need of the loan gets access to it.

4.2.1 History and Reforms

The loan was introduced in 1971 in the form of a 100 percent grant and was generally very successful with almost half (44.6%) receiving the subsidy—a level never reached again. The early success of BAföG came with significant financial burdens for both the federal states and the federal government, prompting a series of reforms—particularly in response to the energy crises of the 1970s. In 1974, a mandatory loan component was introduced, and by 1977, the loan share had increased even further. By the 1980s, BAföG underwent a complete overhaul, transforming it into a fully subsidised loan program. As a result, the grant portion was eliminated, significantly reducing BAföG's appeal. Due to the rapid decline of students applying for BAföG it had to once again be overhauled in the 1990s and BAföG was now half a grant, and half a loan, where the loan part has zero interest – the structure of which is still in force today (Lost, 2025).

BAföG continues to face low interest among students today, with one of its major issues being that students are not utilizing it, as it lacks appeal (see table A1 and figure B1).

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Initially, the funding was in the form of a non-repayable grant. In 1974, a monthly loan component of 70 DM was introduced, which has gradually increased to 150 DM as of 2015. In 1982, under Chancellor Helmut Kohl, the so-called "BAföG Kahlschlag" or BAföG clear-cut was introduced, which transformed

BAföG into a fully repayable loan system. The current hybrid model was then established in 1990, where half the funding is in form of a grant and half in form of an interest-free loan. Further changes were made in 2001 when a repayment cap of 10.000 EUR was introduced (Staack, 2017).

4.2.2 The Income Exemption Threshold and the Support Rate

BAföG uses two main tools in order to achieve its central objectives, the so-called Freibetragsgrenzen, which is the income exemption threshold, and the so-called Bedarfssätze, which is the support rate (Meier et al., 2024).

Support Rates. In order to determine the support rates, three main reference points are used: 1) the development of basic social security benefits ("citizens allowance" or Bürgergeld), 2) the development of consumer prices, which reflects the increase in general costs of living, and 3) the specific living expenses of students, which are surveyed every four to five years in the Sozialerhebung ("the social survey"). Additionally, the financial situation of the federal government is taken into account in order to ensure that increases in support rates, income exemption thresholds and social allowances are fiscally feasible (Meier et al., 2024). ...

Income Exemption Threshold. In reviewing and determining the income exemption threshold, net income (g. arbeitnehmereinkommen) is primarily used as a reference indicator in BAföG reports. The income exemption threshold is also normatively determined by the legislature, i.e. the decision is not based on a fixed rule or an automatic formula, but on policy choices (Meier et al., 2024).

Interactions Between the Income Exemption Threshold and the Support Rate. These tools are interconnected, as raising the income exemption threshold increases the number of students eligible for BAföG. In addition to that, raising the income exemption threshold makes it so that those who previously received only partial support become eligible for more support, and thus raises the amounts granted to this group of students (Meier et al., 2024).

4.2.3 Declining Aid Rates

Some sources even claim that since the introduction of BAföG in 1971, the proportion of students receiving financial aid has fallen from around 50% to around 15% as of 2023. Thereof, around 50% received full funding (Meier et al., 2024).

It is however worth noting that declining financial aid rates do not inevitably indicate a deterioration of the situation, although that is also a possibility that can't be ruled out. Over the last two decades, income per capita has increased significantly in Germany. This, as well as demographic trends, could at least partly explain the drop in proportion of students in need of financial aid. This can be viewed as a general prosperity effect. Furthermore, the share of students receiving financial aid is also affected by various behavioural factors, including fluctuations in demand for education and the social composition of prospective students. This proportion does thus not accurately reflect how many students are actually in need of financial aid nor how many of them receive such aid (Meier et al., 2024).

4.2.4 Two Loan Repayment Models

The two main ways of financing studies in higher education (HE) using a loan is to either use a traditional **time-based repayment loan** (TBRL) which is of the same style as standard "mortgage-loans" where the principal is amortized on a fixed reimbursement schedule.

The alternative to the TBRL plans are **income contingent loans** (ICL), where the principal you are allowed to borrow and the rate at which you amortize the principal is contingent on your financial status. The principal you are allowed to borrow and the rate at which you amortize the principal is contingent on your earned and capital income. In some systems, as in the German one, the household earnings and capital gains are also considered when applying for the income contingent BAföG loan.

