the Money Advice Service

Consultation response

Treasury Select Committee – Student loans inquiry

Response from the Money Advice Service

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1. About us

1.1. The Money Advice Service (MAS) is a UK-wide, independent service set up by Government to improve people's ability to manage their financial affairs. Our free and impartial money advice is available online and by phone or webchat.

1.2. As the statutory body for financial capability, MAS has led work with financial services firms, the third sector, government and regulators to develop the Financial Capability Strategy for the UK[1]. This 10-year strategy aims to give people the ability, motivation and opportunity to make the most of their money.

1.3. MAS acts as secretariat for and is a member of the Financial Capability Young Adults Steering Group that includes consideration of the needs of students (under 25s making up the highest proportion of the student population). This steering group is one of a number underpinning the Financial Capability Strategy for the UK.

1.4. We have a statutory function to assist members of the public with the management of debt. Our latest data shows 8.3 million adults in the UK are living with over-indebtedness[2].

1.5. We are funded by a statutory levy on the financial services industry, raised by the Financial Conduct Authority.

1.6. The *Financial Guidance and Claims Bill 2017*, which makes provisions establishing a new financial guidance body was introduced in the House of Lords on 22 June 2017.

[1] Money Advice Service, *Financial Capability Strategy for the UK*, (October 2015)

[2] Money Advice Service, *Press release: 'One in six people in the UK burdened with financial difficulties'*, (19 September 2017)

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2. Executive summary

2.1. The Money Advice Service is pleased to respond to the Treasury Committee's inquiry into the student loan system.

2.2. From our evidence bank[3] comprised of survey data, literature reviews and focus-group activities that we have accumulated between 2013 and 2017, we want to offer the Committee a wider view of the financial attitudes, behaviours and capability of young adults as they start and complete their studies, and after they graduate and enter the labour market. Such a perspective, in our view, can provide greater context for understanding how students and graduates regard and use the student loans system.

2.3. While this evidence straddles the announcement and introduction of the post-2015 changes to the student loans system in England, our findings have tended to remain constant, and have at times been amplified, by external research against which we have compared them.

2.4. An integral part of the Financial Capability Strategy for the UK is the What Works Fund (WWF). This is building evidence of what works across several work streams, notably in around 60 field trials targeted at people of all ages. Four of these interventions focus on students in further or higher education.

2.5. MAS is also collaborating with the National Association of Student Money Advisers (NASMA) to develop a diagnostic tool of the financial capability needs of the student population, and an online toolkit to help student money advisers design support more effectively in the universities and colleges where they work.

2.6. While it remains too early for the outcomes of the WWF and NASMA activities to inform the Committee's current inquiry, it is an important marker of the Money Advice Service's interest in this subject matter.

2.7. MAS would also like to draw to the Committee's attention that we have also responded to the inquiry on Household finances, which is running in parallel to this inquiry.

[3] www.fincap.org.uk/young-adults

3. Response

Life transitions

3.1. The importance of offering practical guidance and support at key 'teachable moments' for young adults is borne out consistently by our survey data and focus-group activities.[4] One way in which we define teachable moments is as a 'life transition'. This refers to junctures in life through which young adults can transit when moving towards independent living and faced with key financial-planning decisions. Such junctures can include: entering further or higher education, or moving between them; leaving home; graduating; job seeking and accessing welfare; starting a job or apprenticeship.

3.2. Students and graduates have identified life transitions as critical for getting across important financial messages, including those on student loans. These seem most pertinent when timed with the 'income shocks' associated with starting student life, moving into privately-rented accommodation, and then graduating.[5]

3.3. A persistently-referenced 'income shock' occurs for many graduates once the protective bubble of student life bursts and working life or job-seeking begins. Additional costs accrue, for which they may not be prepared, while regular income flows from student loans and other funding sources stop. Seeing a combined repayment statement of both tuition fees and maintenance loans can be another shock to the system.

[4] Money Advice Service, *Young Adults – research deep dive and evidence review*, September 2016

[5] Money Advice Service, *Understanding students' and graduates' financial concerns*, October 2013

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Financial capability characteristics of young adults and students

3.4. Analysis conducted by the University of Edinburgh[6] of the Money Advice Service's survey data relating to post-school young adults, including students and graduates, has helped us to identify three, broadly-equal typologies: those who have goals and financial plans to underpin them; those who have goals yet no plans; and those who have neither plans nor goals. Goals referenced by young adults are mostly short-term – saving up for a desired purchase, such as a holiday or life experience, for example – yet they underscore a behavioural trait that can result in better outcomes for financial wellbeing in the longer term. Relative levels of financial confidence and resilience can be linked to all three typologies.

3.5. Compared to the working-age population in general, young adults and students have significantly lower levels of confidence in managing money. This is particularly acute when it comes to making decisions on financial products. What is more, lacking confidence in managing money and paying bills can result in higher levels of anxiety relative to other age groups.

