

August 2026

# Repayment Repression

**The shift from public investment to private burden in higher education funding**

**Intergenerational Foundation Research Paper**

**Toby Whelton**

**Senior Researcher**



**Intergenerational  
Foundation**

## Executive Summary

England's higher education funding system has been transformed over the past twenty years. While public debate has focused on tuition fees, interest rates and outstanding loan balances, this report finds that the more fundamental change has been the gradual withdrawal of the state's contribution to higher education. The result is that graduates now bear a far greater share of the cost of university, pay more during the financially precarious years following graduation, and face a substantially higher lifetime burden than previous generations. The deterioration of student finance has widened intergenerational inequality, but our proposed reform offers a key route to restoring fairness.

## Key Findings

**Graduates now pay far more.** The average graduate is expected to repay £56,240 under Plan 5, compared with £25,700 under Plan 1. Lower earners' expected repayments have increased from £6,430 to £42,070.<sup>1</sup>

**Most of the increase is the result of retroactive changes to loan terms, not the original 2012 reforms.** The two most recent changes to Plan 2 loan terms, introduced after almost all affected students had already enrolled, are estimated to increase lifetime repayments by £23,730 for the average graduate.

**Plan 5 is even more expensive for many graduates and has been overlooked.** Average and lower earners are expected to pay £16,040 and £21,780 more than under Plan 2.

**Student loans are damaging young people's long-term financial prospects.** If invested instead, the typical graduate's first fifteen years of loan repayments could build a £36,000 Lifetime ISA deposit, or grow to around £250,000 in a pension by retirement.

**Student loans impose a social mobility penalty.** Under Plan 2, higher earners who borrowed the maximum maintenance loan are expected to repay £29,100 more than those who borrowed the minimum amount. Plan 5 will extend this social mobility penalty to more graduates.

**Women have been disproportionately affected by recent reforms.** The average female graduate is expected to repay around £25,000 more under Plan 5 than under Plan 2, while the average male graduate will repay around £4,000 less.

---

<sup>1</sup> Unless otherwise stated, figures are based on IF modelling; the full methodology can be found in the Appendix. All figures are in today's prices, unless otherwise stated. Lower, middle, and upper earners refer to earnings quartiles.

**High marginal tax rates risk weakening incentives to work.** By 2035/36, around half of employed Plan 2 graduates are expected to be higher-rate taxpayers and face a combined marginal tax rate of 51%.

**Graduates face a higher tax burden.** Current university starters will pay £73,000 more in tax over the first 25 years after graduation than pre-2012 cohorts. For lower earners, the increase is £65,800, a rise of 74%.

**Despite students paying more than ever, less is being spent on their education.** Funding per student has fallen back to pre-2012 levels.

**Government funding has collapsed.** We estimate that support for the typical graduate has fallen from £26,600 for the 2015/16 cohort to £4,200 for current starters. For lower earners, the subsidy has fallen even further, from £48,100 to £14,800.

## Recommendations

**Restore a meaningful state contribution to higher education by reducing the repayment rate from 9% to 5% for both Plan 2 and Plan 5 graduates.** If invested, these savings could add £16,000 to a housing deposit, or £185,000 to pension savings by retirement.

**Restore maintenance grants** to their 2016 level to end the social mobility penalty.

**Calculate student loan repayments after pension contributions** to remove the current disincentive to save for retirement and maintain that pension contributions are taxed only on the way out, rather than on the way in

**Improve transparency** through quinquennial reviews, improved government data and the display of expected lifetime repayments on student loan statements.

**Reconceptualise higher education as an investment in young and future generations.** A fairer funding settlement must be seen as part of a broader rebalancing of resources and burdens between generations.

# 1. Introduction

Few areas of public policy have seen such a rapid collapse in political consensus as England's higher education funding system. After a decade of little mainstream discussion on student loans, the start of 2026 saw an outpouring of media coverage about aggrieved graduates and the unfairness of student loans. This caused the Chancellor of the Exchequer to pivot from describing the system as “fair and reasonable” to admitting it was “broken” within a matter of months.<sup>2</sup>

Attention has focused on Plan 2 loans, which were issued to 11 cohorts between 2012 and 2022. Critiques of the system include above-inflation interest rates that mean loan balances rise despite repayments, retroactive changes to loan terms and broader claims that the system was mis-sold. In an attempt to quell the outrage, the government launched an inquiry into student loans, and 49,000 graduates responded to the Select Committee’s survey. It found that 93% of graduates described the terms as unreasonable, while 82% said the loans were worse than expected.<sup>3</sup> There is a growing consensus that the higher education funding system is broken.

However, there is far less agreement about how we got here, what the primary issues are, or how they can be fixed. Part of the difficulty is that the debate has often focused on the wrong measures. Attention has centred on tuition fees, outstanding loan balances, and interest rates, while a more fundamental question has received far less scrutiny: How much does university cost? And who ultimately bears the cost of higher education?

This report seeks to answer that question. It examines how the cost of a degree is shared between graduates and the state, how that burden varies by earnings, background, and life stage, and how successive policy changes have fundamentally altered the balance between public and private funding over time.

## 1.1 Report structure

Section 2 examines the burden facing graduates in the years following graduation. It finds that the pressure placed on graduates in early adulthood is at historic highs. What is increasingly a period of precarity and insecurity is being exacerbated by loan repayments. The report considers the impact this will have on young people's ability to reach key life milestones, such as home ownership, family formation and saving for retirement.

---

<sup>2</sup> ITV News, [“Graduates accuse government of acting like ‘loan sharks’ over student debt”, 11 February 2026](#); Graeme Wearden, [“Rachel Reeves reveals push for fiscal devolution to English regions, says Brexit caused damage, and admits student loan system is ‘broken’”, The Guardian, 17 March 2026](#)

<sup>3</sup> Treasury Committee, [Student loans and taxation inquiry, Online Questionnaire Results, May 2026](#).

Section 3 looks at the total cost of higher education to graduates and how it has changed since 2008. It finds that, while the 2012 reforms are often viewed as the watershed moment in higher education funding, in terms of the cost to graduates, the current system is as much a product of subsequent changes. The section cautions against the commonly held view that Plan 2 is the primary issue, instead demonstrating that Plan 5 will be significantly more costly for average and lower earners.

Section 4 examines how student loans interact with marginal and effective tax rates. Due to frozen income tax and repayment thresholds, an increasing number of graduates will face high marginal tax rates. Together, these changes have created historically high effective tax rates for young graduates.

Section 5 looks at the cost of higher education to the state. What was always intended to be a cost-sharing system, in which the cost of university would be shared between the individual and the Exchequer, now falls overwhelmingly on the individual. The paper argues that this shift underpins many of the issues of the current system. The section concludes that student finance must be conceptualised within the broader framework of intergenerational fairness.

Section 6 proposes a series of policy solutions. The report argues that the fairest and most effective reform to student loans would be a reduction in the repayment rate from 9% to 5% for both Plan 2 and Plan 5. This should be combined with the full restoration of maintenance grants, as well as measures to improve transparency and democratic accountability.

## 2. Early years repayment

Student loans operate over an unusually long timespan for a state-backed financial product. Plan 5 loans for students entering university from 2023 have a repayment term of 40 years. This means current undergraduates will still be repaying their loans well into the 2060s. However, the financial burden placed on graduates is also more immediate. Recent changes to loan terms will require graduates to pay significantly more in the years immediately following graduation.

This matters because money today is worth more than money in the future. This is reflected in the discount rate used in government accounting, which converts future repayments into their net present value. But for young graduates, timing matters even more. Households in early adulthood are more likely to have lower incomes, minimal savings, and less secure living arrangements. Our previous research has shown that financial pressures and precarity in early adulthood have increased over time.<sup>4</sup> Higher

---

<sup>4</sup> Whelton, T (2024) *Intergenerational Foundation*. [Blowing the Budget: Why the young have to spend more on essentials than the old](#)

loan repayments in graduates' 20s will add to these pressures and may further delay key life milestones such as moving out, homeownership, and saving for retirement. As a result, the timing of student loan repayments can significantly affect their impact on graduates' finances and life outcomes.

## 2.1 Impact of frozen thresholds on early years burden

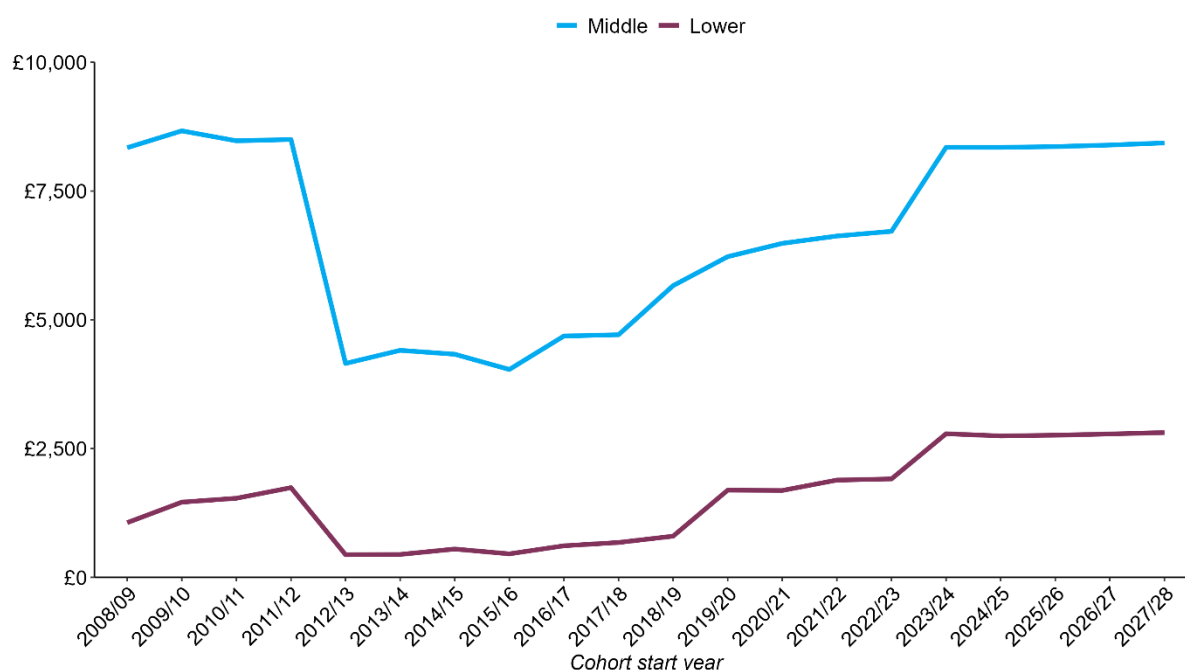
The 2012 reforms accounted for this by backloading repayments to later in life.<sup>5</sup> The repayment threshold rose from £15,000 to £21,000, yet higher tuition fees, above-inflation interest rates, and an extension of the loan term from 25 to 30 years all kept graduates in the system for longer. On average, Plan 1 graduates would have made 30% of their total repayments within the first ten years, compared with around 10% for Plan 2 graduates.

For the first Plan 2 cohorts, the switch from Plan 1 halved repayments within the first ten years for the average graduate, from £8,500 to £4,150. Repayments for lower earners were reduced from £1,740 to £440.

