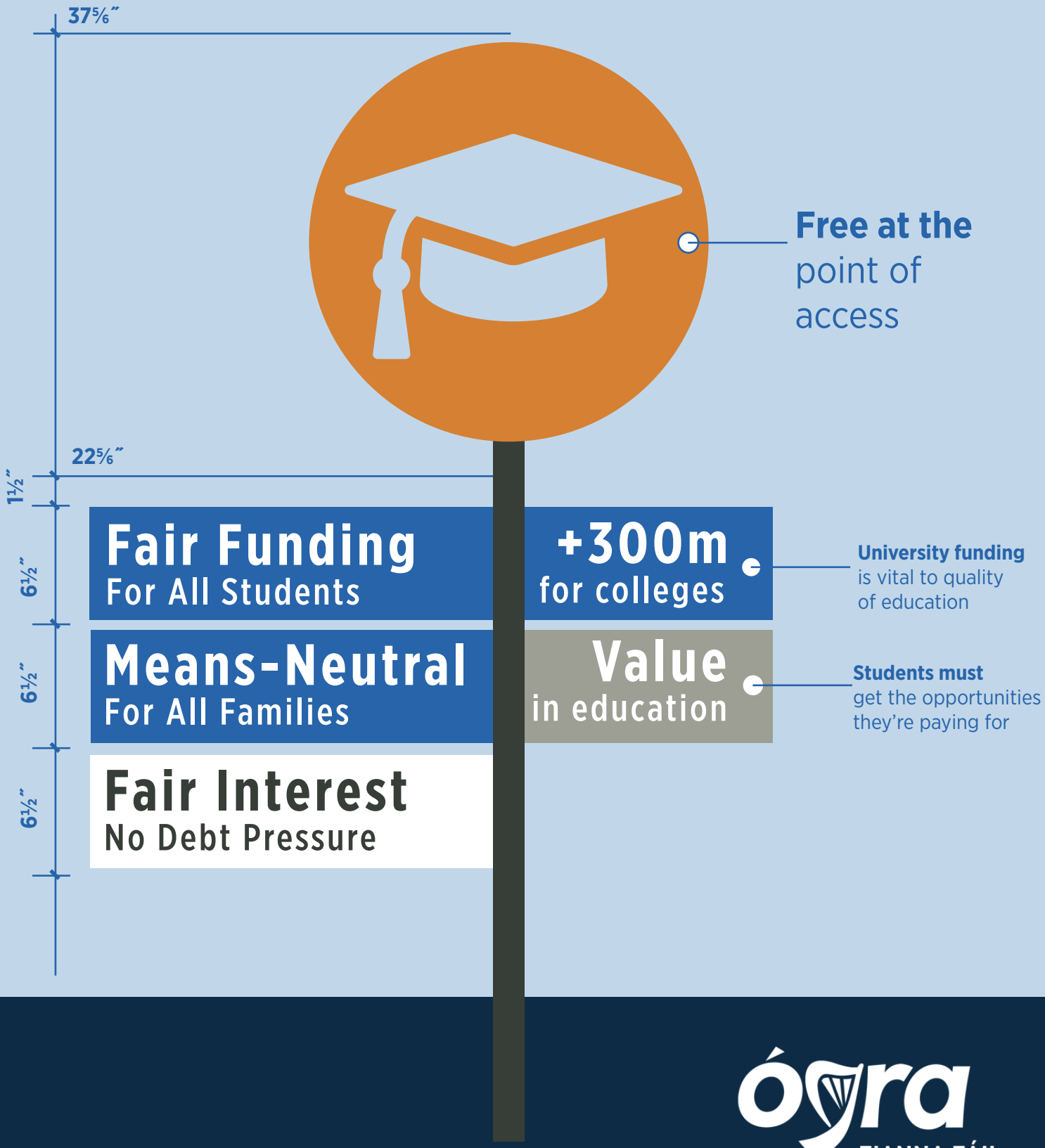
ÓGRA STUDENT LOAN PROPOSAL



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Proposed **Student Loan Policy**

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Introduction

Ógra Fianna Fáil believe that our higher education funding model is unsustainable and needs radical change. Education is one of the success stories of the Celtic Tiger and has been shown at home and abroad to be a powerful engine of equality.

However, this government's decision to raise fees, while cutting grants and ignoring cries for alternative systems of support has made accessing education a struggle for vulnerable students. All students with the ability and desire to pursue higher education should be enabled to do so and be supported by the state.

