talking money
a parent's guide to student finance in england

INSIDE: STUDENT FINANCE EXPLAINED • MARTIN'S BUDGETING TIPS • NEW PACKAGE FROM AUTUMN 2008

Including top tips from TV's money saving expert, Martin Lewis

"No one should be put off higher education because of worries about student debt"

Aimhigher... student finance

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{martin's letter

For many parents, the elation of sending your son or daughter to university is often swiftly followed by concerns about how to fund their time studying and help them avoid student debt. I feel very passionately that no-one in England should be put off studying because of worries about student debt or finding the money to go to university or college.

Tuition fees are a reality and they do have to be paid. This means that 'student debt', in most cases, is an unavoidable fact. But if it is managed correctly, student debt is what I call 'good debt' and very different from our usual dealings with commercial debt. Rather than repeatedly telling students to avoid debt, we should be educating them on how best to manage their money and avoid getting into bad debt!

There is financial support available to help take your child through to their graduation day and I hope this guide will help you realise that there's no need for you or your children to be scared or discouraged from going on to study at university or college.

This booklet will explain what you and your child need to know about funding university, from the student support package, through to student bank accounts, credit cards and part-time jobs. We've also included tips on how you can help your child prepare before they go, so you can talk money with them.

Martin Lewis
Creator of Moneysavingexpert.com

the student finance package explained

All English students going to university or college will have to pay an annual 'tuition fee' towards the cost of their course. This can be up to £3,145 a year.

As a parent, it is important to understand that there is no need to stump up your own money upfront. Your child can borrow the money for tuition fees when they go to university and won't have to repay it until they leave and are earning enough.

Where can my child get money for higher education?

Generally, there are three sources of financial support available to new full-time students:

1. Student Loans (for Tuition Fees and Living Costs)

These Loans are provided by the Government through the Student Loans Company (SLC). They are the cheapest form of money your child can borrow long term, as technically you don't pay any real interest; this is because the interest follows the rate of inflation (currently set at 4.8%).

There are two different types of loan – one is designed to pay for tuition fees and the other helps towards day-to-day living costs such as rent and travel. The really important thing to understand is there's nothing to repay until after your child leaves university and only then when they're earning more than £15,000. Plus, even then they only pay a proportion of their income, so the less they earn, the less they repay.

2. Maintenance Grants and Bursaries

This is the free stuff. The amount awarded is assessed on a number of factors including family income and the course your child chooses. The best news is Maintenance Grants and bursaries never have to be repaid, regardless of what your child receives!

3. Family Assistance

As a parent, you might want to help your child out, yet the system is designed so that money should be available for your child to support themselves so you don't risk putting yourself into debt. There may be a better and more financially sound way you can help. Rather than offering to pay their fees, could you help with money to put towards course books or by stocking up the kitchen cupboards at the start of each term? We've included tips later on in this guide on how you could help your child by imparting your own learning. Helping your child with the practicalities of student life could be very welcome.

student finance package - the facts from Aimhigher...Student Finance

Repayable Student Loans

Student Loan for Tuition Fees

Your child can study now and pay back when they're earning. A loan is available to eligible, full-time students to cover the full cost of tuition fees, known as the **Student Loan for Tuition Fees**. These are paid by the Student Loans Company directly to the university or college. For the academic year 2008/09, students will receive up to £3,145 per year to cover tuition fee costs.

Student Loan for Living Costs

In addition to the Student Loan for Tuition Fees, eligible students can apply for a **Student Loan for Living Costs** (sometimes referred to as a **Student Loan for Maintenance**). This is based on their personal circumstances, and is to help with living costs such as accommodation, food, travel and course materials. The amount a student can borrow depends on their family's household income and where they decide to live and study. The Student Loan for Living Costs is split into three amounts each year and they are paid directly to the student at the beginning of each term.

Repaying Tuition Fee and Living Cost Loans

Students don't have to start paying back their loans until they have left university, are in work and earning more than £15,000 a year. They pay back 9% of their earnings above £15,000 a year, so someone earning the average starting salary for a graduate level job of £18,000 would repay £5.19 per week.