**Figure 1**

### Graduate's early years burden has returned to previous highs

Total student loan repayments within 10 years of graduation by earnings quartile



Source: IF cohort student finance model  
© Intergenerational Foundation 2026 [www.if.org.uk](http://www.if.org.uk)

Subsequent policy changes have eroded this protection for graduates early in their careers. The repayment threshold for Plan 2 graduates was frozen from 2016/17 to 2017/18, from 2022 to 2025, and will be frozen again from 2027 to 2030. Plan 5

<sup>5</sup> Treasury Committee, [Oral evidence: Student Loans, HC 478](#), Q110, December 2017

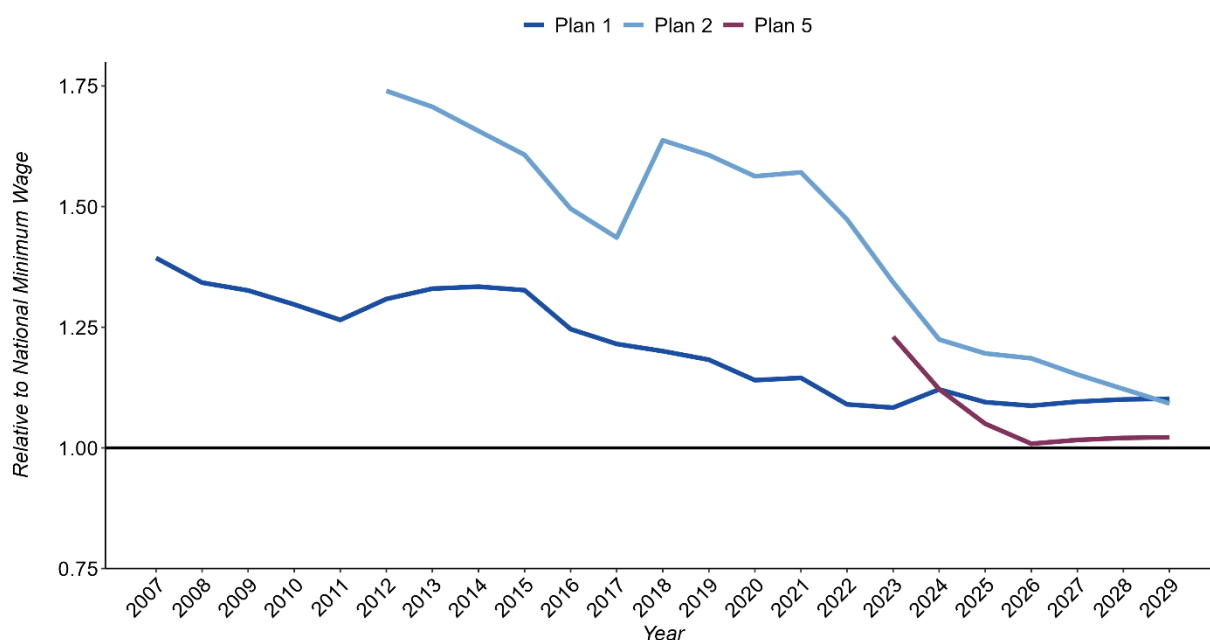
graduates face an even lower threshold of £25,000. The earnings buffer has effectively been removed, as the repayment threshold is now almost aligned with the National Minimum Wage.

For students who began their courses in 2023, the early-years repayment burden is projected to return to levels comparable with Plan 1, a system often criticised for placing excessive pressure on graduates at the start of their working lives.<sup>6</sup> The typical graduate is now expected to pay £8,400 within 10 years of graduation; those in the upper quartile will repay £16,300.

**Figure 2**

### The gap between the National Minimum Wage and the repayment threshold has narrowed

Repayment threshold relative to the National Minimum Wage (NMW = 1)



Source: SLC, Previous annual thresholds; Gov.UK, National Minimum Wage and National Living Wage rates  
© Intergenerational Foundation 2026 [www.if.org.uk](http://www.if.org.uk)

This has undermined a central premise of the system: that graduates would only begin making contributions once they had seen a return on their degree through higher earnings.<sup>7</sup> Right when graduates are facing the greatest pressure, they are being asked to pay more.

## 2.2 Early years opportunity cost

Increased financial pressure in early adulthood can have significant implications for individuals' long-term financial security. Money invested in savings or pensions at a

<sup>6</sup> Gayardon, A, et al., "Does Student Loan Debt Structure Young People's Housing Tenure? Evidence from England", *Journal of Social Policy*, 51(2), 2022, pp. 221-241; Elias, P et al., *Ten years on: The Futuretrack Graduates*, University of Warwick Institute for Employment Research, 2021.

<sup>7</sup> BIS (2011) [Students at the Heart of the System](#)

young age has more time to compound and grow. This can be illustrated through a counterfactual in which the first 15 years of student loan repayments are instead invested.

If these repayments were invested in a Lifetime ISA (LISA) for a first home, the average graduate would accumulate an additional £36,000 within 15 years. This is equivalent to more than half of the current average first-time buyer deposit in England (£65,200).<sup>8</sup> Upper-quartile earners would accumulate around £67,000.

If the same repayments were instead invested in a pension returning 7% annually, the average graduate would have an additional £250,000 by the time they reach State Pension Age.<sup>9</sup>

**Figure 3: Counterfactual of the first 15 years of repayments being invested in a LISA or pension account for Plan 5 graduates (nominal values)**

|                                              | Middle earner | Lower earner | Higher earner |
|----------------------------------------------|---------------|--------------|---------------|
| Invested in LISA for 15 years                | £36,000       | £14,500      | £67,000       |
| Invested in pension (7% return) for 45 years | £250,000      | £98,000      | £471,000      |

## 2.3 When should graduates be made to repay their loans?

This is not to suggest that loan repayments should be unthinkingly deferred to later life. Postponing the bulk of repayments into the far future has its own drawbacks. While early pension saving may be optimal in theory, pension contributions often increase as retirement approaches.<sup>10</sup> Student loan repayments extending into graduates' 50s and 60s may therefore be particularly damaging to retirement outcomes.

Deferred repayments can also weaken political accountability if the cost of loan terms is not felt until decades after they are introduced. This has arguably been the case with Plan 2, where scrutiny has only recently extended beyond headline tuition fees as the earliest cohorts have begun to reach their earning potential. Longer repayment periods also increase uncertainty, making the cost of the system more sensitive to long-term economic forecasts and discount rates. Finally, some surveys suggest that many graduates are eager to clear their debt as quickly as possible and be relieved of its psychological burden.<sup>11</sup>

---

<sup>8</sup> UK Finance, [Regulated Mortgage Survey, England Mortgage Market: Key Data, 2026-Q1](#)

<sup>9</sup> Assumption based on historical long-run performance of typical pension funds.

<sup>10</sup> ONS, [Employee contribution bands by age group and pension type: Table P5](#)

<sup>11</sup> Claire Callender and Ariane de Gayardon, [Hidden Voices: Graduates' Perspectives on the Student Loan System in England](#), HEPI / Centre for Global Higher Education, 2021.

However, Plan 5 risks combining the disadvantages of both approaches. Graduates face higher repayments at precisely the point in life when they are establishing themselves financially, yet many will still be making repayments into their 60s.

### 3. Lifetime cost of higher education

The early-years repayment burden is relatively straightforward to estimate. It relies largely on observable earnings data and short-term economic forecasts. Certain features of the student loan system, such as interest rates, loan balances, and repayment terms, have only a limited impact over this period.

Estimating the total lifetime cost of student loans is far more complex. It requires assumptions about numerous, frequently changing, interrelated factors. These factors can be grouped into four broad categories (the Appendix provides a fuller explanation of the methodology used in this report):

#### **1) Loan outlay – the size of a student's debt affects how long they remain in the repayment system**

- Tuition fee levels
- Maintenance loan levels and parental income thresholds
- Loan uptake
- The availability and generosity of grants

#### **2) Loan terms – determine how much graduates repay and when**

- Repayment threshold
- Repayment rate
- Interest rates and interest rate thresholds
- Write-off period
- Uprating methods

#### **3) Graduate earnings – repayments are contingent on graduates' earnings, which are influenced by**

- The wider economic outlook (growth, productivity, inflation)
- Labour market conditions (employment, graduate vacancies, wages)
- Cohort characteristics (prior attainment, subject studied, region, gender, etc.)
- Earnings trajectories over time

#### 4) Forecasting assumptions – estimating lifetime repayments requires assumptions about the future

- Economy-wide forecasts
- Future government decisions on loan terms
- The discount rate used to value future repayments

These factors determine how much graduates repay in total, who bears what burden, and when repayments are made. This section examines how the cost of higher education has changed over time, from Plan 1 through to Plan 5.

### 3.1 The 2012 reforms

Recent media coverage of the perceived unfairness of student loans has largely focused on Plan 2 loans. Introduced by the Coalition government, these loans apply to the 11 cohorts who entered university between 2012 and 2022. Almost 15 years on, it is worth reassessing both the rationale behind their introduction and their impact on the expected cost of higher education to graduates.

We model the impact of the initial switch from Plan 1 to Plan 2 by comparing the original terms for the first Plan 2 cohort with a counterfactual in which Plan 1 remained in place.

**Figure 4: Impact of the switch from Plan 1 to the original Plan 2 loan terms for the 2012/13 cohort on expected lifetime repayments by lifetime income quartile<sup>12</sup>**

| <b>Plan 1 to Plan 2</b>                     | <b>Average earner</b> | <b>Higher earner</b> | <b>Lower earner</b> |
|---------------------------------------------|-----------------------|----------------------|---------------------|
| Tuition fee cap rises to £9,000             | +£5,630               | +£18,180             | £0                  |
| Interest rates capped at RPI+3%             | £0                    | +£7,700              | £0                  |
| Repayment term extended from 25 to 30 years | +£11,590              | +£10,220             | +£4,200             |
| Repayment threshold increased to £21,000    | -£12,070              | -£6,540              | -£7,030             |
| <b>Total additional lifetime repayments</b> | <b>+£5,150</b>        | <b>+£29,560</b>      | <b>-£2,830</b>      |

---

<sup>12</sup> The figures are an illustrative approximation of the isolated effects of each change, due to their interrelated nature. For example, higher interest rates compounded the effects of higher total debt; it is somewhat arbitrary to attribute the effect on lifetime repayments to one or the other.

The largest increase in repayments fell on high-earning graduates, who were expected to repay an additional £29,560 over the lifetime of their loan. Higher tuition fees and above-inflation interest rates meant these graduates remained in the system for significantly longer. The average time taken for an upper-quartile graduate to clear their balance increased from 14 years under Plan 1 to 25 years under Plan 2.

Average earners were expected to repay £5,150 more over their lifetime. Higher tuition fees and the extension of the repayment term from 25 to 30 years increased costs, although this was partially offset by the repayment threshold rising from £15,000 to £21,000.

By contrast, lower earners benefited from the reforms. The higher repayment threshold prevented many from making repayments for most of their loan term, leaving them £2,830 better off than under Plan 1.

### 3.2 Changes within Plan 2

The switch to Plan 2 is often seen as the turning point in the funding of higher education in England and Wales. To many, it marked the shift from the provision of a public good to a market-based system. But as shown above, for the majority of graduates, it did not radically increase the expected cost of their education, at least from the outset. It is crucial to recognise that the current cost of Plan 2 to graduates is at least as much a consequence of retroactive changes to loan terms as of Plan 2's initial introduction.

**Figure 5: Impact of retroactive policy changes to Plan 2 on expected lifetime repayments for all Plan 2 cohorts**

| Changes within Plan 2                                                       | Year implemented | Average earner | Higher earner | Lower earner |
|-----------------------------------------------------------------------------|------------------|----------------|---------------|--------------|
| Maintenance grants abolished & threshold frozen                             | 2016/17          | +\$6,440       | +\$3,750      | +\$2,510     |
| Theresa May raises threshold to £25,000                                     | 2018/19          | -\$15,910      | -\$8,490      | -\$5,880     |
| 2022 thresholds freeze and uprating mechanism switched from earnings to RPI | 2022/23          | +\$18,800      | +\$13,890     | +\$9,190     |
| Rachel Reeves freezes thresholds Autumn Budget                              | 2027/28          | +\$4,930       | +\$2,690      | +\$4,190     |

|                                      |  |                 |                 |                 |
|--------------------------------------|--|-----------------|-----------------|-----------------|
| Total additional lifetime repayments |  | <b>+£14,360</b> | <b>+£11,830</b> | <b>+£10,010</b> |
|--------------------------------------|--|-----------------|-----------------|-----------------|

We have condensed the long and complex history of Plan 2 into numbers by showing the effect each policy change has had on graduates' expected lifetime repayments.

### 3.2.1 2015 changes to Plan 2 loans

The first change to Plan 2 loan terms came in 2015, when the government announced that the repayment threshold would be frozen at £21,000 until 2021. This went against prior assurances that the Plan 2 repayment threshold would be "linked to average earnings".<sup>13</sup>

The same summer Budget announced that means-tested maintenance grants would be replaced with higher maintenance loans for students who began their course after 2016. This meant that the poorest students would now graduate with the highest levels of debt. Section 3.5 discusses the impact of the removal of maintenance grants in further detail.

### 3.2.2 Theresa May uprates the threshold in 2018

The unpopularity of these changes led Prime Minister Theresa May not only to reverse the freeze, but also to uprate the repayment threshold to £25,000 and restore earnings-linked uprating. This policy was an extraordinarily large transfer to young graduates. As a result, lower-earning graduates would make only negligible repayments over their lifetimes. Average-earning graduates' lifetime contributions were halved from £31,720 to £15,810. At the time, the government estimated this subsidy was worth between £2 billion and £3 billion annually.<sup>14</sup>

### 3.2.3 The 2022 freeze

Subsequent policy changes can largely be understood as a reaction against this decision. In 2022, the Conservative government froze the Plan 2 repayment threshold at £27,295 for three years, until 2025, in the name of fiscal sustainability.<sup>15</sup> The uprating mechanism for the threshold was switched from average earnings to RPI inflation. We estimate that the change to the uprating mechanism alone will cost middle- and lower-earning graduates an additional £6,000 over their lives.