At the same time the high quality of Irish graduates is one of the key drivers of the Irish economy and the increasing importance of the STEM industries in the country means that a top-class 3rd level education system is key to our nation's prosperity. However, funding cuts, changing demographics and the ever-growing importance of higher level training in modern Ireland are heaping pressure on the HEA and Ireland's third level institutions. As these under-resourced institutions try to cope with increasing student numbers, quality is dropping in our top universities, evidenced by their plummeting international rankings, while class sizes increase and contact hours decline.

Ógra is committed to a new republican view of education, as a force for social justice, as a valuable public good and as the keystone of our knowledge economy. The system needs radical change and this policy document aims to provide that.

Executive Summary

The Irish 3rd level education system is suffering from two key issues: affordability and funding.

- The Irish 3rd level education system is suffering from two key issues: affordability and funding.
- The higher education system needs to be free at the point of access and students must not only be able to enrol in 3rd level institutions but also afford to attend them.
- Irish universities are facing severe funding issues due to cuts made during the recession and do not have the capacity to handle an increase in demand for more places as demographics change.
- While Ógra maintains a preference for a real "free fees system", we acknowledge that this system no longer exists and budget constraints prevent the removal of the student contribution charge.
- A student loan system, matched with an income contingent repayment mechanism offers the fairest way of ensuring that students can fund themselves through college regardless of their family's means while not facing unaffordable loan repayments upon graduation.
- This scheme offers a way of increasing funding to universities without adversely impacting students and is to be combined with increased government spending as the economy grows out of the recession.

> *Education must be free at point of access.*

Designing an Equitable and Sustainable Funding Model

- Education must be free at point of access.
- Government supports must be available for students caught on the edges of the grant system. Students who wish to independently fund their own education should be able to do so.
- The higher education grant system remains an important redistributive mechanism in our society which incentivises students from vulnerable socioeconomic groups to attend university.
- The new funding model must be a sustainable one which will be able to fund the system through the anticipated increases in demand for places in 3rd level education due to demographic changes.
- Our top universities must be empowered to once again become top-tier international competitors and we must support the development of all levels of the third level education sector.

Context

New entrants into the system are expected to increase from 41,000 to 54,000 in the next 10 years and the total number of learners is expected to rise by about 20,000 to at least 210,000 by 2028.[1]

The changes in are driven by a number of changes; increased birth rate towards the end of the Celtic Tiger era, an increase in international students as well as increases in postgraduate students and mature students. Meanwhile, overall funding for higher education has been cut by approximately 32% and income per student in universities has declined by 22% as undergraduate intake has increased by 15%. The student contribution charge currently makes up 19% of total institutional income while government funding is expected to fall to 51%.

Year	Student Grant and Free fees	Student Contribution	Other fees / income	Total Income	Free Fees %
2008	1397	91	362	1850	76%
2009	1318	104	407	1829	72%
2010	1249	187	402	1838	68%
2011	1179	195	397	1179	67%
2012	1119	264	400	1119	63%
2013	1012	302	403	1012	59%
2014	939	338	406	939	56%
2015	895	382	409	895	53%
2016	860	427	413	860	51%

It's currently estimated that by 2020, higher education will have to rise from 1.25 bn (contribution + free fees) to 1.8 bn by 2020 and 2.25 bn by 2030 [3]. Current increases in student contribution have only served to lessen pressure on the exchequer and students have ended up paying more and more for less and less. With fees currently as high as €3000, Ireland's "free-fees" program is essentially over and fees-by-another-name are in place. A funding model which increases money into the system which is equitable and does not hurt student participation is the aim of this policy paper. Looking to international alternatives, Ógra believes that an income contingent loan model based on the Australian system will provide a sustainable alternative to current funding while also removing financial barriers to entry and lessening the burdens on parents that the current model of fees without supports has produced.

International Context

Loan Agencies

The allocation of loans is a relatively easy process, as the fees are already paid directly to the HEA/institution. Collection is more arduous as it requires the correspondence details for hundreds of thousands of borrowers over a long period of time as well as detection of default and pursuit of debt.