Students who enter student loan repayment from April 2012 could also be eligible for a repayment break of up to five years to help them manage their money at key times in their life.

As an additional aid, students receiving the Educational Maintenance Allowance for the first time in 2008/9 will be given a guarantee of the minimum level of financial support (loans and grants) they could get if they choose to go on to take a higher education course.

non-repayable maintenance grants and bursaries

Non-Repayable Maintenance Grants

A Maintenance Grant is non-repayable, income assessed help and is worth up to £2,835 per year. The Government has increased the income thresholds which means that up to two thirds of eligible full time students are (in future) expected to get a full or partial non-repayable Maintenance Grant. Even those with a household income of up to £60,005 will get some non-repayable help.

Non-Repayable Bursaries

Many universities/colleges offer non-repayable bursaries. The bursaries on offer vary from institution to institution, but all universities and colleges charging the full tuition fee of £3,145 are required to provide a bursary of at least £310 for students receiving the full Maintenance Grant. Most institutions are offering more, and not just to these students. In 2007/08 the typical bursary for a student receiving the full Maintenance Grant on a course charging the full tuition fees was £1,000.

Visit **www.direct.gov.uk/bursarymap** to search for bursary offers from universities and colleges by region and institution.

There are lots of types of finance that students could consider when they go to university. The reality is that some financial solutions make more sense than others; this could be because of the way that interest is charged on the borrowing or the way that the money has to be repaid. It is vital that students are able to differentiate between 'good' and 'bad' debt. It may sound bizarre, but some debts are much better than others – **all debts are not the same!** Below is a guide to the different types of borrowing for students:

GOOD BORROWING

Government Student Finance Package

The Student Loans for tuition fees and living costs should be your child's first port of call. These official loans, administered on behalf of the Government by the Student Loans Company, are the cheapest long-term borrowing students can get and should always be the first place to borrow from. The loans are charged at the level of inflation (charged at 4.8% for the year 2007/08). This is the amount that the cost of living increases at each year. There's nothing to repay until the student leavesuniversity, is in work and earning above £15,000 a year. Repayments are linked to earnings, and not how much they owe. If they earn less than £15,000 they won't have to repay anything.

REASONABLE BORROWING

Student Bank Accounts Interest-free Overdrafts

Many of the big banks have created special student bank accounts targeted at people going to study at university or college for the first time. To get new customers they may offer incentives including free MP3 players or discounted rail travel. While these are appealing, it's important to look beyond the freebies to what the account offers. The majority of banks offer students an interest-free overdraft to an agreed level. The best account will have a 0% overdraft limit for the longest period of time. For details on the best student accounts log onto **www.moneysavingexpert.com/studentaccounts**

Pretty much any other type of debt should be avoided. If you're going to have to pay real rates of interest, as a student you have no way to pay this back. Your son or daughter should avoid anything over 5% - this includes loans and credit cards.

WARNING! BAD DEBT

Commercial Debt

Lending comes in many shapes and sizes: bank loans, hire purchase, credit cards and store cards. Most of these will be at commercial rates of interest, anything from 5% to 30%. As students have limited income, and are almost certain to until they graduate and start work, this means that when borrowing money, anything more than the minimum payment is unlikely to be repaid. Therefore at a real rate of interest, the effect of compound interest (paying interest on the interest) means the amount owed will quickly increase.

Therefore the best possible thing to do is impart a 'don't borrow any more' philosophy if you can. The reality is, credit is easy to obtain for students these days - they're very profitable customers. The real lesson here is to try and differentiate between 'reasonable borrowing' and 'debt that will put you in trouble'. So the message you should give to your son or daughter is simple; planned, budgeted for, affordable debt is a reasonable life option - yet commercial debt that you can't repay can cause major problems.

If they do need to borrow, then stress that the lower the interest rate, and the quicker they can repay means the less they will pay. They should never borrow without checking the interest rate.

budgeting

martin's top tips for budgeting

Budgeting is an essential skill at any stage of your life, but all the more important for those with limited finances like students. Budgeting is about making your income and expenditure match. For people in the working world we say 'don't spend more than you earn'. Yet with a student, what should they define as income - in other words, how much should they spend? My answer would be, get your child to add up any earnings if they have a job, and money given to them by you or friends, plus their student finance package – that forms the basis of what they 'shouldn't spend more than'.