<sup>13</sup> Department for Business, Innovation and Skills (2010), [Investing in Skills for Sustainable Growth, Cm 7983](#)

<sup>14</sup> House of Commons Library (2018), [Prime Minister's announcement on changes to student funding, Briefing Paper CBP-8097, 3 January 2018](#)

<sup>15</sup> Department for Education (2022), [Higher education policy statement and reform, Written Statement HCWS568, 28 January 2022](#)

The freeze coincided with a period of abnormally high inflation, during which RPI reached double digits. During the three years of the freeze, the threshold was reduced by £6,365 (23%) in real terms. This more than reversed the previous uprating of the threshold. Middle-earning graduates were worst hit and are expected to repay an additional £18,800 as a direct result. Lower earners are expected to be £9,190 worse off, a ten-fold increase in their lifetime repayments. The blow to upper earners was softened by the fact that higher monthly repayments meant they were more likely to pay off their debt earlier.

### 3.2.4 Changes at the 2025 Autumn Budget

The threshold has since been uprated to £29,385 for 2026/27, but the previous cuts are now embedded. Had the threshold been uprated by RPI since 2022, it would instead stand at £35,750. This was the context for Rachel Reeves' decision to freeze the threshold again for three years from 2027/28. We estimate the most recent change will cost middle earners £4,930, higher earners £2,690, and lower earners £4,190.<sup>16</sup>

### 3.2.5 Overall impact of changes within Plan 2

In summary, all graduates are expected to be worse off relative to the original terms of Plan 2. Middle earners are expected to pay £14,360 (57%) more than was originally expected, while lower earners will likely pay £10,010 (300%) more. Higher earners will face a lifelong loss of £11,830 (20%).

These figures account for all changes within Plan 2 across all cohorts. If we isolate changes made after nearly all Plan 2 students had already applied to university, the effect is even larger. We estimate that **changes made from 2022 onwards will cost middle-earning graduates £23,730** in additional lifetime repayments, higher earners £16,570, and lower earners £13,380.

## 3.3 The switch to Plan 5

Six years after the introduction of Plan 2, the government announced a review of the student finance system. This became the Augar Review, which formed the basis of Plan 5 student loans for cohorts entering university from 2023/24.<sup>17</sup>

The architecture of Plan 2 was largely retained, but significant changes were made to its key levers. Plan 5 capped interest rates at RPI, meaning debt would not increase in real terms. We estimate this represented a transfer of £16,380 to higher earners. This was clawed back by significantly increasing the burden on middle- and lower-earning graduates. The loan term was extended from 30 to 40 years, while the repayment threshold was lowered to £25,000 until 2027/28.

---

<sup>16</sup> The increased cost to higher earners will primarily be the result of the frozen interest rate thresholds

<sup>17</sup> Independent Panel (2019), [Post-18 Review of Education and Funding: Final Report](#)

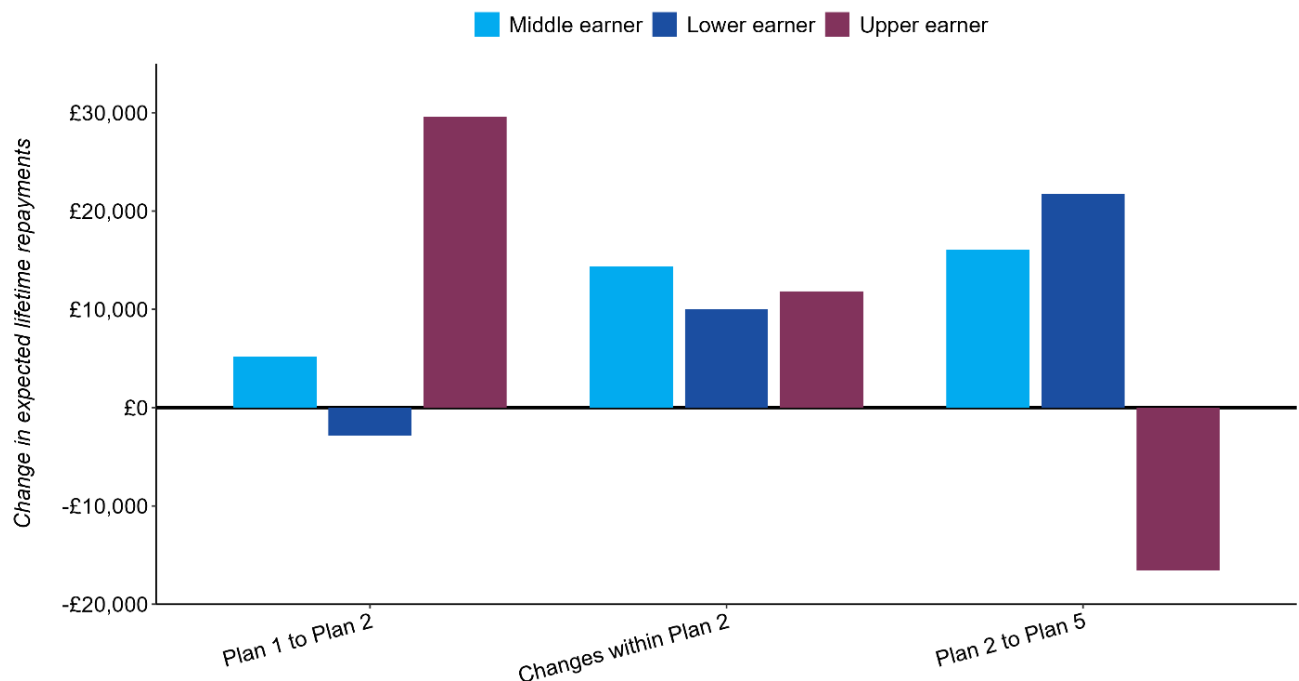
**Figure 6: Impact of the switch from Plan 2 to Plan 5 on expected lifetime repayments for the 2023/24 cohort**

| Plan 2 to Plan 5                            | Average earner  | Upper earner    | Lower earner    |
|---------------------------------------------|-----------------|-----------------|-----------------|
| Interest reduced from RPI+3% to RPI+0%      | £0              | -£16,380        | £0              |
| Repayment term extended from 30 to 40 years | +£12,720        | £0              | +£17,360        |
| Threshold lowered to £25,000                | +£3,320         | -£220           | +£4,420         |
| <b>Total change in lifetime repayments</b>  | <b>+£16,040</b> | <b>-£16,600</b> | <b>+£21,780</b> |

Higher earners are expected to be largely unaffected because they would already have been likely to clear their debt within the original 30-year term. Indeed, the lower repayment threshold will enable higher earners to clear their debt earlier. By contrast, average earners who would previously have benefited from a partial loan write-off are now expected to repay their loans in full.

**Figure 7**

**Estimated change in expected lifetime repayments as a result of policy changes**



Source: IF cohort student finance model  
© Intergenerational Foundation 2026 [www.if.org.uk](http://www.if.org.uk)

We estimate that **lower earners will repay an additional £21,780 over their lifetime, while average earners will repay a further £16,040**. Expressing repayments as a share of lifetime earnings reveals the regressive nature of Plan 5. Over the repayment term, loan repayments are expected to account for 2.2% of total earnings for higher earners, compared with 3.0% for average earners and 2.8% for lower earners.

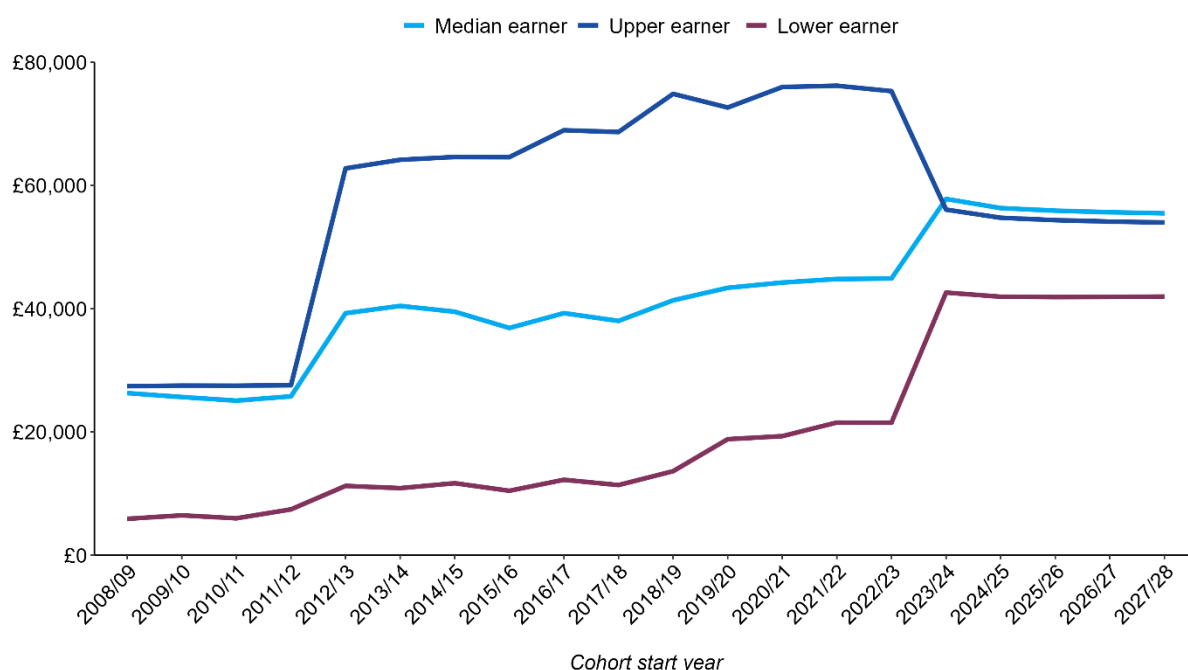
### 3.4 Lifetime repayments

Despite the many changes to the student loan system, a clear long-term trend emerges: the cost of higher education has increased substantially over the past two decades. Since 2010, expected lifetime repayments for middle- and higher-earning graduates have effectively doubled. We estimate that average earners under Plan 5 will repay £56,240 over their lifetime, compared with £25,700 under Plan 1. Meanwhile, **expected lifetime repayments for lower earners have risen from £6,430 to £42,070**.

**Figure 8**

#### The cost of university has significantly increased

Expected total repayments by cohort and earnings



Source: IF cohort student finance model  
© Intergenerational Foundation 2026 [www.if.org.uk](http://www.if.org.uk)

### 3.5 The social mobility penalty

So far, we have focused on differences in earnings. However, the total cost of higher education also depends on how much students borrow. Students from poorer backgrounds are entitled to larger maintenance loans to help meet living costs and therefore tend to graduate with more debt. In 2024, poorer students were estimated to graduate with debts of £60,100, 38% higher than the £43,600 owed by their wealthier

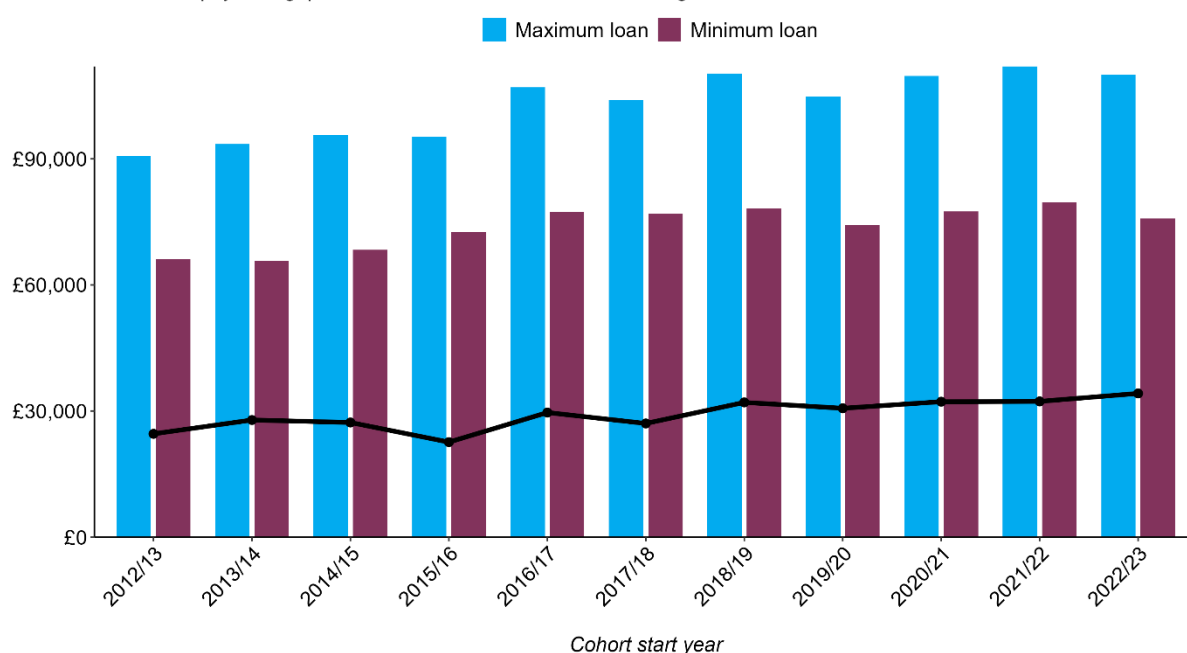
peers.<sup>18</sup> This can create a social mobility penalty as graduates from poorer backgrounds who go on to higher earnings often end up paying considerably more than their wealthier counterparts. How this penalty manifests differs between loan plans.