The US, Australian and New Zealand models all incorporate repayment with their equivalent of the PAYE system, which could be adapted for Ireland's system. Employers already manage a variety of payroll deductions so a further deduction should not be too great an administrative burden. One possible mechanism is where Revenue supplies real-time data on employment and income to a second agency and also acts as a collector of last resort. Issues with direct revenue involvement are that it is not within the core competence of the Revenue and while the system collects money monthly, changes are not registered until the end of year.[3]

In Germany, eligibility for student loans is usually dependent on parental income and parents are required by law to support their children's education. For low income families the loan system takes over these obligations where the parents cannot. These loans are given out as half zero-interest loans and half as grant money. The current maximum per month is €643. This is lowered gradually if parent income or student assets exceed a certain level. Eligibility to the loan scheme also grants eligibility to other benefits such as tax relief and free utilities.[4] This could be brought into Ireland with water charge allowances/property tax deductions to control cost of living. Student supports are independent of grades for the first two years and after that a certain minimum grade is necessary stay eligible. Further funds can be granted as low-interest loans for a further two years (if there's a reasonably good chance the student will graduate in that time).

International 3rd Level Funding Models

Country	Funding Model	Public Investment % GDP	Notable Features
Germany	*Exchequer Funded No Fee*	*4.5%*	*Maintenance Loan/Grant hybrid. No student fees.*
UK	*Student Loans/ fee cap of £9,000*	*5.5%*	*High ranking universities / loans with ~3% interest*
Australia	*Capped loan repayments*	*4.5%*	*Deducted from taxes after €53,000 threshold*
New Zealand	*Capped loan repayments*	*6.1%*	*Flat overseas charge*
Ireland	*€3000 fee / Exchequer Funding + Grant system*	*8.1%*	*Increasing contribution charges, decreasing quality*

Income Contingent Loans

Income contingent loans are a favourable option for higher education funding as they can be designed to ensure affordability and to control costs.

4

key principles

- Affordability: students will never face unaffordable loan repayments and interest will be linked to compound rate of inflation.
- Sustainability: Fee costs must remain consistent and students will know the full price of their education upon entry to their degree program.
- Value: If students are to be asked to make extra contributions to university education then they must receive more for their money.
- Equality: The free fees program in Ireland has made many steps in the right direction towards improving access to and uptake of 3rd level education but actual participation levels in vulnerable socio economic goods remain low.

Taking an approximate average annual wage as our starting point for repayments at €30,000 we would have a minimum repayment rate of 2.75% of gross salary per year rising at a rate of 0.25% per €5,000 increase in salary to a maximum of 5% on salaries over €75,000. We currently estimate an average fee of €5000 euro per student as a contribution fee, meaning that a 4 year degree would cost approximately €20,000. A key facet of the loan scheme is an interest rate set at the compound rate of inflation.

Using current participation rates and the money raised by the current student contribution charge, this scheme would end up raising approximately €300m/year for 3rd level institutions. With growth in the economy and an end to austerity, government funding as a proportion of higher education income should grow back to the OECD average (~64%) leading to an increase in services and quality of education.
All funding raised through the contribution charge would go directly to higher education institutions. However, the cost to the exchequer would be the €427 currently raised by the contribution scheme as well as all uptake of the maintenance loans and set-up costs.
While freely accessible education is a key to a fair society, the affordability of maintenance is also a key issue. Loans would be available for up to €10,000/year. Maintenance loans could be paired with an increased minimum repayment rate to ease the burden of the initial loans on the exchequer.

Key Figures

Initial repayment rate of 2.75% of gross income on salaries of 30,000 increasing by (+0.25%)/(€5,000 increment) = max rate of 5% on salaries about 75,000