Moving away from home to study is often the first time that young people will have to properly budget for themselves. As a parent, helping your children understand the cost of living and how to budget could really help them to build a good habit for the rest of their life. Help your child start as they mean to go on and sit them down, working out what is going in and out before they even pack to go to university, helping them to allocate their cash.

a helping hand

Many parents will want to help their children out financially to some extent. Getting the balance between a happy and supported child, while managing your own finances is key. I'm always worried when parents talk about re-mortgaging or taking out commercial bank loans to help cover the cost of their child's education. It's important to realise that the system is designed to cover the basics, so if your child needs to borrow excessively, something is going wrong.

Budgeting tips for you and your child:

• Make sure your child doesn't get the 'spend it as soon as they get it' bug. When the loan or other cash arrives, it's tempting to celebrate with a big blow-out – but a big night out in fresher's week could mean they can't afford to go out for the rest of term. Of course we all want a splurge, but the time to do it is at the end of term, when they've carefully managed their money and know they've got some spare cash, not the beginning of term, leaving them short and struggling.

• If your child is sharing accommodation, they need to be clear with flat mates about who will pay for what. Suggest that they consider a house kitty to cover cleaning products, toilet roll, bin bags and any shared food e.g. tea bags.

• When shopping, students should ask themselves three questions: "Do I need it?", "Can I afford it?" and "Have I checked if it's cheaper elsewhere?" If the answer to any of these questions is no, don't buy it!

• Help them think about how they can save money, for example buying fruit and vegetables at the market and ensuring they use their NUS card with all its discounts. Save up loyalty points when you are shopping and convert them into vouchers to contribute to your child's first/last shop of the term.

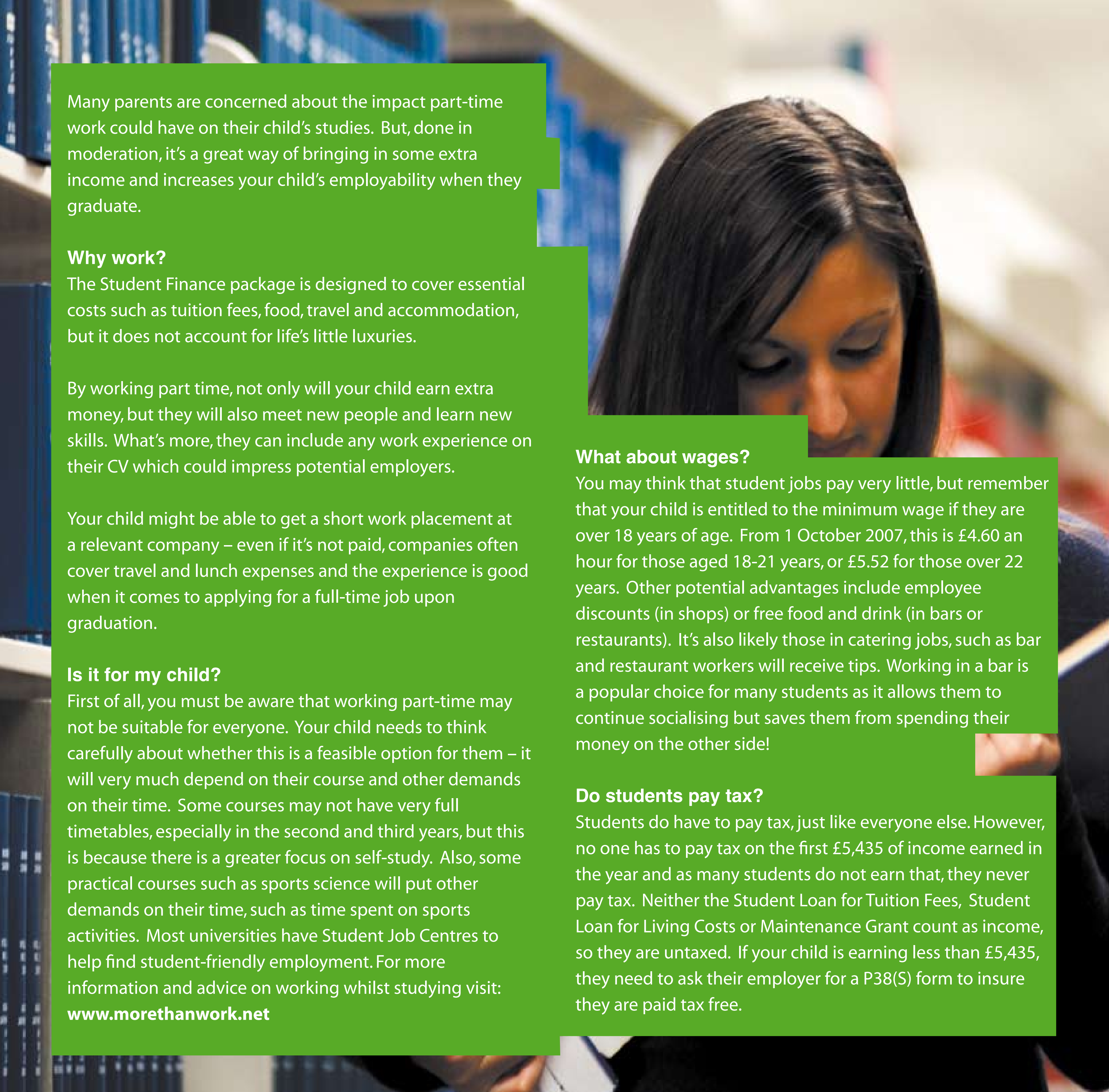
• Set up two bank accounts; one for essentials such as rent and bills and a separate 'spending money' account. If you are helping out on rent or bills, ensure that your child sets up direct debits from the first account so essentials are paid.