Plan 2 had the undesirable effect of exacerbating disparities in loan outlay. This was due to above-inflation interest rates of RPI+3%, which compounded initial differences in debt levels. The effect became even more pronounced after the abolition of maintenance grants in 2016. The gap between minimum and maximum maintenance support rose from £6,000 to £13,500 for a typical three-year degree.<sup>19</sup> We estimate that, among the highest earners under Plan 2, **those who took out the maximum loan will repay £29,100 more over their lifetime** than those who took out the minimum. Yet the original difference in loan outlay was only £13,800.

**Figure 9**

### Penalty on social mobility

Expected lifetime repayments for Plan 2 higher earners by maintenance loan uptake. Black line shows the repayment gap between maximum and minimum loan graduates.



Source: IF cohort student finance model  
© Intergenerational Foundation 2026 [www.if.org.uk](http://www.if.org.uk)

Plan 5 removed this interaction by capping interest rates at RPI. However, it introduced a different problem. The size of a student's debt only matters if that debt is repaid in full. Under Plan 2, many graduates never cleared their balance, meaning larger maintenance loans often translated into larger write-offs rather than higher repayments. Under Plan

<sup>18</sup> Sutton Trust (2024), [Reforming Student Maintenance](#)

<sup>19</sup> Student Loans Company (2016), [Financial Support for Students in Higher Education: England 2016](#)

5, far more graduates are expected to repay their loans in full.<sup>20</sup> As a result, differences in initial debt levels are more likely to materialise in differences in total costs, extending the social mobility penalty to more graduates.

### 3.6 Variations by gender

There are significant differences in expected lifetime repayments by gender. This is primarily because men, on average, earn more over their lifetimes than women. As Plan 5 increases the burden on lower- and middle-earning graduates, it is expected to have a disproportionate impact on women. We estimate that **the average female graduate will repay £25,000 more under Plan 5 than under Plan 2**, while the average male graduate will repay around £4,000 less. The increase is particularly pronounced among lower earners. Women in the lower-earning group who would have made only negligible repayments under Plan 1 are expected to repay around £31,000 under Plan 5.

### 3.7 Democratic faults in the system

It is worth briefly reflecting on how the cost of higher education to graduates has increased so substantially, and so quickly, with relatively little public debate or scrutiny until recently. It is difficult to imagine another area of policymaking in which a subsection of the population is required to pay tens of thousands of pounds more without a national discussion about the fairness of those changes.

Arguably, this is a feature of the student loan system itself. The complexity of its interrelated policy levers, combined with the exceptionally long time horizons over which their effects are felt, makes it difficult for graduates, policymakers, and the public to understand the consequences of reforms. This weakens democratic accountability and creates a tendency towards the gradual worsening of loan terms.

The current accounting framework further reinforces these incentives. Since 2019, any policy that alters expected future repayments triggers a revaluation of the student loan book, which has a current face value of £295 billion.<sup>21</sup> Changes for all affected cohorts are recorded upfront, and must be accommodated within the fiscal rules of the day. Rachel Reeves' decision to freeze repayment thresholds was recorded as a one-off £5.6 billion improvement in capital spending in 2026/27, despite only increasing annual revenue by around £0.3 billion.<sup>22</sup> It is unsurprising that successive Chancellors have failed to resist the immediate, lump-sum increase in headroom that tightening loan terms delivers.

---

<sup>20</sup> DfE forecasts that 56% of full-time higher education Plan 5 borrowers will repay their loans in full, London Economics estimates 70%, the IFS model implies 83%: Department for Education (2025), [Student loan forecasts for England, financial year 2024-25](#); London Economics (2025), [Modelling a stepped repayment system for student loans in England](#); IFS: [Student Finance Calculator](#)

<sup>21</sup> SLC (2026), [Student Loans in England: Financial Year 2025-26](#)

<sup>22</sup> HM Treasury (2025), [Budget 2025](#)

## 4. Tax burden

Some argue that student loans are better conceptualised not as loans, but as an effective graduate tax. This was evident in the language surrounding the introduction of Plan 2. Vince Cable, the Coalition's Minister for Business, Innovation and Skills (BIS), described graduate repayments as being "collected through the pay packet at a rate of 9p in the pound above the £21,000 threshold".<sup>23</sup> This is especially true for graduates who never clear their loan balance, as the size of their outstanding debt has no effect on the amount they repay.

This section therefore assesses the changing burden of student finance through the lens of taxation.

### 4.1 Marginal tax rates

Marginal tax rates for young graduates are considerably higher than those faced by many other groups. For example, someone above State Pension age with an income of £30,000 faces a marginal tax rate of 20% (the basic rate of Income Tax). A young graduate on the same income faces a marginal tax rate of 37%. Postgraduates with additional Plan 3 loans face a further repayment rate of 6% above £21,000, creating a marginal tax rate of 43%: 8% National Insurance, 20% Income Tax, 9% undergraduate loan repayments, and 6% postgraduate loan repayments.

For earners above the Higher Rate threshold, currently set at £50,270, graduates face a marginal tax rate of 51%. This is made up of 2% National Insurance, 40% Income Tax, and 9% student loan repayments. Postgraduates face a marginal tax rate of 57%.

### 4.2 The impact of fiscal drag

By 2030, income tax thresholds will have been frozen for ten years. This will significantly increase the number of graduates entering the Higher Rate band. We estimate that by 2035/36, **half of all Plan 2 graduates working full-time will face a minimum marginal tax rate of 51%**.<sup>24</sup> The prospect of half of graduates losing more than half of every additional pound they earn should raise concerns about work incentives at a time of weak productivity growth.

### 4.3 Effective tax rates

Marginal tax rates do not capture the full story. Tax and repayment thresholds have been reduced in real terms as a result of periodic freezes. This means that even if headline rates remain unchanged, graduates face a higher overall tax burden. Effective tax rates

---

<sup>23</sup> HC Deb 12 October 2010, vol. 516, cols. 175-176, [Higher Education and Student Finance](#)

<sup>24</sup> We estimate that the median salary of Plan 2 graduates will be £56,080, and we project the Higher Rate threshold to be £55,520 by 2035/36. This assumes thresholds are uprated by CPI from 2030/31.

measure total tax paid as a share of earnings and therefore provide a more accurate measure of the changing burden of taxation.

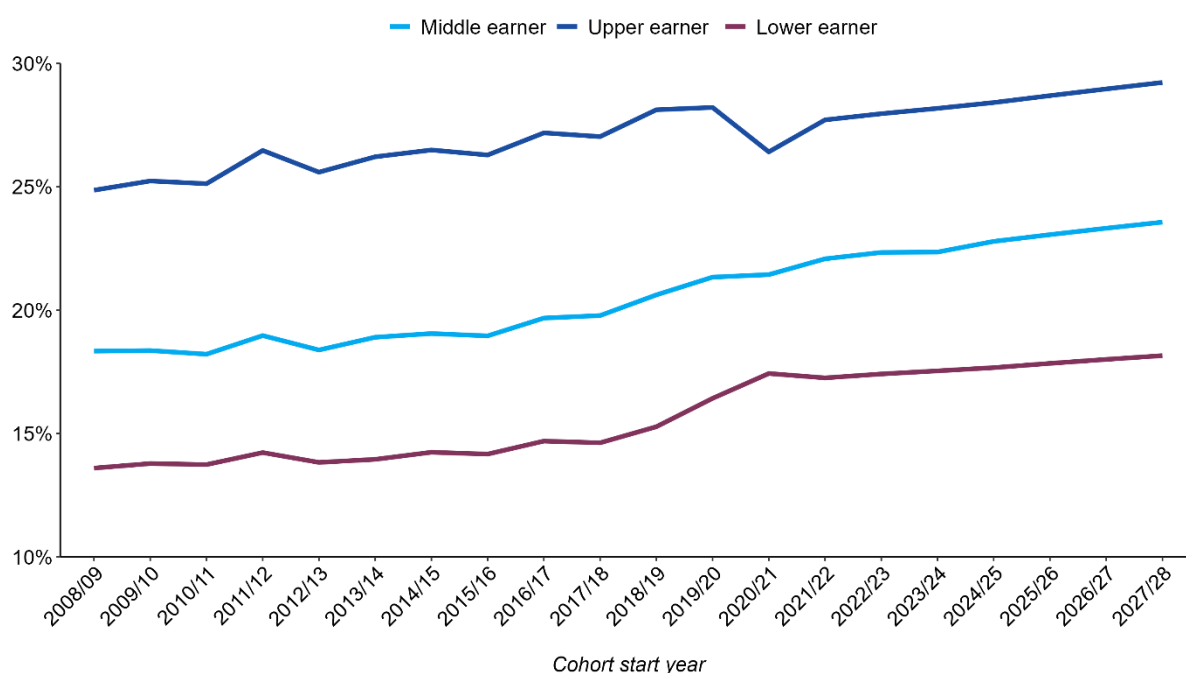
We find that the effective tax rate faced by graduates within the first 25 years after graduation has increased across successive cohorts. Plan 1 graduates faced an effective tax rate of 18% of their total earnings. Across the 11 Plan 2 cohorts, effective tax rates increased from 19% to 22%. Plan 5 graduates will face an effective tax rate of 23%.

The increase is particularly striking given that employee National Insurance rates fell from 12% to 8% during this period. Despite lower headline tax rates, graduates are paying a larger share of their earnings in tax due to threshold freezes and higher student loan repayments. The increase in effective tax rates from 18% to 23% is **equivalent to raising the basic rate of Income Tax from 20% to around 30%**.

**Figure 10**

### Frozen thresholds have increased the effective tax rate of graduates

Effective tax rate for graduates 25 years after graduation by cohort and earnings



Source: IF cohort student finance model  
© Intergenerational Foundation 2026 [www.if.org.uk](http://www.if.org.uk)

In monetary terms, the **total tax burden for the average graduate within the first 25 years after graduation will rise from £167,000 to £240,000**, a 43% increase across twenty cohorts. Plan 5 lower earners will pay an additional £65,800, a 74% increase compared with Plan 1 lower earners. This does not account for the additional 15 years of repayments faced by Plan 5 graduates relative to Plan 1.

## 5. The state contribution to higher education funding

So far, we have assessed the cost of higher education at the individual level. Graduates have faced rising costs through higher interest rates, frozen repayment thresholds, and extended loan terms. However, these policy changes are, in many ways, a secondary issue. They all run downstream from a more fundamental shift: the withdrawal of government funding from higher education.

Higher costs for graduates are ultimately a byproduct of reduced government investment in higher education. What was always intended to be a cost-sharing system, whereby the cost of higher education would be borne jointly by graduates and taxpayers, has shifted increasingly towards individual funding.