An obvious benefit of the ICL loan structure is that it eliminates the likelihood of defaulting on your debt, as the reimbursement period (and rate of amortisation) is adapted to the individual (or household) income. Time based repayments are known to overburden the poorer part of the population which decides to educate themselves. For instance, among the 20% of the poorest graduates in South Korea and United States almost all students have a repayment burden exceeding 100% of their income (Chapman et al., 2022). Income contingent loans therefore provides an insurance against low income for the debtor and promotes social benefits such as mobility and human capital formation.

However, there are some important drawbacks to income-contingent loans that policymakers should consider when implementing them. One concern is that, as long as the borrower has an outstanding balance, the loan effectively acts as a marginal tax on income above the repayment threshold. This can potentially reduce the borrower's incentive to work more, as higher earnings lead to higher repayments. If borrowers respond by working less to avoid steeper repayment rates, the loan will be repaid more slowly, increasing the cost borne by the creditor — in this case, the state. Whether this is an actual problem is yet to be investigated further, but has been shown that for instance in the UK's income contingent repayment plan to not be an actual problem (Britton and Gruber, 2020).

In the case of BAföG, this issue is less pronounced, as the repayment system is only partially income-contingent. Repayments are capped at 130 EUR per month, and after a maximum of 77 installments (a total of 10,010 EUR), any remaining debt is forgiven (Studentenwerk Leipzig, nd).

4.3 Training Loans ("Bildungskredit")

5 Method

5.1 Bedarfsatz

$$\begin{aligned} \text{Bedarfsatz} = \ & \text{Grundbedarf} + \text{Wohnpauschale} \\ & + \text{Krankenversicherung} + \text{Pflegeversicherung} \\ & + (\text{Kinderzuschlag} \times \text{Anzahl der Kinder}) \end{aligned} \tag{5.1}$$

$$\text{Theoretical BAföG} = \text{Bedarfsatz} - \text{Anrechenbares Einkommen (student + parents)} \tag{5.2}$$

5.2 Anrechenbares Einkommen

5.2.1 Parental Contribution (Elternbeitrag)

5.2.2 Student's own Income (Eigene Einkünfte)

5.3 Construct Probit Model

Construct a probit model in order to find the probably of not taking up the BAföG loan. With this model we will get a non-take-up rate for bafög loans.

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Appendix A: Tables

Year	BIL002	Supported Persons			Proportion Supported (%)		
		PER010	PER011	PER012	PER010	PER011	PER012
2023	2,868,311	501,425	245,255	256,170	17.5	8.6	8.9
2022	2,920,263	489,347	244,559	244,788	16.8	8.4	8.4
2021	2,941,915	467,595	200,369	267,226	15.9	6.8	9.1
2020	2,944,145	465,543	205,093	260,450	15.8	7.0	8.8
2019	2,891,049	489,313	212,217	277,096	16.9	7.3	9.6
2018	2,868,222	517,675	218,427	299,248	18.0	7.6	10.4
2017	2,844,978	556,573	229,053	327,520	19.6	8.1	11.5
2016	2,807,010	583,567	235,163	348,404	20.8	8.4	12.4
2015	2,757,799	611,377	231,477	379,900	22.2	8.4	13.8
2014	2,698,910	646,576	246,901	399,675	24.0	9.1	14.8
2013	2,616,881	665,928	253,371	412,557	25.4	9.7	15.8
2012	2,499,409	671,042	254,769	416,273	26.8	10.2	16.7
2011	2,380,974	643,578	246,895	396,683	27.0	10.4	16.7
2010	2,217,294	592,430	232,796	359,633	26.7	10.5	16.2
2009	2,121,178	550,369	211,881	338,488	25.9	10.0	16.0
2008	2,025,307	510,409	217,933	292,476	25.2	10.8	14.4
2007	1,941,405	494,480	191,268	303,212	25.5	9.9	15.6
2006	1,979,043	498,565	189,022	309,543	25.2	9.6	15.6
2005	1,985,765	506,880	193,285	313,595	25.5	9.7	15.8
2004	1,963,108	497,257	186,956	310,301	25.3	9.5	15.8
2003	2,019,465	481,594	179,755	301,839	23.8	8.9	14.9
2002	1,938,811	451,505	168,890	282,615	23.3	8.7	14.6
2001	1,868,331	406,776	134,933	271,843	21.8	7.2	14.6
2000	1,798,863	348,799	100,913	247,886	19.4	5.6	13.8
1999	1,770,489	338,427	103,239	235,188	19.1	5.8	13.3
1998	1,800,651	336,355	97,539.	238,810	18.7	5.4	13.3

Table A1: Number and percentage of students receiving BAföG support (BIL002). PER010: Total supported students, PER011: Fully supported students, PER012: Partially supported students.