• However tempting, don't immediately bail your children out at the first sign of financial trouble or they'll never learn how to budget!

• If you do want to give your children money, but are worried about how they might spend it, you could give vouchers for things such as books and food.

budgetplanner

Below is a quick list of some of the things your child should consider when drawing up a budget. For a more detailed free budget planner, log onto **www.moneysavingexpert.com/budgeting**



Many parents are concerned about the impact part-time work could have on their child's studies. But, done in moderation, it's a great way of bringing in some extra income and increases your child's employability when they graduate.

Why work?

The Student Finance package is designed to cover essential costs such as tuition fees, food, travel and accommodation, but it does not account for life's little luxuries.

By working part time, not only will your child earn extra money, but they will also meet new people and learn new skills. What's more, they can include any work experience on their CV which could impress potential employers.

Your child might be able to get a short work placement at a relevant company – even if it's not paid, companies often cover travel and lunch expenses and the experience is good when it comes to applying for a full-time job upon graduation.

Is it for my child?

First of all, you must be aware that working part-time may not be suitable for everyone. Your child needs to think carefully about whether this is a feasible option for them – it will very much depend on their course and other demands on their time. Some courses may not have very full timetables, especially in the second and third years, but this is because there is a greater focus on self-study. Also, some practical courses such as sports science will put other demands on their time, such as time spent on sports activities. Most universities have Student Job Centres to help find student-friendly employment. For more information and advice on working whilst studying visit: **www.morethanwork.net**

What about wages?

You may think that student jobs pay very little, but remember that your child is entitled to the minimum wage if they are over 18 years of age. From 1 October 2007, this is £4.60 an hour for those aged 18-21 years, or £5.52 for those over 22 years. Other potential advantages include employee discounts (in shops) or free food and drink (in bars or restaurants). It's also likely those in catering jobs, such as bar and restaurant workers will receive tips. Working in a bar is a popular choice for many students as it allows them to continue socialising but saves them from spending their money on the other side!

Do students pay tax?