This section tracks changes in state funding for higher education over time and the resulting burden placed on younger generations

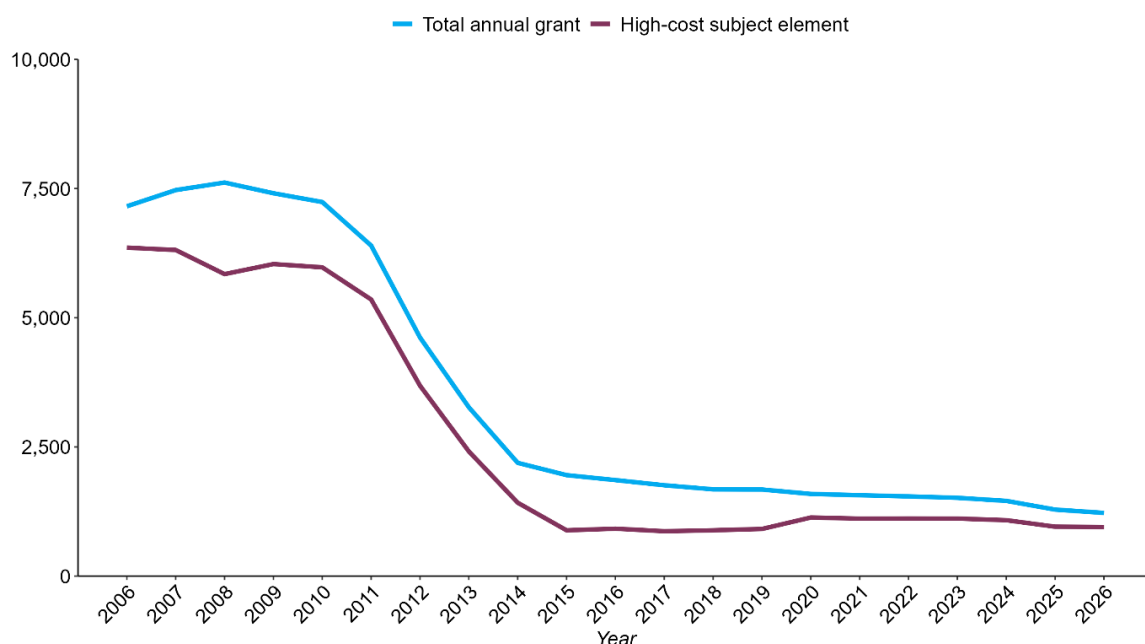
### 5.1 Direct teaching grants

Prior to the 2012 reforms, higher education was funded primarily through direct teaching grants. In 2010, total state expenditure on teaching grants was £4.7 billion. Adjusted to current prices, this is equivalent to £6.9 billion. Grant funding per full-time equivalent (FTE) student was £3,700, equal to £5,670 in today's prices.

**Figure 11**

#### The value of upfront teaching grants has significantly decreased

Value of direct teaching grants as well as the high-cost subject funding element (£ millions)



Source: HEFCE/OFS, Recurrent grants (2006–)  
© Intergenerational Foundation 2026 [www.if.org.uk](http://www.if.org.uk)

This changed under the 2012 reforms. Direct teaching grants were effectively replaced with higher tuition fees and student loans. This shift was driven in no small part by the demands of austerity, combined with the accounting rules of the time, which treated student loans as financial assets rather than public expenditure.<sup>25</sup>

Today, state expenditure on teaching grants totals £1.25 billion, equivalent to around £770 per student.<sup>26</sup> In real terms, grant funding per student has fallen by 87% since 2010. Tuition fees now account for 92% of the funding of undergraduate teaching, up from 45% in 2010.

## 5.2 Funding per student

Part of the rationale for tripling tuition fees was that universities would have greater resources with which to provide a better service. Even if attending university would cost young people more, they would, in theory, receive a superior product.

It is true that following the introduction of £9,000 fees in the mid-2010s, universities had greater resources per student. Tuition fees were at their highest real-terms value, while the value of teaching grants had not yet been fully eroded. Funding per full-time undergraduate peaked in 2015 at £12,560 in today's prices. Today, **funding per student has fallen back to pre-2012 levels** at £9,880. This is the second-lowest level in the past twenty years. Alongside rising borrowing costs, this helps explain the growing number of universities facing financial difficulties.

The decline in funding is primarily the result of frozen tuition fees. Since being raised to £9,000 in 2012, fees have remained largely unchanged, increasing only once to £9,250 in 2017. Inflation has therefore steadily eroded their real value.

However, 26% (£700) of the decline in funding per student since 2015 cannot be explained by the falling real value of tuition fees. Instead, it reflects a further reduction in teaching grants, a factor that is often overlooked in debates about higher education funding.

If we only account for teaching grants explicitly dedicated to teaching (high-cost subject funding), state funding amounts to just £600 per student. As undergraduate study has become increasingly expensive for students, the resources available to support their education are declining.

---

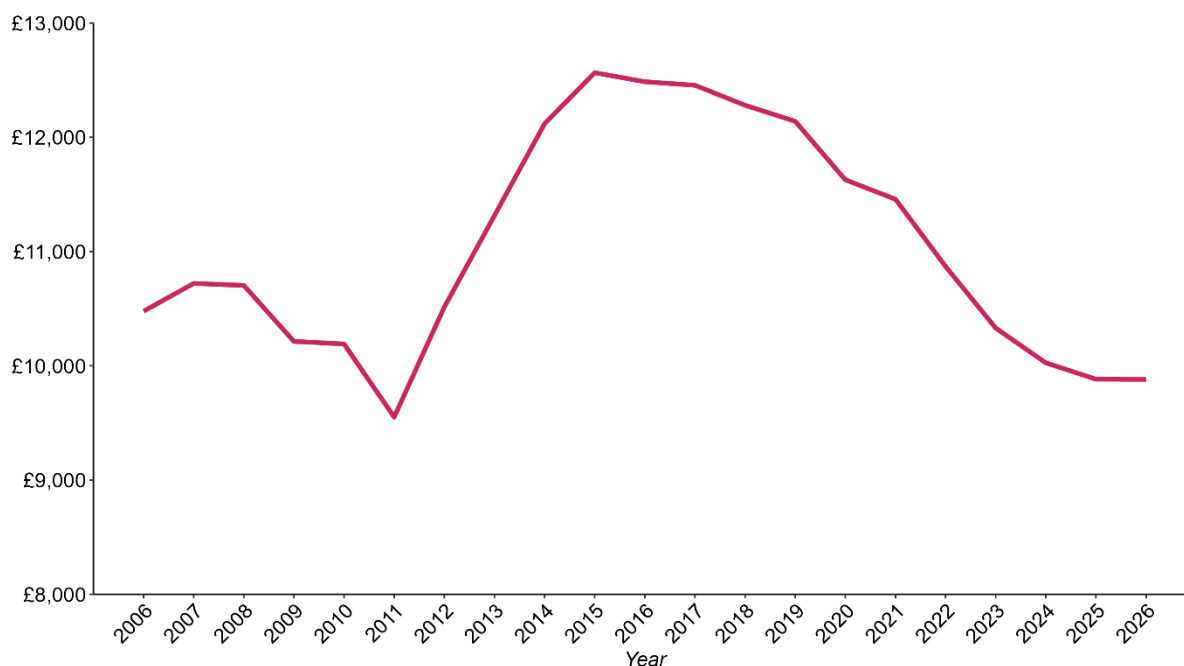
<sup>25</sup> Previously, the cost of the write-off of student loans was only recognised in the public accounts at the end of the write-off period. This treatment has since been described as a fiscal illusion. Conversely, teaching grants were recorded as in-year expenditure, therefore contributing to Public Sector Net Debt and the deficit. In 2019, the ONS changed its methodology so that the proportion of student loans expected to be written off is recorded as expenditure in the year the loans are issued: [OBR, Working Paper No.12 Student loans and fiscal illusions](#)

<sup>26</sup> Office for Students, "[The Office for Students receives funding guidance for 2026-27](#)"

**Figure 12**

**Funding per student has returned to pre-2012 levels**

Total funding per student, per academic year



Source: Author's calculations combining HEFCE/OFS, Recurrent grants (2006–) and DfE, Financial Support for students in higher education: England (2006–)  
© Intergenerational Foundation 2026 [www.if.org.uk](http://www.if.org.uk)

In 2025, the tuition fee freeze came to an end. Fees are now expected to be uprated in line with inflation in the coming years. Although this will help maintain the value of funding per student, it will further shift the cost of higher education onto individuals unless teaching grants also rise. As a result of planned tuition fee increases, the state's upfront contribution to undergraduate teaching costs is projected to fall from 9% in 2024/25 to 7% in 2029/30.

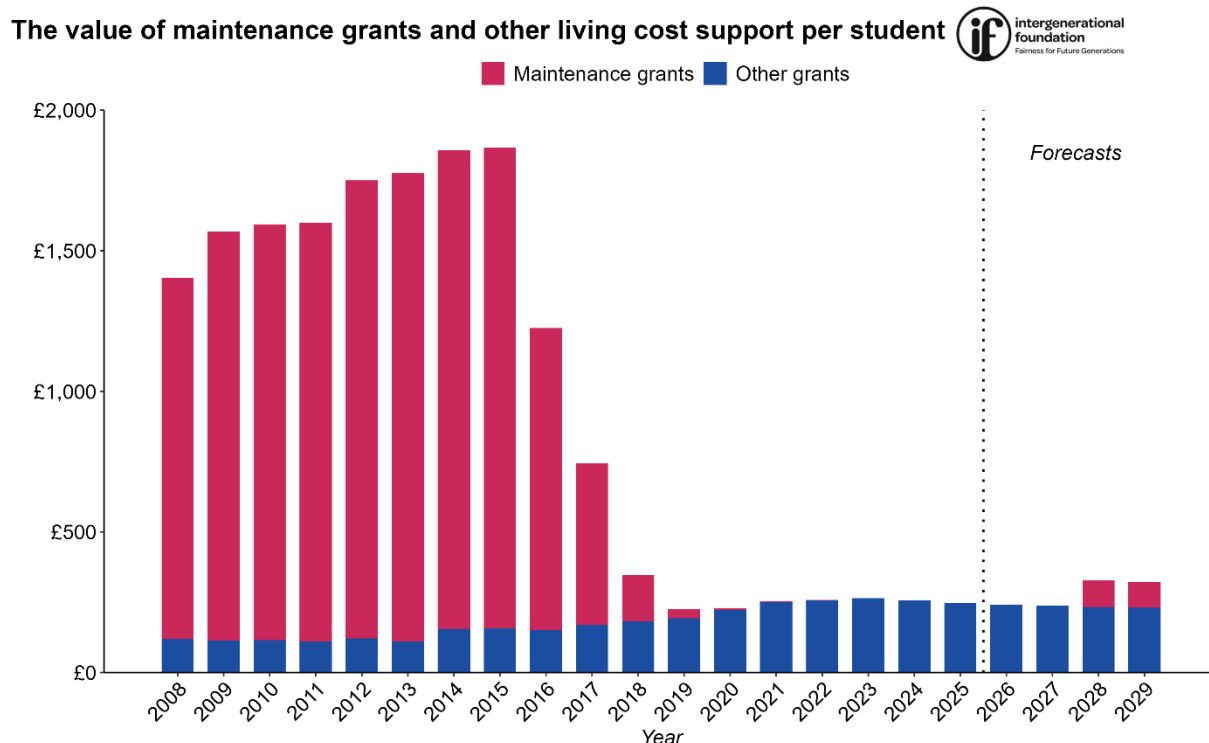
### 5.3 Upfront living-cost support

Another way in which higher education in England has been subsidised by the state is through support with living costs. This has taken the form of maintenance grants as well as more targeted support, such as the Disabled Students' Allowance (DSA) and Childcare Grants for student parents.

Between 2008 and 2026, there has been a significant decline in upfront living-cost support. State support per student peaked in 2015 at £1,870 per undergraduate per year, but had fallen to just £250 per student by 2025/26.

This decline is the result of the abolition of maintenance grants for students starting university after 2016. Prior to their abolition, the government spent £1.6 billion on maintenance grants (£2.2 billion in today's prices). This was equivalent to £1,710 per undergraduate per year.

**Figure 13**



Source: DfE, Financial Support for students in higher education: England (2006–)  
© Intergenerational Foundation 2026 [www.if.org.uk](http://www.if.org.uk)

The reduction in maintenance grants has been only partially offset by increases in targeted support. In real terms, expenditure on DSA and other targeted grants almost tripled between 2008 and 2025, rising from £180 million to £520 million. However, these forms of support are much more narrowly targeted, leaving most students ineligible for assistance.

The government has announced that maintenance grants will be reintroduced from 2028. Final details have yet to be confirmed, but it is estimated that around 10% of students will be eligible.<sup>27</sup> The maximum grant will be worth £1,000 per year for the first two years of study, before falling to £750 in subsequent years. These terms are substantially less generous than the pre-2016 system. For reference, 57% of students were eligible for some level of grant support pre-2016, while the maximum grant was worth £4,710 in today's prices.<sup>28</sup>

## 5.4 RAB charge

The third, and now primary, way in which the government subsidises higher education is through loan write-offs. If a graduate has not fully repaid their loan by the end of the

<sup>27</sup> Farquharson, C., Ogden, K., et al.(2026), [Annual report on education spending in England: 2025-26, Institute for Fiscal Studies](#)

<sup>28</sup> SLC (2016) [Financial Support for Students in Higher Education: England 2016](#)

repayment term, the remaining balance is written off. The portion of loans that is not repaid is treated as a government subsidy.

Estimating the value of this subsidy is notoriously difficult. It depends on forecasting the earnings trajectories of millions of graduates decades into the future and is highly sensitive to future policy changes. For current university students, the final cost of the subsidy will not be known until at least the 2060s.

One method of approximating the subsidy is the Resource Accounting and Budgeting (RAB) charge. This is used by the Department for Education to estimate the present value of future loan write-offs. Future repayments are discounted to their present value and expressed as a proportion of total loan outlay. For example, a RAB charge of 25% implies that the government expects to recover 75% of the present value of the loans issued.