Year	**CPI (PREIS1)**		**Average Payout**		**Fin. Exp. (EUR 1000)**	
	Index (2020)	Factor (2023)	Nominal	2023 Prices	Nominal	2023 Prices
1991	61	1.885	290	547	1,538,590	2,900,701
1992	65	1.795	290	521	1,539,929	2,764,764
1993	67	1.719	297	510	1,458,164	2,506,152
1994	69	1.674	295	494	1,257,002	2,104,621
1995	71	1.644	304	500	1,133,989	1,863,894
1996	72	1.621	322	522	1,059,270	1,716,900
1997	73	1.590	319	507	910,038	1,446,886
1998	74	1.577	316	498	861,688	1,358,905
1999	74	1.566	321	503	871,140	1,364,591
2000	75	1.546	326	504	906,857	1,401,724
2001	77	1.516	365	553	1,161,922	1,760,990
2002	78	1.494	371	554	1,350,543	2,018,032
2003	78	1.479	370	547	1,446,120	2,138,937
2004	80	1.455	371	540	1,513,641	2,202,517
2005	81	1.432	375	537	1,554,602	2,226,037
2006	82	1.409	375	529	1,538,770	2,168,773
2007	84	1.378	375	517	1,490,718	2,053,917
2008	86	1.343	398	534	1,590,638	2,136,104
2009	87	1.338	434	581	1,875,731	2,510,295
2010	88	1.325	436	578	2,019,078	2,674,533
2011	90	1.297	452	586	2,269,706	2,943,052
2012	91	1.273	448	570	2,364,963	3,009,718
2013	93	1.253	446	559	2,349,400	2,944,951
2014	94	1.241	448	556	2,280,748	2,831,524
2015	94	1.235	448	553	2,157,634	2,664,506
2016	95	1.228	464	570	2,099,110	2,578,590
2017	96	1.211	499	604	2,181,049	2,640,336
2018	98	1.190	493	586	2,001,732	2,381,265
2019	99	1.173	514	603	1,954,449	2,292,303
2020	100	1.167	574	670	2,210,920	2,580,143
2021	103	1.132	579	655	2,316,926	2,622,553
2022	110	1.059	611	647	2,454,392	2,599,161
2023	116	1.000	663	663	2,863,514	2,863,514

Table A2: Average nominal and real payout under the Federal Training Assistance Act (BAföG) for category students (pupils excluded). Table also shows the total Financial Expenditures (Fin. Exp.) in nominal and real prices.

Appendix B: Figures

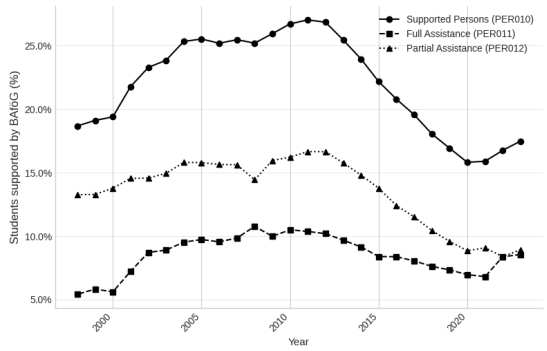
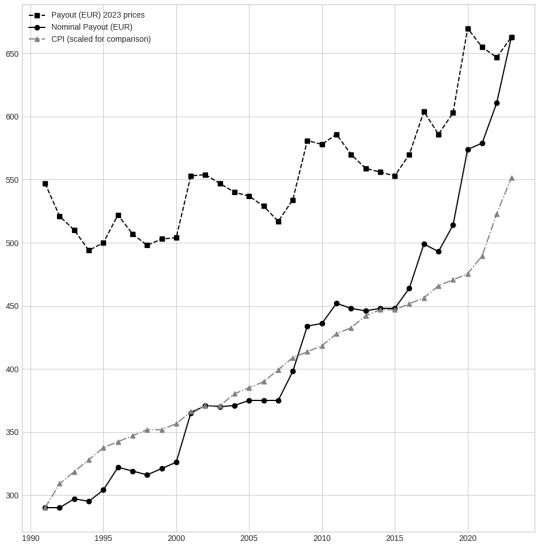


Figure B1: The figure illustrates the fraction of enrolled students in Germany receiving partial, full, or combined partial and full loans and grants over the same period.



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