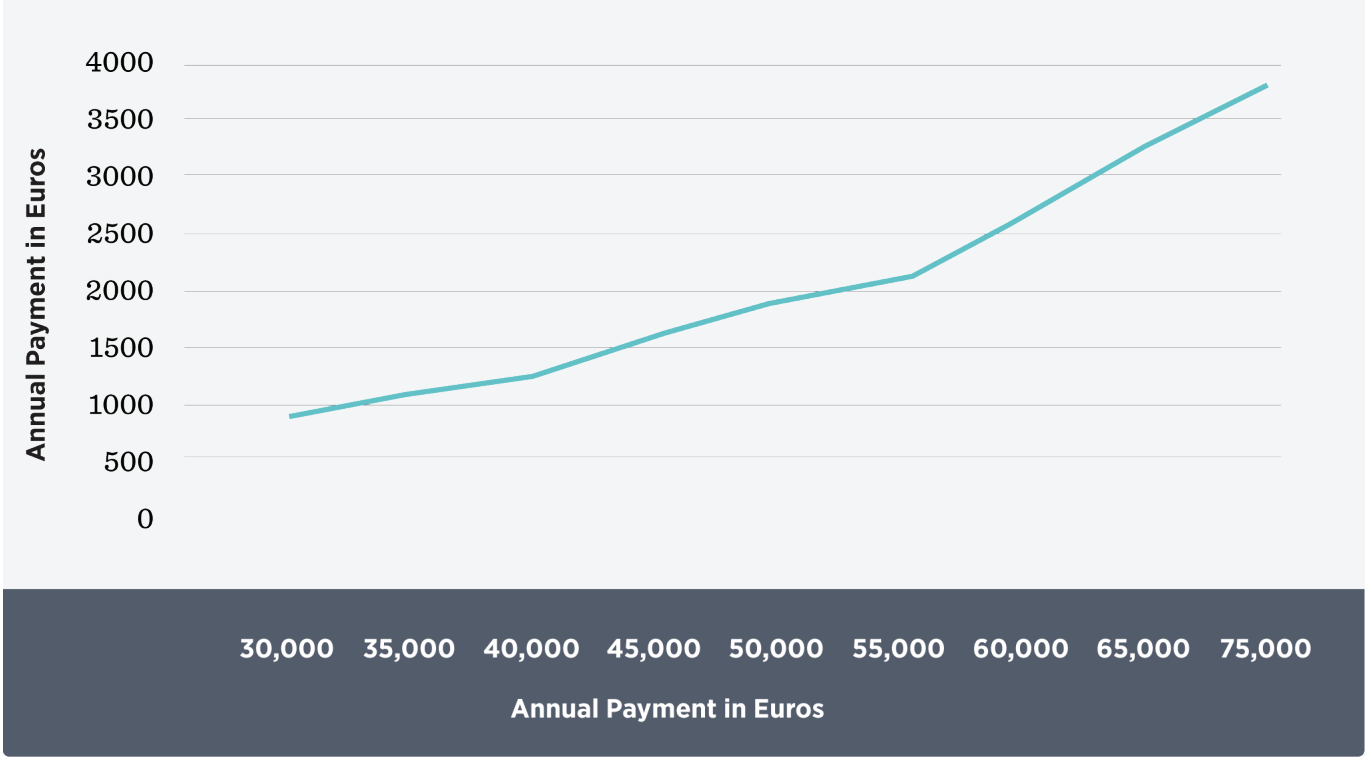
Flat rate of 10% of total loan amount applies to emigrant graduates in order to simplify repayment and disincentivise evasion.

Maximum maintenance loan amount of 10,000 per annum (€40,000 in a four-year bachelor degree).