We have modelled the expected RAB charge by cohort and earnings quartile.<sup>29</sup>

For average-earning Plan 1 graduates, the RAB charge was around 23%, equivalent to a subsidy of £6,800.<sup>30</sup> Lower earners were largely protected from repayments by the shorter loan term and, on average, repaid only around 20% of their loan balance. This was equivalent to a subsidy of £23,800.

For lower- and middle-earning Plan 2 graduates in earlier cohorts, the RAB charge as a percentage remained broadly similar. However, because loan balances were much larger, the monetary value of the subsidy increased significantly. The average RAB charge for Plan 2 cohorts was 36%, equivalent to £19,380. Lower earners had a RAB charge of 77%, corresponding to a subsidy of £41,020.

This was partly offset by a cross-subsidy from higher earners. Due to above-inflation interest rates, Plan 2 graduates who go on to repay their loans in full will pay back more than they originally borrowed, resulting in a negative RAB charge. On average, the government is expected to make a surplus of £5,930 on upper-earning Plan 2 graduates. Among higher-earning males in the final Plan 2 cohort, repayments exceed initial borrowing by £20,300.

Plan 5 has made the subsidy effectively negligible for most graduates. Middle- and upper-earning graduates are expected to repay their loans in full and therefore receive little or no subsidy. The remaining subsidy is concentrated on lower earners, who are expected to have a RAB charge of 29%, equivalent to a state contribution of £14,540.

---

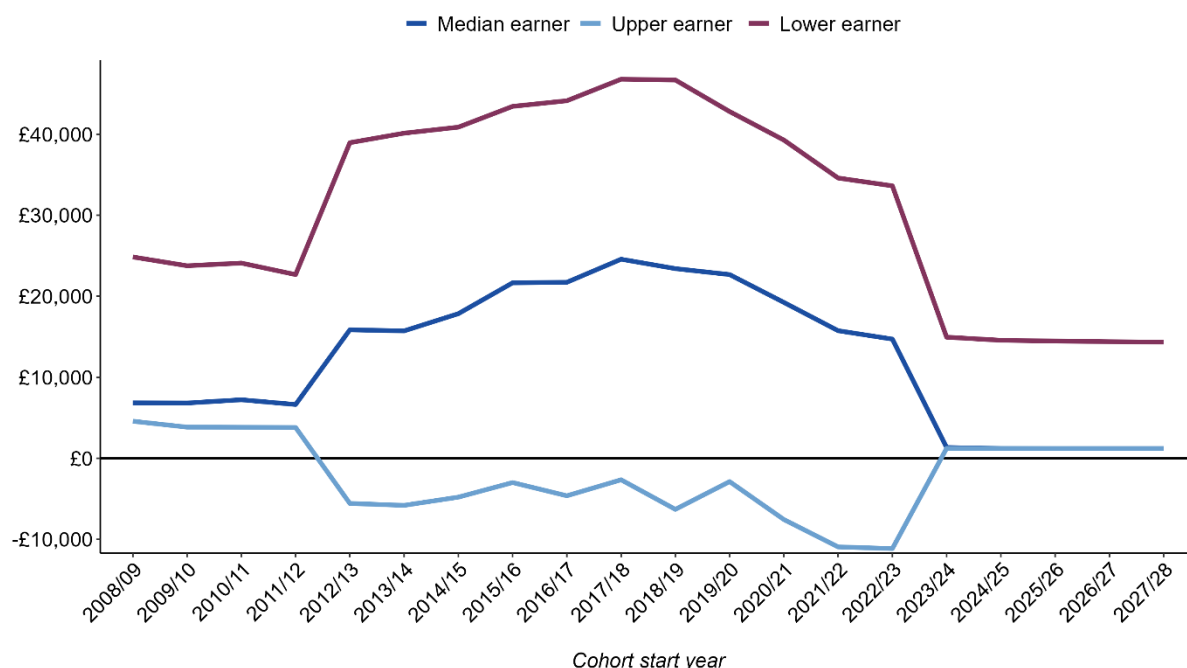
<sup>29</sup> All cohort-level RAB estimates in this section use a 0% real discount rate to improve comparability across cohorts. Sensitivity to discount rates is discussed in section 5.8.

<sup>30</sup> This RAB charge is primarily a result of the fact Plan 1 interest rates are set as the lowest of RPI or the Bank Base Rate +1%. This meant that even for those that cleared their loan balance, they still would have repaid less than their original loan in real terms.

**Figure 14**

### The expected value of loan write-offs have undergone dramatic change

Value of the expected RAB charge by cohort and earnings



Source: IF cohort student finance model  
© Intergenerational Foundation 2026 [www.if.org.uk](http://www.if.org.uk)

## 5.5 Total government subsidy

By combining teaching grants, living-cost support, and the RAB charge, we can estimate the total government subsidy for higher education by cohort and earnings quartile. This paints a clear picture of the gradual withdrawal of state funding from higher education.

The results show that the initial transition to Plan 2 had a relatively limited effect on the overall subsidy received by middle- and lower-earning graduates. Instead, it changed how that subsidy was delivered, shifting support away from upfront grants and towards larger loan write-offs. While graduates were expected to contribute more towards the cost of their education, overall spending on their education also increased, meaning their share of the total cost remained broadly similar.

The government subsidy for typical graduates peaked at £26,600 for the 2015/16 cohort, equivalent to 46% of the total cost of their higher education. Since then, it has steadily declined. For the final Plan 2 cohort, the subsidy falls to £17,350. Under Plan 5, it falls further still to just £4,200, meaning only 8% of the total cost of higher education is borne by the state.

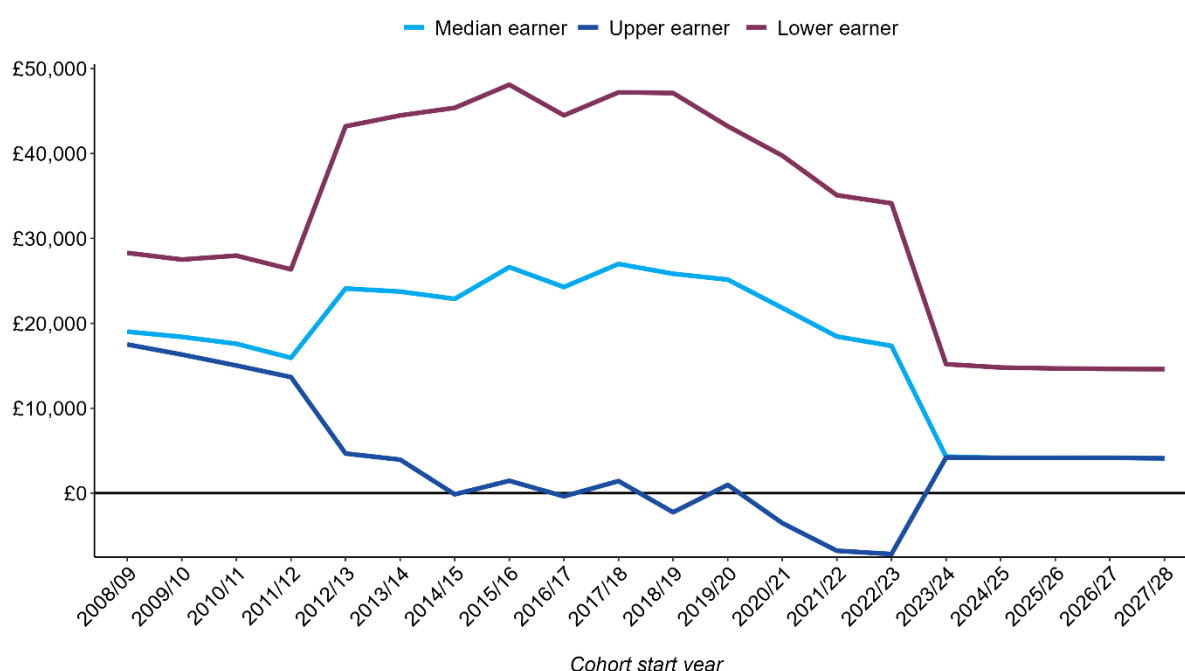
The decline has been even more pronounced for lower earners. State funding for lower earners has fallen even further, **from £48,100 to £14,800 between 2015/16 and 2025/26.**

The picture for higher earners is more mixed. Under Plan 1, between 40% and 50% of the cost of higher education was subsidised, equivalent to around £15,000. Following the introduction of Plan 2, this subsidy fell to effectively zero before becoming negative for later cohorts. The state is expected to make a surplus of £7,200 on the typical higher earner in the final Plan 2 cohort. Plan 5 restores a small subsidy for higher earners, though it remains substantially below historical levels.

**Figure 15**

### The state subsidy for all graduates has declined

Estimated government spending on individual's higher education by earning quartiles



Source: IF cohort student finance model  
© Intergenerational Foundation 2026 [www.if.org.uk](http://www.if.org.uk)

## 5.6 Expected cohort-wide government subsidy

Our model estimates the government subsidy received at the individual level. However, this does not necessarily reflect the total subsidy provided across an entire cohort.

To estimate the cohort-wide subsidy, we have applied Department for Education (DfE) estimates of the RAB charge to annual loan outlay, and added further government expenditure on student support and teaching grants. These estimates are made at the point of issuing loans, and therefore do not account for subsequent policy changes that have reduced the total subsidy. Nevertheless, they provide a useful indication of the intended split between the state and graduates.

There has been a significant decline in the expected subsidy for higher education. In 2010, the government expected to subsidise around £12.2 billion of higher education

costs, equivalent to 70% of the total. By 2026, this had fallen to £8.5 billion, around 35% of the total cost.

Due to rising student numbers, funding per undergraduate has fallen even further. The expected subsidy per full-time equivalent (FTE) undergraduate declined from £9,530 in 2010 to £5,200 in 2026, a reduction of 45%.

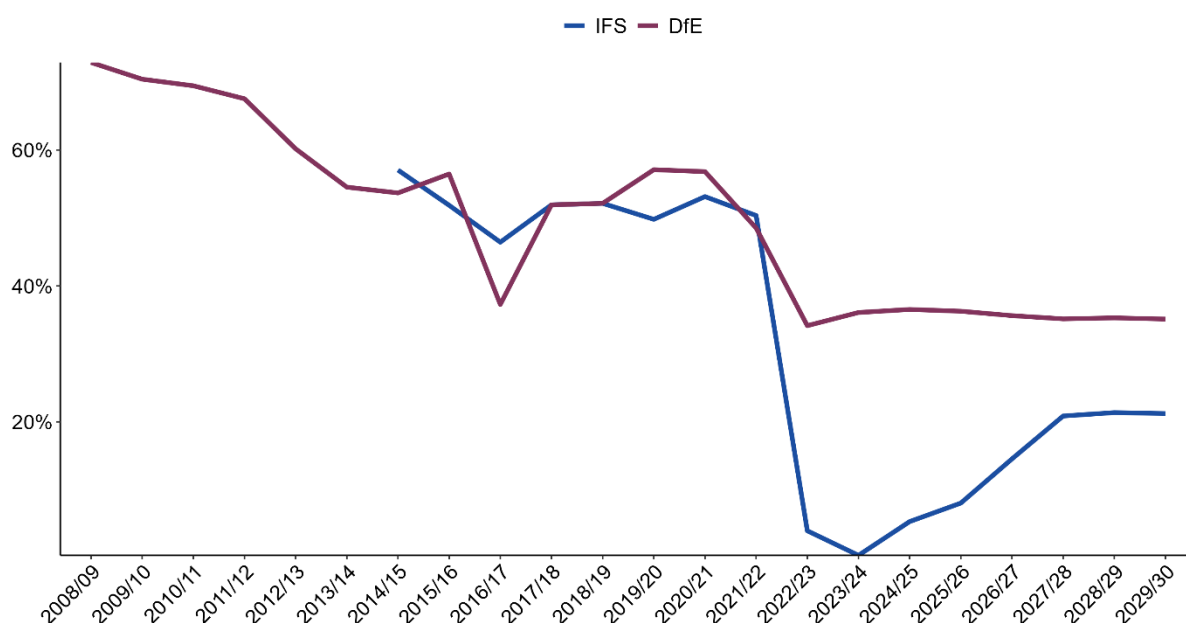
However, there is reason to believe that the true subsidy may be lower still. DfE estimates are based on the original terms under which loans were issued and therefore do not fully capture subsequent policy changes that have reduced expected write-offs.

