The Consequences of Income-Contingent Student Loan Debt for Graduates' Lives in England

Claire Callender

Abstract
Faced with higher education expansion and limited public funding, governments globally have resorted to student loans to shift more costs onto graduates. However, there are growing concerns about graduates' mounting debt, and its potentially damaging economic and societal consequences. Income-contingent loans are seen as a potential solution because of their protective features and image of fairness. Yet, research suggests that such an image is at odds with some graduates' subjective experiences of income-contingent loan debt.

Faced with higher education expansion and limited public funding, governments globally have resorted to student loans to shift more of higher education's costs onto graduates. However, there are growing concerns about graduates' mounting student loan debt, and its potentially damaging economic and societal consequences.

Globally, income-contingent loans are seen as a potential solution to financial distress resulting from student loan debt because repayments are based on graduates' income, protecting debtors from excessive repayments, financial hardship or defaulting on repayments. By contrast, time-based repayment loans, the commonest worldwide, are unable to achieve such safeguards because repayments are determined by the amount borrowed plus interest, divided by the duration of the loan.

This article questions the effectiveness of income-contingent loans in protecting graduates from the negative effects of debt, using England as a case study.

Tuition and Income-Contingent Loans in England

The United Kingdom faced the challenge of tradeoffs between the costs of higher education expansion, equity, and quality in the 1990s when it started to grapple with the financial realities of moving from an elite to mass higher education system. In 1990, England launched government-funded maintenance loans for undergraduates' living costs, which eventually replaced preexisting maintenance grants. It only introduced tuition for all domestic undergraduates in 2006. Since then, tuition has increased from a maximum of GBP 3,000 per annum to GBP 9,250, which now nearly all universities charge for all undergraduate programs—the highest average tuition fees in the OECD.

Since 2006, all students domiciled in England and studying in the United Kingdom have been eligible for income-contingent loans covering all their tuition and some maintenance, which are now the only type of government-funded financial aid available. Students start repaying their loans once they graduate and their income reaches above the government set repayment threshold. They then pay 9 percent of their income above the threshold until they have repaid their loans, or their debt is written off—currently after 40 years. Repayments are automatically deducted from graduates' gross wages via the tax system. These protective features help shield graduates from the financial burden of loan debt.

As England's tuition rose, so did loan take-up rates (95 percent in 2020–2021) and average amounts borrowed (GBP 46,000 for those graduating in 2022), whereby student debt is normalized and not limited to graduates with specific demographic and socioeconomic characteristics. Consequently, it takes English graduates longer on average to repay their debts than their peers elsewhere, which has implications for the longer-term consequences of student loan debt on graduates' lives.

The Strengths of Income-Contingent Loans

Income-contingent loans are considered more equitable and desirable than time-based repayment loans. They are judged as fair because those who benefit financially from higher education contribute towards its costs when they can afford to pay. Income-contingent loans are seen as progressive because higher-earning graduates repay more and are subsidized less by the government than lower-earning graduates. They are also regarded as positive because they afford access to higher education, and help fund its expansion.

Income-contingent loans are depicted by English policy makers and others as primarily harmless because they are income-contingent and designed to protect debtors from the financial burden of debt. The amount borrowed, therefore, is regarded by policy makers as largely immaterial for graduates. Indeed, indebtedness is actively encouraged by government policies, normalized as investment in future earnings potential.

Governments' concerns about income-contingent loans focus exclusively on their economic consequences for the state and on reducing public expenditure which are considerable—the value of England's outstanding loans is forecast to reach GBP 460 billion (in 2021–2022 prices) by the mid-2040s.

Research on the Impact of Student Loans on Graduates' Lives

Income-contingent loans are preferable to time-based repayment loans. However, the personal economic and psychological consequences of income-contingent loan debt for graduates' lives remain unexplored. Government rhetoric and most extant research ignore the realities of repaying them. Existing studies on indebted graduates are mostly economic-driven, quantitative, and United States-based. Yet, studies focusing on the United States have limited relevance to England because of differences in their higher education systems and especially their financial aid, which is more complex, diverse, and punitive in the United States.

However, the personal economic and psychological consequences of income-contingent loan debt for graduates' lives remain unexplored.

Other research on income-contingent loans provides no insights into graduates' experiences of being indebted. Our program of quantitative and qualitative research attempts to fill these gaps by exploring the impact of income-contingent loan debt on English graduates' lives, behavior, and choices.

Our quantitative research shows that graduates aged 25 who had not taken out student loans are more likely to own their home and less likely to rent or live with their parents than graduates who had taken out loans, echoing some United States research. This finding suggests that higher education funding policies and student debt are important in structuring English young people's housing options, questioning some of the purported financial benefits of higher education and highlighting how debt can perpetuate inequalities in wealth.

Our qualitative research provides other insights. Interviews with 100 graduates, five to 12 years after graduation, show that they appreciate income-contingent loans' protective features including the affordable monthly repayments which are automatically deducted from their wages. But these graduates, especially those with higher debt, believe that tuition and interest rates are too high and that the amount of debt owed is a burden with its neverending repayments.

Further analysis of these interviews reveals how the state's relationship with graduate debtors is founded on dependency and therefore highly problematic. The government deems the loan system fair, but graduates show signs of harm and are responding in varied, sometimes unsettling ways. Some are deploying coping mechanisms such as avoidance and submission to the loan system and policy rhetoric. Feelings of indebtedness are rife, along with internalization and self-blame. Many of those who have not seen more positive employment outcomes question the system and its unrealized promises. Most not only blame the system and the state but also themselves.

The characterization of income-contingent loans in policy rhetoric as positive and harmless seems, therefore, at odds with some graduates' subjective experiences of loan debt. Only a small minority of graduates in our study who graduated 10 to 12 years ago withstand any negative consequences of their debt. Most endure some, if only minimal, harmful effects from their debt. But a sizable minority experience multiple detrimental effects which negatively impact decisions about further study, employment, housing, family formation, and their mental and financial well-being and security—again echoing research findings from the United States. Our findings suggest that income-contingent loans' protective features seem to successfully prevent or minimize the adverse consequences of debt for most graduates in our study, but prove ineffectual in shielding a sizable minority from its more negative effects.

We believe that income-contingent loans' inbuilt safeguards are designed primarily to ameliorate the financial burden of debt but not its psychological burden. Our findings on the apparent ineffectiveness of these loans' protective features highlight that for some graduates, the psychological burden of debt is as important as its financial burden, as is the way these two burdens interact. Together they lead some to change their behavior and life choices in damaging ways, potentially curtailing their aspirations, and limiting their opportunities.

Our research suggests that we need to pay far more attention to the psychological toll of student debt for graduates and how it can have negative repercussions for their lives, even in the context of income-contingent loans. Greater recognition of the full consequences of student loan debt for graduates is needed, and policy makers should support a global shift in policy design that recognizes this and better protects graduates from both the financial and psychological burden of debt.

Claire Callender is a professor of higher education studies at the Institute of Education, Faculty of Education and Society, University College London, United Kingdom. E-mail: claire.callender@ucl.ac.uk.