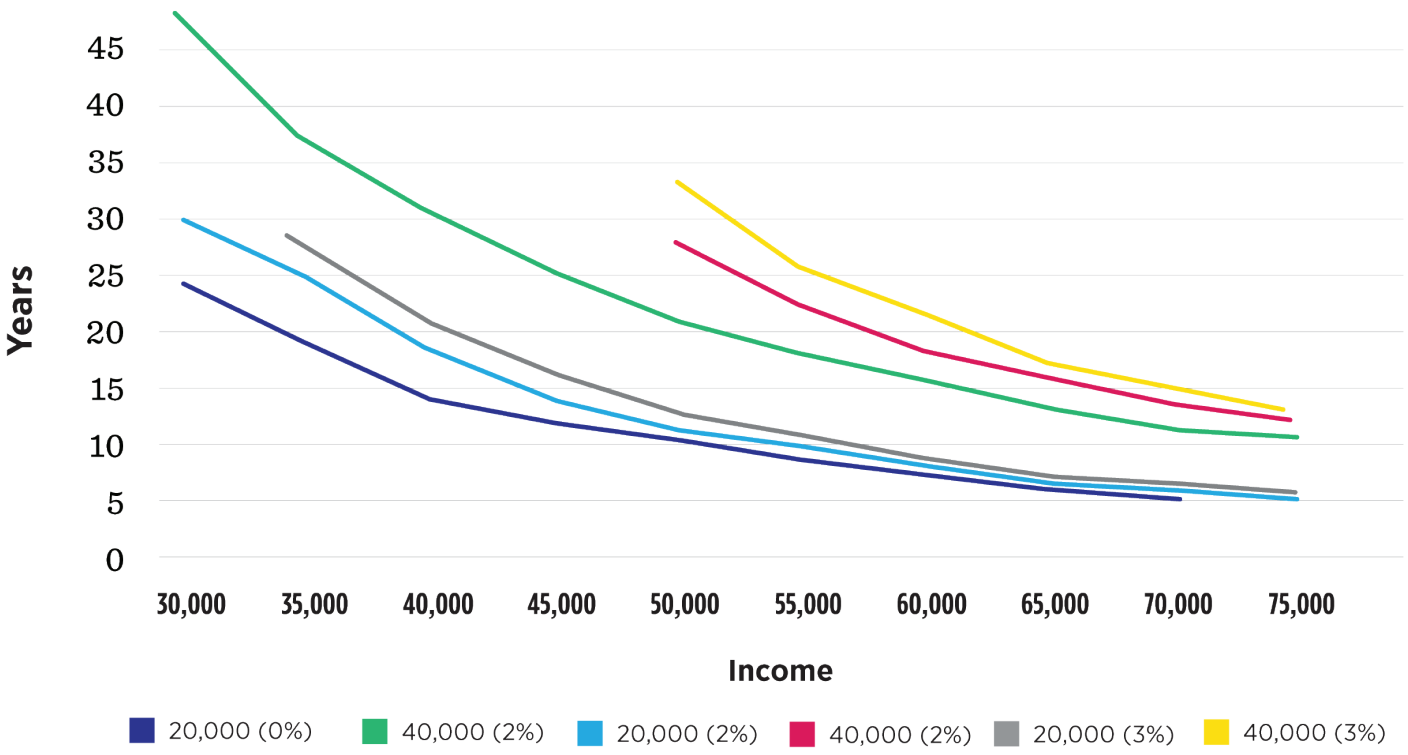
International 3rd Level Funding Models

Income	Repayment Rate	Payment (Annual)	Payment (monthly) Approximate
30,000	2.75%	825	68
35,000	3%	1050	87
40,000	3.25%	1300	108
45,000	3.5%	1575	131
50,000	3.75%	1875	156
55,000	4%	2200	183
60,000	4.25%	2550	212
65,000	4.5%	2925	243
70,000	4.75%	3325	277
75,000	5%	3750	312