Students do have to pay tax, just like everyone else. However, no one has to pay tax on the first £5,435 of income earned in the year and as many students do not earn that, they never pay tax. Neither the Student Loan for Tuition Fees, Student Loan for Living Costs or Maintenance Grant count as income, so they are untaxed. If your child is earning less than £5,435, they need to ask their employer for a P38(S) form to insure they are paid tax free.

toworkor nottowork

Aimhigher... student finance

letters

Question:
My daughter will be starting university in September and I'm worried about the impact her student debt will have on her when she graduates – I want her to be able to pay it off as soon as possible. I have some savings which I was thinking of using either to pay her £3,145 tuition fees or to help pay back her loan as soon as she graduates. Which would you recommend?
Sue, Barking

Martin says:
You need to remember that student loans are different from commercial loans because they are one of the cheapest forms of long-term borrowing possible. Technically you are not paying any real interest; because the interest rate is linked to the rate of inflation. The Student Loan for Tuition Fees was introduced to remove the need for students and their families to find the money for fees upfront, so it is a good idea to take advantage of it.

Why not put your savings into a high interest earning savings account, such as a Cash ISA instead which will earn you more interest than it costs to repay the loan? Then you will be in a better position to help your daughter once she graduates. However, student loan repayments only begin once your daughter has left university and is in work and earning more than £15,000. At this point she will only repay 9% of what she earns above this. By paying off her student loans early you, and your daughter, are at risk of needing more expensive borrowing from elsewhere at a later date. Student loans don't need to be paid back any faster than necessary, but it is possible to pay off lump sums if you wish.

Question:
I keep hearing that the interest on the student loan is set at the rate of inflation, but that means I still have to pay interest so surely it's costing me?
Clive, Tyne and Wear

Martin says:
The interest rate on student loans is set at the rate of inflation (currently 4.8%). Inflation is the rate at which prices rise, therefore if inflation is 5%, it means things costing a £100 this year will cost £105 next year. Equally so, borrow £100, on a loan at a rate of inflation of 5% and in a year's time you will owe £105. For example, a basket of shopping costing £100 this year will cost £105 next year.

Therefore you were lent a 'basket of shopping's worth' of money and still owe a 'basket of shopping's worth' of money, thus your actual spending power hasn't been diminished by the loan: in other words there's no 'real' cost.

Compare this to a higher than inflation rate loan, say 10%, and here you'd owe a 'basket of shopping's worth' plus £5. Hence to repay that money you'd need to forgo £5 of other spending.

Usefulinfo

Deadlines for 2008/9 Finance Applications

To ensure your child receives payment at the start of the **2008 autumn term**:

• Non-income-assessed applications for support (for example, for a Student Loan for Tuition Fees) that do not need financial information to be supplied must be submitted by **25 April 2008**

• Income-assessed applications for student finance that need financial information to be supplied must be submitted by **27 June 2008** for new students and **30 May 2008** for returning students

• Applications after these dates will be processed as quickly as possible

• A new application for financial help will need to be made for each year of their course

Applying for Financial Help

Students don't have to wait until they have received an offer from a university or college to apply for student finance. Once they have applied for a place to study, they can then apply for financial help towards fees and living costs. This should be done as early as possible and students can apply for financial help online at **www.direct.gov.uk/studentfinance**. The online application process is fast and easy.

Contact details

• For more information on Student Finance, how to apply and what your child may be eligible for, visit **www.direct.gov.uk/studentfinance** or to request an information pack call 0800 587 8500 quoting ref: PPACK08

• For additional money saving advice, visit Martin Lewis' website at **www.moneysavingexpert.com**

A final word from Ian Summers-Noble, Chairperson of the National Association of Student Money Advisers (NASMA)*:

NASMA

For many students, university life will be their first experience of handling money for living costs as well as entertainment. Many young people haven't had to budget for the essentials of life before university and it's understandable that you might be concerned for your son or daughter – however, you never know, your child might actually rise to the challenges of independent living – university life is a very full learning experience!

Universities, colleges and students' unions employ Student Money Advisers who offer experienced, impartial and non-judgmental advice. We can help students to maximise their income, manage their money and deal with any difficulties. There will be useful financial information and contact details of advice services on the university's website. Many services will help students before they get to university – to help them to try to make an effective adjustment to student financial life.

*NASMA is a professional interest organisation for money advisers and funding administrators working in universities, colleges and students unions. It does not provide advice directly to students – contact the university, college or students' union.