For the 2022/23 cohort, London Economics estimates that following recent freezes to the repayment threshold, the Exchequer is now expected to make a net profit of £679 million.<sup>31</sup> Using the government's preferred discount rate at the time, the IFS model estimates a surplus of £1.4 billion.<sup>32</sup>

**Figure 16**

### The total government subsidy of higher education has declined

Expected proportion of total higher education cost funded by the state upon issuing of loans based on historic DfE and IFS RAB charge estimates for undergraduates



Source: Authors calculations using Department for Education, Student Loan Forecasts for England; Student Loans Company, Student support for higher education in England; Office for Students, Recurrent funding for higher education providers in England, National Audit Office, Student Loan Repayments Technical Paper; Institute for Fiscal Studies historic publication (see bibliography); IFS Student Finance Calculator  
© Intergenerational Foundation 2026 www.if.org.uk

<sup>31</sup> London Economics (2026) [Understanding Plan 2 repayment terms](#)

<sup>32</sup> The reason IFS estimates of the government subsidy are lower is due to more optimistic mid-career earnings projections. This is partly because the DfE model is based on SLC microdata, which other organisations do not have access to.

For Plan 5 graduates, London Economics estimates that the state will cover only 23% of the cost of teaching, while the IFS estimates the long-run government contribution to be £3.3 billion, equivalent to 14% of the total cost.<sup>33</sup>

Figure 16 uses RAB charge estimates from previous DfE and IFS publications to estimate the expected total government subsidy in the year loans were issued (a full breakdown of intended government expenditure on higher education can be found in the appendix).

## 5.7 RAB sensitivity and discount rates

Discrepancies between estimates of the RAB charge highlight the uncertainty surrounding the long-run cost of the student finance system. Estimates are based on economic forecasts 40 years into the future. The reduction in upfront grant funding, combined with higher student debt and longer repayment periods, has increased the system's sensitivity to future economic outcomes. Figure 17 illustrates how changes in economic conditions affect the value of the loan write-off.

**Figure 17: Impact of variance in economic forecasts on average graduates' loan write-offs**

|                                        | Plan 2 RAB charge | Additional cost to the state | Plan 5 RAB charge | Additional cost to the state |
|----------------------------------------|-------------------|------------------------------|-------------------|------------------------------|
| Baseline (0% real discount rate)       | 34%               | £18,050                      | 2%                | £1,000                       |
| +1% annual earnings growth             | 20%               | -£7,250                      | 2%                | +£0                          |
| -1% annual earnings growth             | 46%               | +£6,410                      | 15%               | +£6,410                      |
| DfE current discount rate (-0.85%+RPI) | 29%               | -£2,650                      | 3%                | +£500                        |
| Current 15-year gilt yields (2.2%+RPI) | 51%               | +£9,100                      | 23%               | +£10,520                     |

## 5.8 What is a fair funding split?

This leads to the question of what a fair funding split is between the state and the individual. This question, which is at the crux of the system, has been largely neglected

<sup>33</sup> London Economics (2026) [The Government's contribution to higher education teaching funding in England](#)

by policymakers. When the question has been grappled with, a consensus has formed around a roughly equal split between the Exchequer and graduates. The introduction of Plan 2 was said to shift the balance of higher education funding from 60:40 in favour of the taxpayer to 40:60 in favour of graduates.<sup>34</sup> However, Figure 16 shows that the intended subsidy, in terms of expected state contribution when loans were issued, was closer to 55% up until 2021. An equal split was reaffirmed in the Augar Review in 2019, which recommended that 50% of the cost of higher education should be met by the state.<sup>35</sup>

There is a firm basis for this case. An equal split corresponds broadly with how the benefits of higher education are shared between individuals and wider society. Our previous work estimated the total monetary return to a degree at around £501,000, with 42% accruing to the graduate and 58% to the nation.<sup>36</sup> Graduates typically benefit through higher lifetime earnings and better employment prospects. But the state also benefits from higher productivity, stronger tax revenues, and lower demand for some public services.

### 5.8.1 Intergenerational fairness

The state subsidy for higher education is ultimately a question of intergenerational fairness. This was explicit in the creation of the current system. Lord David Willetts, the Minister for Universities and Science from 2010–2014, has stated that “the RAB charge is how we discharge the intergenerational contract”.<sup>37</sup>

A greater state subsidy, such as more generous loan terms, is an investment by current taxpayers in younger generations. A contraction in state support is, in effect, taxpayers drawing on graduates' future earnings. This was evident in Rachel Reeves' decision to freeze thresholds. The policy was justified as necessary to reduce NHS waiting lists in the present, yet the cost will be borne by graduates over the next 30 years.<sup>38</sup>

We have previously argued that there has been a skewing of the state's resources and the country's wealth towards older generations. Expenditure on healthcare and pensions has risen significantly, while spending on education, youth services, and working-age benefits has been frozen or cut.<sup>39</sup>

These trends have manifested in declining living standards among young people, difficulty reaching traditional life milestones, and growing disillusionment with the

---

<sup>34</sup> Willetts, D (2012) [David Willetts's keynote speech on international higher education](#), Department for Business, Innovation & Skills

<sup>35</sup> Independent Panel (2019), [Post-18 Review of Education and Funding: Final Report](#)

<sup>36</sup> Albertson, K (2018) [The Economic Inefficiency of Student Fees in the UK](#), Intergenerational Foundation

<sup>37</sup> Willetts, D. (2017), *A University Education*, Oxford University Press, p. 76

<sup>38</sup> BBC Newsnight (2026), [Rachel Reeves responds to Martin Lewis over student loans](#), 30 January 2026

<sup>39</sup> Nakkam, C (2025) [A growing divide: Two decades of intergenerational unfairness](#)

political system. Student finance must be considered within this broader framework of the increasing burdens placed on younger generations.

Reforming student finance provides a key opportunity to begin redressing these imbalances. The case for a substantial state contribution rests not only on the economic benefits that higher education generates for society, but also on the principle that younger generations should share fairly in the nation's resources and opportunities.

## 6. Reform proposals

This paper has shown that the burden placed on graduates has increased substantially over time. The current system imposes unprecedented costs on many graduates and has deviated from its original justification and intentions. Any meaningful reform will require an increase in the state contribution to higher education and a move back towards a cost-sharing model.

The question then becomes how best to deliver that additional support. There are numerous ways in which the system could be reformed, and different policy levers affect different groups of graduates. For example, lower interest rates primarily benefit higher earners later in life, while a higher repayment threshold offers greater protection to lower earners at the start of their careers.

### 6.1 Impact of reforms on the level of state subsidy

Figure 18 demonstrates how different reforms would affect the level of state subsidy. It shows that even bold, substantial reforms would remain well within the parameters of an equal sharing of costs between the state and graduates.

**Figure 18: State subsidy as a share of government outlay under different reforms, per cohort<sup>40</sup>**

| Proposed reforms                                                  | 2022/23 Cohort (Plan 2) | 2025/26 Cohort (Plan 5) |
|-------------------------------------------------------------------|-------------------------|-------------------------|
| Baseline                                                          | 3% (0.7 bn)             | 18% (3.8 bn)            |
| Cap interest rates at RPI                                         | 26% (6.1 bn)            | 18% (3.8 bn)            |
| Reverse 2025 freeze of repayment threshold and uprate by earnings | 18% (4.4bn)             | 24% (5.1 bn)            |
| 5% repayment rate                                                 | 26% (6.1 bn)            | 26% (5.6 bn)            |
| Reintroduction of 2016-style maintenance grants                   | 13% (3.6bn)             | 27% (5.7 bn)            |

<sup>40</sup> Authors' calculations using the IFS Student Finance Calculator

## 6.2 Impact of reforms on graduates' burden

Figure 19 estimates the impact of these policies on expected lifetime repayments for all Plan 2 cohorts and the first five Plan 5 cohorts. Figure 20 shows the corresponding reduction in repayments during the first ten years after graduation.

**Figure 19: Reduction in graduates' lifetime repayments (percentage change) in response to reforms if implemented from 2026/27**

| Proposed Reforms                                                  | All Plan 2 cohorts |                |                 | First five Plan 5 cohorts |                 |               |
|-------------------------------------------------------------------|--------------------|----------------|-----------------|---------------------------|-----------------|---------------|
|                                                                   | Middle             | Lower          | Higher          | Middle                    | Lower           | Higher        |
| Cap interest rates at RPI                                         | £0                 | £0             | -£9,300 (-14%)  | £0                        | £0              | £0            |
| Reverse 2025 freeze of repayment threshold and uprate by earnings | -£10,235 (-26%)    | -£8,210 (-57%) | -£6,600 (-10%)  | -£11,980 (-21%)           | -£23,060 (-55%) | +£230 (0%)    |
| 5% repayment rate                                                 | -£11,780 (-30%)    | -£6,280 (-44%) | -£21,810 (-32%) | -£12,920 (-23%)           | -£17,650 (-42%) | +£1,520 (+3%) |
| Reintroduction of 2016-style maintenance grants                   | £0                 | £0             | £0              | -£4,810 (-9%)             | -£2,060 (-5%)   | -£4,640 (-8%) |

**Figure 20: Reduction in graduates' repayments within ten years of graduating by earnings quartile**

| Proposed Reforms                                | 2022/23 Cohort (Plan 2) |              |                 | 2023/24 Cohort (Plan 5) |                |                 |
|-------------------------------------------------|-------------------------|--------------|-----------------|-------------------------|----------------|-----------------|
|                                                 | Middle                  | Lower        | Higher          | Middle                  | Lower          | Higher          |
| Cap interest rates at RPI                       | £0                      | £0           | £0              | £0                      | £0             | £0              |
| Uprate the repayment threshold by earnings      | -£1,480 (-22%)          | -£960 (-50%) | -£3,060 (-11%)  | -£780 (-9%)             | -£550 (-20%)   | -£1,720 (-6%)   |
| 5% repayment rate                               | -£2,990 (-44%)          | -£850 (-45%) | -£12,020 (-44%) | -£3,710 (-44%)          | -£1,240 (-44%) | -£13,100 (-44%) |
| Reintroduction of 2016-style maintenance grants | £0                      | £0           | £0              | £0                      | £0             | £0              |

## 6.3 Our recommendations

Guided by the principles of an intergenerationally fair student finance settlement, and informed by the key issues identified in this report, namely the regressivity of Plan 5, the increased burden in the early years of repayment, and the punitive treatment of higher-earning Plan 2 graduates, we make the following recommendations.

### 1) Reduce the repayment rate from 9% to 5% for both Plan 2 and Plan 5

We believe the most effective means of reducing the burden on graduates would be a reduction in the repayment rate from 9% to 5%. This would be the most transparent, equitable and substantive way of restoring the state subsidy.

It would help align Plan 2 and Plan 5. The proportion of state funding would become 26% for both plans and be distributed similarly across earning groups. It would largely prevent higher-earning Plan 2 graduates from repaying more than the initial loan they took out, while correcting the regressivity of Plan 5 by almost exclusively benefiting lower- and middle-earning graduates.

It would significantly reduce pressure in the years following graduation for all graduates. For example, if the resulting savings were invested in a LISA, the **typical graduate would have an additional £16,000 within 15 years of graduation**. If the savings were invested in their pension, they would have a **further £185,000 upon retirement**. Adjusting the repayment rate would also help address concerns around marginal tax rates and work incentives.

Lastly, we believe adjusting repayment rates is the most tangible way of alleviating pressures facing graduates. History has proven that changing the threshold often obscures the impact of changes. This was evident in Theresa May's decision to uprate the threshold in 2018, which cost the Exchequer billions, yet received little recognition from graduate voters. Equally, successive governments have opted to freeze thresholds in order to raise revenue with minimal scrutiny. Adjusting the repayment rate would lead to a more honest, transparent debate around the burdens of student finance and would be the clearest signal to graduates that the state is listening.

To avoid the fiscal cost being concentrated in a single financial year, we recommend phasing in the reform by reducing the repayment rate by 1 percentage point each year until 2030. The accounting impact of this approach is explained in greater detail in the Appendix.

### 2) Restore maintenance grants to 2016 levels

The greatest unfairness within cohorts is the social mobility penalty. University should not cost more for graduates from poorer backgrounds. Maintenance grants should be restored to their 2016 levels and partially replace maintenance loans. This would

translate into a maximum grant of £4,710 available to students from households with a parental income below £34,750.

New maintenance grants that will be reintroduced in 2028 are wholly inadequate. We estimate that the new grants will be worth one-quarter as much as their 2016 equivalents and available to one-fifth as many students.<sup>41</sup> New grants will be supplementary to maintenance loans, and therefore will not reduce student debt levels.<sup>42</sup> While we acknowledge that there is a greater need for wider reform of student support, that is beyond the scope of this paper.

### **3) Calculate student loan repayments net of pension contributions**

Repayments should be calculated net of all pension contributions.<sup>43</sup> There is little justification for why this is not already the case, given that income tax and employee National Insurance contributions are both calculated after pension deductions.