Annual Payment by Annual Salary



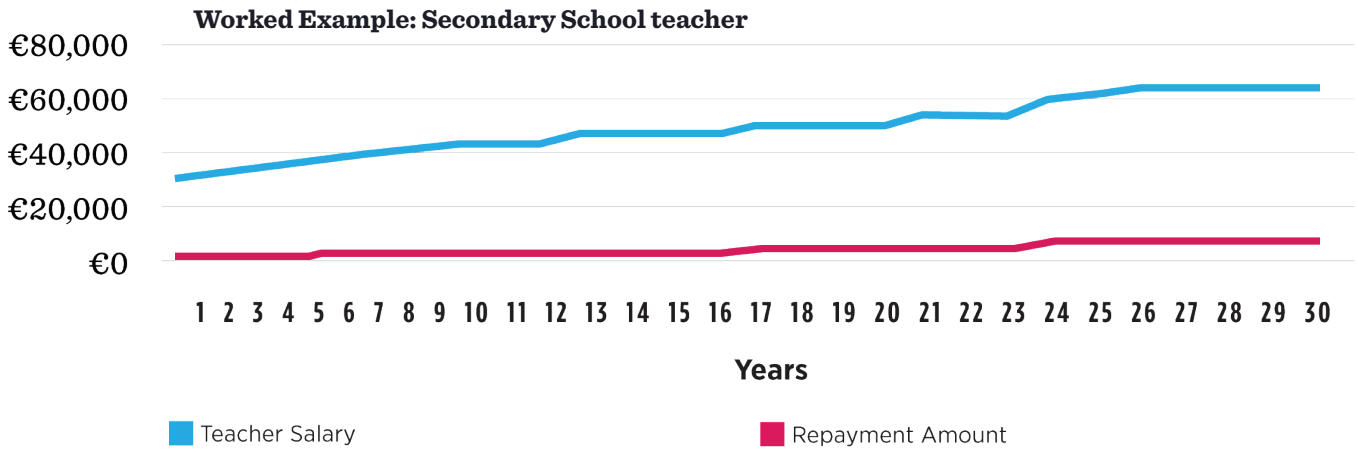
Repayment Time Periods



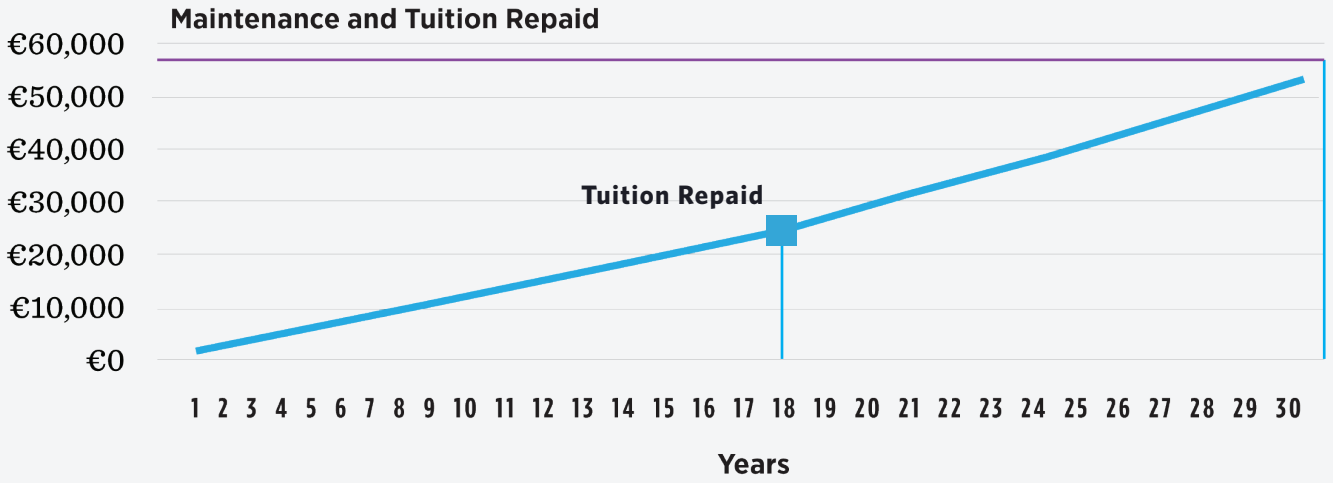
1 Loan Costs: Secondary Level Teacher

Years at Undergrad	Years at Postgrad	Years of Maintenance
3	1	4
Cost per year	**Cost Per Year**	**Maintenance per month (est)**
€5,000	€10,000	€800
Cost of Undergrad	**Cost of Postgrad**	**Maintenance Total Cost**
€15,000	€10,000	€28,000
		Total Loan Amount
		€53,800

2 Post-2011 Secondary Level Teacher Salary Scale[5]



3 Loan Amount Repaid Over Time



System Management

In order to publicly fund and manage the loan systems, either a large public entity would have to be founded or a current public body would have to be adapted to purpose.

In order to publicly fund and manage the loan systems, either a large public entity would have to be founded or a current public body would have to be adapted to purpose. The most obvious candidate for loan collection is Revenue, which would be easily able to access salary information as well as deduct loan repayments similar to social security charges. Payment of tuition could be easily handled in the same way that the "free-fees" is handled – as a direct payment form the government to the HEA upon entry of the student into the loan programme. The distribution of maintenance loans would be the most challenging administrative issue, however the fact that no financial review of applicants is necessary and that all 3rd level students would qualify, might enable the adaption of the student universal support system into such an administrative body. One option for improving efficiency might be for all grant applicants could enter the student loan system without delay and then retrospectively apply for grant assistance, thus minimizing delays.

Government borrowing for the initial few years before graduates begin earning enough to begin repayment need to be costed too. The 2009 report to the minister for education and skills estimates a €15m admin/tax relief cost on loans to cover the 2009 student contribution charge. The system outlined in the report anticipated government revenue returns from an income contingent loan scheme to grow substantially after year 5. There are, however, complex differences between scenarios. Flannery and O'Donoghue (2011) simulated the likely impact of an income contingent loan model in Ireland and found estimated that a 0% rate loan would be paid off in full by 82% of student borrowers, while 74% would fully pay off a loan with a 2% real interest rate. However this simulation was only performed using current student contribution charges. Student loans in the UK do contribute to the total amount of national debt, but do not contribute to annual deficits, as the

student loans themselves act as assets. As such, this programme could be put in place in such a way that increases education investment with minimal increases in the budget deficit[6].