3.6. Our assertion is that increasing maintenance-loan payments to monthly in place of termly instalments, as is the case for students in Scotland, may increase confidence, resilience and financial capability among the student population. This is because household bills such as those for rent, transport, utilities and phones, more generally, fall at or allow payments at monthly intervals.

3.7. Relative inexperience of making key financial decisions is another contributing factor that has a bearing on confidence levels among young adults and students. Dependence on parents or carers for financial support, accommodation and guidance can persist for many years, even after graduation. This can have unexpected consequences for young adults and students, who can take longer to gain experience of independent financial decision making.

3.8. Our insight suggests that many graduates understand that they may have to make some short-term compromises, such as moving back to the family home and/or working in a non-graduate position once they have left student life. Yet ongoing dependence on parents or carers, conflicts with an understandable desire to become self-reliant and financially independent.[7]

3.9. Many parents or carers are not confident that they understand the student-loans system and are, as such, not always the best source of guidance to their adult children. For example, in a recent

[6] Money Advice Service, *Young Adults – research deep dive and evidence review*, September 2016

[7] Money Advice Service, *Understanding students' and graduates' financial concerns*, October 2013

review of the student-funding system in Scotland, commissioned by the Scottish Government, [8] many parents reported being confused by media stories emanating from England-centric media about impending rises in student-loan interest rates, assuming the same rates would apply to repayments in Scotland, when in fact they are substantially lower.

Attitudes to student loans, debt and other forms of credit

3.10. Student loans and, to a lesser extent, interest free overdrafts are widely seen by students as 'free money'. This contrasts with a reluctance during and just after student life to take on commercial debt, such as a graduate loan. There is an awareness, however, of the importance of building and protecting credit rating, despite a clear lack of understanding about what this means in practice, e.g. whether student loans count towards this.[9]

3.11. Analysis from our 2015 UK Financial Capability Survey,[10] from which a deeper analysis of the data for under 25s followed, highlights that – compared to all age groups – a higher proportion of young adults:

- think it the norm that they are borrowing more;
- report debts over £20,000 – including student loans;
- borrow from friends and family and/or access student loans;
- access high-cost, short-term credit (slightly more than other age groups);
- revolve credit bills (slightly) more, yet have far fewer credit cards;
- struggle (slightly more) to keep up with bills and credit commitments;
- use unauthorised overdrafts and/or miss payments (slightly more); and
- are harder to engage about seeking free and impartial advice on problem debts.

3.12. Data from our 2016 over-indebtedness survey,[11] indicates that just under one in five young adults under the age of 25, including students, compared to one in six of the adult population overall, is over-indebted.[12] The same survey indicates that those aged 25-34 are the age group most likely to be living with a debt problem; this includes those paying back student loans.

[8] www.gov.scot/Resource/0052/00527875.pdf

[9] Money Advice Service, *Understanding students' and graduates' financial concerns*, October 2013

[10] Money Advice Service, *Financial capability in the UK 2015*, October 2015

[11] A Picture of Over-Indebtedness, Money Advice Service, 2016

[12] Over-indebtedness is where people report that keeping up with bills and commitments is a 'heavy burden' and/or they have fallen behind with or missed payments in at least three of the last six months

3.13. Findings from the Financial Conduct Authority's 2017 survey, more explicitly looking at the experience of consumers aged 18+ in the context of their relationship with the market for financial products and services, amplifies our data on relative levels of financial capability and resilience among young adults, students and graduates arising from the Money Advice Service's 2015 and 2016 surveys.[13]

3.14. Indicators from these various data sources suggest that student-loan repayments are increasing in significance – and may continue to do so – for overall household finances, not only for young students, but also for those who have graduated.

3.15. In 2018, the Money Advice Service is planning to update its UK Financial Capability Survey from 2015. We expect that this update, alongside the development of a diagnostic tool to understand the financial capability needs of the student population, outlined in 2.4, will give us a better sense of these continuing trends.

Engagement, information and support on student loans in a period of change

3.16. The format and tone of information and support on student loans in the context of broader financial decision making – and of an evolving student-finance system – is key. Whether targeted at students, graduates or their parents, evidence suggests that guidance and support must connect in a personalised and practical rather than alarmist way, yet compel action.[14]

3.17. The increasing blurring of the lines between student loans for further and higher education may offer an opportunity to simplify and recalibrate the system of student loans and their repayment in a way that engages and supports all students, graduates – and their parents or carers. For example, in England since 2014, students in further education have had access to Advance Learner Loans whose mechanisms operate in the same way as student loans in higher education. Simplifying the system for students in further and higher education was also a core recommendation resulting from this year's review of student funding in Scotland.[15]

[13] Financial Conduct Authority, *Understanding the financial lives of UK adults*, October 2017
[14] Money Advice Service, *Understanding students' and graduates' financial concerns*, October 2013
[15] http://www.gov.scot/Resource/0052/00527875.pdf

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