The current system undermines a central principle of pension taxation: that pension contributions are exempt from tax on the way in and taxed on the way out. This also means that relative to income tax, the effective marginal rate of student loan repayments is higher than the headline 9% rate. Graduates should not be penalised for saving for retirement. They should be encouraged.

It is difficult to estimate the full cost of this reform due to potential behavioural responses. However, we estimate that for a typical Plan 2 graduate contributing 5% of earnings to a pension, the reform would reduce lifetime repayments by £4,400, equivalent to an 8% reduction in their RAB charge. For most Plan 5 graduates, lifetime repayments would be largely unchanged, but repayments would increasingly be deferred to later life.

### **4) Display an estimate of expected lifetime repayments on loan statements**

One of graduates' main concerns with the current system is the psychological burden of seeing their loan balance rise despite making thousands of pounds in repayments.<sup>44</sup> We believe this could be addressed by requiring the Student Loans Company to display a personalised estimate of expected lifetime repayments on individuals' loan statements, based on previous earnings and projected earning trajectories.<sup>45</sup>

---

<sup>41</sup> Whelton, T (2026) [The reintroduction of maintenance grants is a farce](#)

<sup>42</sup> Department for Education, [Post-16 Education and Skills White Paper, CP 1398, October 2025](#)

<sup>43</sup> Student loan repayments are calculated on earnings before tax and deductions. Standard employee pension contributions do not reduce repayable earnings, but salary sacrifice pension contributions do, because they reduce contractual pay before payroll calculations are made: [HMRC, Collection of Student Loans Manual](#)

<sup>44</sup> Harris, D et al. 2020. "Discursive framings of market-based education policy and their negotiation by students: the case of 'value for money' in English universities". Oxford Review of Education

<sup>45</sup> This was first proposed by the [Russell Group and Martin Lewis in 2019](#)

This would help place the outstanding balance in context and reduce the disconnect between how student loans operate in practice and how they are commonly understood. It would also encourage a more transparent and informed discussion about the true cost of higher education.

### 5) Quinquennial review

Beyond reducing the burden on younger generations, there is also a need for institutional safeguards to ensure that the balance of costs between graduates and the state remains fair, sustainable, and subject to democratic consent. We therefore echo previous calls for a recurring review of student finance once every Parliament.<sup>46</sup>

### 6) Government figures and revisions of previous cohorts

An open discussion about the changing cost of higher education requires timely and transparent statistics. The Department for Education's Student Loan Forecasts provide estimates for newly issued loans and the overall value of the student loan book. However, there is no official publication tracking how policy changes, repayment outcomes, and revisions to economic forecasts have altered the expected cost to graduates from previous cohorts.

The government should publish regular estimates of the expected lifetime repayments, government subsidy, and RAB charge for all major student loan cohorts.

## 7. Conclusion: Political will and the policy landscape

This report has shown that the burden placed on younger generations has grown substantially over time. It is making it harder for young people to build a solid foundation in life, affecting their ability to reach key life milestones and weakening incentives to work. It is both a symptom of, and a contributor to, the broader breakdown of the social contract between generations.

We have arrived here through a series of incremental and fragmented policy decisions that have separated the system from its original purpose and principles. Political parties, campaign organisations and think tanks have put forward numerous proposals for reform. However, the majority of these proposals are cost-neutral and are therefore inherently limited.<sup>47</sup> Even more ambitious proposals, such as calls to reverse the most

---

<sup>46</sup> Willetts, D. (2021), [How to boost higher education and cut public spending](#), HEPI

<sup>47</sup> Examples include: NUS, [Stepped Repayment System](#) as well as [backbench Labour MPs](#)' suggestion of reducing the repayment rate to 5%, but extending the loan term by 9 years.

recent repayment threshold freeze, would simply return the system to where it stood in September 2025.<sup>48</sup>

A desire to meaningfully repair the current system and an unwillingness to commit significant public funds are two irreconcilable positions. No amount of repackaging, rebranding or improved communication will restore graduates' faith in the system. Cost-neutral reforms can only redistribute that burden between different graduates or across different stages of their lives. They cannot reduce the burden on younger generations as a whole.

Nor is the primary issue one of mis-selling. Greater transparency is always desirable, but the functioning of the student finance system was never meant to rest on the decisions of 17- and 18-year-olds. It is the government's responsibility to maintain a funding settlement that remains fair and sustainable over time, and not to exploit student loans as a backdoor route of taxation. The mis-selling of student loans has undoubtedly damaged trust in the system. However, exclusively focusing on these issues risks implying that, had graduates simply been better informed at the outset, the system would be functioning as intended.

The fundamental problem is that the state has steadily withdrawn its financial contribution to higher education, leaving graduates to bear an ever greater share of the cost. The foundational principle of a cost-sharing system has been betrayed. Lasting reform will require the state to once again invest in higher education and young people's futures.

---

<sup>48</sup> An exception should be made for Rethink Repayment, who have offered a much bolder set of reforms: <https://www.rethinkrepayment.com/>

## 8. Appendix: Methodology

### 8.1 Student loan repayment cohort model

This report uses a simplified individual graduate repayment model across 20 cohorts from 2008/09 to 2027/28. These include the last four Plan 1 cohorts, all eleven Plan 2 cohorts, and the first five Plan 5 cohorts. The model estimates outcomes including lifetime repayments, repayments during early adulthood, outstanding loan balances, effective tax rates and a modelled RAB charge for individuals. It only covers full-time degrees.

Graduate earnings trajectories are based primarily on cohort-level earnings data from the Longitudinal Education Outcomes dataset. For later years, when observed earnings are not yet available, earnings are projected using UK household survey data, alongside OBR forecasts for earnings growth, inflation and other relevant macroeconomic variables. These projections are used to estimate repayments across the full repayment period for each loan plan.

For each cohort, the model applies the student loan terms in force at the relevant point in time. These include loan outlay, repayment thresholds, repayment rates, threshold uprating rules, interest rates, interest thresholds, and write-off periods. The model also accounts for income tax, employee National Insurance contributions, and pension contributions.

The lower-, middle- and higher-earning groups used in the report are based on lifetime earnings quartiles. Each quartile is represented by sample graduate pathways with varying earnings trajectories, employment patterns, loan outlay and repayment profiles. These should be interpreted as illustrative graduate outcomes rather than predictions for every individual within each quartile.

The effect of historic policies and proposed reforms is estimated through counterfactual modelling. A baseline model is first constructed using the relevant loan terms for each cohort. The model is then rerun under alternative policy conditions, such as different repayment thresholds, interest rates, repayment rates, write-off periods or uprating assumptions. The difference between the baseline and counterfactual outputs is used to estimate the effect of each policy change on graduate repayments, loan balances and the implied state contribution.

The model is deliberately simplified. It estimates individual repayment outcomes, not aggregate cohort-wide costs, public sector net borrowing effects or the full fiscal cost of the student loan system. It does not model behavioural responses, including changes to subject choice, labour market participation, migration, pension contributions, voluntary repayments or graduate earnings caused by changes in the student finance system. Its

purpose is to isolate the mechanical effect of loan rules on graduates under different earnings and repayment trajectories.

Where the report refers to total government costs, system-wide subsidy, or aggregate fiscal effects, it draws on official Department for Education data and the Institute for Fiscal Studies Student Finance Calculator. Any interpretation, adaptation or error arising from the use of the IFS calculator is the responsibility of the author.

Unless otherwise stated, all non-discounted figures are presented in 2026 prices and adjusted using CPI.

## **8.2 Estimating the state subsidy over time**

This report aims to show how the government subsidy has changed over time. This is not only difficult, but also conceptually nebulous. Even after a cohort has graduated, their expected subsidy, the loan write-off, is in constant flux based on subsequent changes to loan terms and adjustments to economic forecasts. This makes it difficult to fix a static figure to a single cohort, at a single point in time.

This report therefore opts for a snapshot measure: the expected subsidy attached to loans at the point they were issued. For each year, the intended loan subsidy is calculated by taking the value of student loan outlay by repayment plan and applying the estimated RAB charge for that plan in that year. Where more than one repayment plan was in operation, this calculation is carried out separately for each plan and then summed.

This estimated loan subsidy is then combined with public expenditure on undergraduate higher education, including teaching grants and living cost support, to produce an annual estimate of the total intended state contribution to undergraduate higher education. This figure is divided by total government outlay to express the proportion of higher education funded by the state.

RAB charges are derived from historic DfE and IFS estimates from the year loans were issued. Any interpretation, adaptation or error arising from IFS publications and the IFS calculator is the responsibility of the author.

This approach should be interpreted as an estimate of the subsidy expected at the point loans were issued, not as a final measure of the subsidy ultimately borne by government. It does not capture later changes in economic conditions, repayment behaviour, retrospective policy changes or accounting treatment.

**Figure 21: Estimated government subsidy during the year loans were issued based on historic DfE and IFS RAB charge estimates**

| Year | State subsidy (£millions) |        | % of the total cost of HE |     | Cost per undergraduate (£) |       |
|------|---------------------------|--------|---------------------------|-----|----------------------------|-------|
|      | DfE                       | IFS    | DfE                       | IFS | DfE                        | IFS   |
| 2007 | 10,526                    |        | 72%                       |     | 9,010                      |       |
| 2008 | 11,388                    |        | 73%                       |     | 9,458                      |       |
| 2009 | 11,881                    |        | 70%                       |     | 9,406                      |       |
| 2010 | 12,179                    |        | 69%                       |     | 9,535                      |       |
| 2011 | 11,635                    |        | 68%                       |     | 8,854                      |       |
| 2012 | 10,346                    |        | 60%                       |     | 8,160                      |       |
| 2013 | 10,012                    |        | 55%                       |     | 8,064                      |       |
| 2014 | 10,519                    | 11,180 | 54%                       | 57% | 8,236                      | 8,753 |
| 2015 | 11,804                    | 10,841 | 56%                       | 52% | 9,048                      | 8,310 |
| 2016 | 8,046                     | 10,022 | 37%                       | 46% | 6,050                      | 7,537 |
| 2017 | 11,619                    | 11,619 | 52%                       | 52% | 8,598                      | 8,598 |
| 2018 | 11,953                    | 11,953 | 52%                       | 52% | 8,721                      | 8,721 |
| 2019 | 13,491                    | 11,766 | 57%                       | 50% | 9,608                      | 8,379 |
| 2020 | 13,692                    | 12,806 | 57%                       | 53% | 9,242                      | 8,644 |
| 2021 | 12,186                    | 12,647 | 49%                       | 50% | 8,125                      | 8,433 |
| 2022 | 8,252                     | 961    | 34%                       | 4%  | 5,441                      | 634   |
| 2023 | 8,301                     | 84     | 36%                       | 0%  | 5,411                      | 55    |
| 2024 | 8,266                     | 1,206  | 37%                       | 5%  | 5,298                      | 773   |
| 2025 | 8,367                     | 1,857  | 36%                       | 8%  | 5,220                      | 1,159 |
| 2026 | 8,477                     | 3,462  | 36%                       | 15% | 5,204                      | 2,125 |
| 2027 | 8,551                     | 5,075  | 35%                       | 21% | 5,190                      | 3,080 |
| 2028 | 8,775                     | 5,311  | 35%                       | 21% | 5,299                      | 3,207 |
| 2029 | 8,819                     | 5,329  | 35%                       | 21% | 5,309                      | 3,208 |

### 8.3 Cost of reforms

The cost estimates to the state, such as those presented in Figure 18, are based on single cohorts. They do not reflect the total cost of implementing the reforms.

The total upfront fiscal cost would depend on how many cohorts the reform is applied to. For example, reducing the repayment rate to 5% would cost £5.3 billion for the final Plan 2 cohort. Applied to all 11 Plan 2 cohorts, the cost would be around £50 billion. This is because costs for each cohort would be broadly similar, though slightly lower for earlier cohorts, given they will have already made more repayments and have fewer years to benefit from the changes.

For existing Plan 5 cohorts, reducing the repayment rate to 5% would cost around £5.5 billion through the revaluation of the loan book. Each subsequent Plan 5 cohort would add a further £1.8 billion.

#### 8.3.1 Accounting for the cost of reform

Under the current accounting treatment of student loans, the estimated £50 billion cost of reducing the repayment rate to 5% for all Plan 2 cohorts would be recognised in the

financial year in which the reform was announced. We acknowledge that such a large single-year expense would be difficult to accommodate within the public finances. We therefore suggest phasing in a 5% repayment rate by reducing the rate by 1 percentage point each year until 2030. This would spread the cost over four years, with annual costs of around £12 billion for all Plan 2 cohorts.



**Intergenerational  
Foundation**