Cost limiting alternatives could involve 0% interest loans to cover fees and then applying an additional interest rate for loans to cover student maintenance. Higher repayment rates for larger borrowed sums or a means testing the maximum amount of money students are allowed to borrow could also be a feature, however all means-testing has a flaw and more complex systems involve costly administration.

Role of Grants in the New System

An important part of this policy is the role that grants would play in a future system. While grants are currently in place in order to provide access to families from under represented socio economic groups and to ensure affordability of education, in this system, education would be easily accessible to all groups. However, a number of arguments remain for the retention of the grant system.

- **Risk/Debt aversion:** young people from lower income households tend to be more risk-averse than those from more privileged sectors of society and may be discouraged from attending university. The financial and personal benefits of university attendance may not be clear to students from families and areas without strong cultures of higher education. Grants offer a financial incentive for these students to continue their studies [7].

- The grant system represents an important progressive measure of wealth redistribution and our society is leaning towards growing inequality. Students from privileged backgrounds retain numerous advantages over students from lower socioeconomic groups such as personal contacts, the ability to work free internships with family support and the means to pay fees upfront. By keeping the grant system in place, the lessened debt burden on students from low income families may act to allow them greater opportunity for work placements and personal development.

- Alternatively as grants become less important, future government spending may be freed up by the narrowing of grant criteria and for important pro-equality services, such as reinstatement of funding for guidance councillors, increased secondary/primary education funding and more specifically targeted student supports. However Ógra remains fully committed to the retention of grants in their current form.

Conclusions

Two key issues face the Irish education system today: equality of access and a sustainable funding model. The income-contingent loan model put forth in this document addresses both these issues. First, by spreading the repayment of the "registration fee" to after graduation it can be ensured that there are no immediate barriers to entry for students attending college and by offering government provided maintenance loans, many more students would be given the opportunity to study on a more equal playing field. Ógra acknowledges that there are many other issues that act as barriers to entry to higher education from quality of schooling to career guidance and beyond. However we believe that addressing the affordability of university and financial barriers to entry is a necessary first step.

The second aim of this document is to provide a sustainable model for third level education funding. An income contingent loan model provides a combination of the best parts of a student loan system with a graduate tax. Although graduates do end up paying more over the long term, 3rd level institutions will receive upfront funding and that funding with increase with rising student numbers. Ógra strongly believes that the government funding has to play a role in 3rd level education beyond underwriting this loan system but that with a more diverse revenue stream, Ireland's institutes and universities will be able to move beyond a "sustainable" higher education system towards one that excels.

Key Recommendations

- **The current 3rd level education funding model is unsustainable given changing demographics, plummeting standards and the importance of well-educated graduates in our economy.**
- A housing crisis, rising student fees and the impact of the recession on student financial circumstances mean that financial barriers to entry are a huge barrier to issue for Irish students.
- **This model proposes a modest increase on upfront fees of an additional €2000 but defers the cost of the entire fee €5000 over a number of years. Based on current income from the registration fee, we expect this to raise €300m for 3rd level institutions.**
- An income contingent loan model ensures that this cost increase will never become an undue burden on graduates.
- **Government spending must increase and students must see value for their investment.**
- A maintenance loan system must also be brought in to ensure that students can both afford to register for their education as well as afford to attend.
- **The interest rate of this loan should be set at the rate of inflation and the cost of servicing the debt will be the government's responsibility.**

References

[1] Higher education Authority Systems Performance First Report (2014-2016)

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[4] Chapman, B. S., Mathias (2011). "Student Loan Reforms for German Higher Education: Financing Tuition Fees." Education Economics.

[5] Association of Secondary Teachers of Ireland (ASTI): Post 2012 Pay Scales http://www.asti.ie/pay-and-conditions/pay/salary-scales/salary-scale-for-teachers-appointed-after-february-1-2012/

[6] Andrew McGettigan (2015) "The accounting and budgeting of student loans" HEPI Report 75

[7] Callender C. and Jackson J. "Does the Fear of Debt Deter Students from Higher Education?" (2005) Journal of Social Policy 34;4, 509-540

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