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Understanding Plan 2 student loan repayment terms

Analysis for the National Union of Students and the Higher Education
Policy Institute, April 2026



Introduction and overview



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Introduction and context

- The Treasury Select Committee recently launched a new inquiry into student loan repayment terms and the broader taxation of graduates ([here](#)). To support the inquiry, London Economics were commissioned by the National Union of Students (NUS) and the Higher Education Policy Institute (HEPI) to model the resource flows and cost implications associated with Plan 2 student loan repayment terms.
- In its November 2025 Budget ([here](#)¹), the Westminster Government announced a **new freeze in the Plan 2² student repayment threshold** (and associated higher interest rate threshold) in England³. Rather than increasing with RPI in April every year, the repayment threshold for Plan 2 student loans will now be **frozen at £29,385 for three years** from April 2027, and the associated higher interest rate threshold will be frozen at **£52,885**⁴.
- There have since been extensive campaigns against and media coverage of this new Plan 2 threshold freeze. However, this is not the only time in recent history when substantial retrospective changes have been made to these thresholds. In February 2022, the **Department for Education's response to the Augar Review** ([here](#)) *also* retrospectively changed the Plan 2 repayment terms, by:
 - **Freezing the repayment threshold at £27,295 and the interest rate threshold at £49,130 for an additional 2 years** from April 2023 (an initial single-year freeze for April 2022 was already announced in January 2022, and the DfE's Augar response then extended this freeze by an additional 2 years, up to April 2025); and importantly,
 - **Lowering the subsequent annual uprating mechanism of the thresholds from average earnings growth to RPI.**
- **Focusing on the 2022-23 cohort of student entrants, this analysis investigates the impact of these changes on students/graduates and the Exchequer.**

¹ See p. 108 in the Budget Report. The repayment threshold for Plan 2 student loans will increase to £29,385 in April 2026 (from £28,470 (see [here](#))), but then be frozen at that level for three years from April 2027.

² Plan 2 student loans apply to English domiciled undergraduate students who entered HE between 2012-13 and 2022-23. English domiciled students who entered from 2023-24 onwards are instead subject to Plan 5 repayment terms.

³ Note that, in response to the threshold freeze in England, the Welsh Government has announced that it will *not* follow suit (see [here](#)), i.e. it will *not* adopt the freeze for Welsh Plan 2 borrowers.

⁴ See [here](#). Note that the analysis here does not incorporate the recently announced interest cap at 6% for Plan 2 borrowers that will apply for the 2026-27 academic year ([here](#)), but this is expected to potentially only have a relatively small impact on graduates.

Overview of the analysis

- We focus on the **2022-23 cohort of first-year English domiciled undergraduate students studying at higher education institutions (HEIs) anywhere in the UK¹**. The analysis includes both full-time and part-time students, and all types of undergraduate qualifications (i.e. first degrees and other undergraduate qualifications²).
- Starting with Plan 2 repayment terms **as they originally stood** in early 2022 (before the Augar response was announced), the analysis models the various policy changes culminating in the **actual current repayment terms facing this cohort of 2022-23 starters** (incorporating the recently announced 3-year threshold freeze), as well as the estimated costs/resource flows if **different alternative repayment systems were implemented for this cohort** (i.e. on a ‘like-for-like’ basis based on the same cohort). The different scenarios that we modelled are outlined on the next slide.
- The modelling assesses a range of **key metrics**, including:
 - Core student loan outcomes, such as the **Resource Accounting and Budgeting (RAB) charge** (i.e. the proportion of the total loan balance written off³), **student loan debt on graduation**, and expected **lifetime loan repayments** (by gender, lifetime income decile, mode, level of study, and location of study); and
 - The **total Exchequer cost** of the system associated with the cohort, including the cost of student support for English domiciled undergraduate students (studying anywhere in the UK) and the associated Teaching Grant funding paid to HEIs across the UK (where applicable).

¹The relevant student cohort includes a total of **ca. 526,000** students. underlying student numbers are based on data published by the Higher Education Statistics Agency (HESA) for the 2022-23 academic year. The analysis includes students studying at publicly funded higher education institutions as well as alternative providers, but generally excludes students at further education colleges (except colleges based in Wales, which are included in the relevant HESA data - but there are only very few English domiciled students studying at these institutions, so the number is negligible). See the [Annex](#) for more information on our methodological approach.

²We exclude students studying for undergraduate-level institutional credits only (i.e. no formal qualifications), as these students are typically not eligible for public funding.

³As outlined in the [Annex](#), to ensure that our methodology reflects the official DfE approach for estimating the cost of student loans, our analysis of the RAB charge relies on official discount rates dictated by HM Treasury. As discussed in a report by the Institute for Fiscal Studies ([here](#)), these official HMT discount rates are typically much lower than the current Government cost of borrowing. As a result, the official DfE student loan forecasts ([here](#)) - as well as our own results here - likely underestimate the true cost of student loans to the Exchequer.

Scenarios

We model five scenarios for student loan repayment terms:

BASELINE:

Original Plan 2 terms
before Augar response

Original Plan 2 terms that would have applied for the 2022-23 cohort *before* the changes announced in 2022 as part of the DfE's Augar response:

- Repayment threshold of **£27,295** (as of April 2022), uprated with **average earnings growth** each year thereafter (applying also to interest rate thresholds)
- **Real interest rates** of **3%** during study, **0-3%** for earnings between £27,295 and £49,130, and **3%** for earnings of £49,130+.
- Repayment period of **30 years**.

SCENARIO 1:

Plan 2 'post Augar response' but pre-freeze

Revised Plan 2 terms following the DfE's Augar response, but *without* the recently announced 3-year threshold freeze:

- Repayment threshold of **£27,295** (as of April 2022), **frozen** until April 2025, uprated with **RPI** each year thereafter (applying also to interest rate thresholds)
- **Real interest rates** of **3%** during study, **0-3%** for earnings between £27,295 and £49,130, and **3%** for earnings of £49,130+
- Repayment period of **30 years**

SCENARIO 2:

Current Plan 2 (post-freeze)

Actual current Plan 2 terms following the recently announced 3-year repayment threshold freeze:

- Repayment threshold of **£27,295** (as of April 2022), **frozen** until April 2025, uprated with **RPI** for **2 years** until April 2027, then **frozen for 3 years** until April 2030, then **uprated with RPI** thereafter (applying also to interest rate thresholds)
- **Real interest rates** of **3%** during study, **0-3%** for earnings between £27,295 and £49,130, and **3%** for earnings of £49,130+.
- Repayment period of **30 years**

SCENARIO 3:

Plan 5 repayment terms applied to 2022-23

Applying Plan 5 repayment terms to Plan 2 borrowers:

- Repayment threshold of **£25,000** (as of April 2022), **frozen** until April 2027, **uprated with RPI** thereafter, applying also to interest rate thresholds
- **Zero real interest rates**, both during and after study (i.e. interest rate = RPI, irrespective of earnings)
- Repayment period of **40 years**

SCENARIO 4:

Plan 2 with stepped repayment system

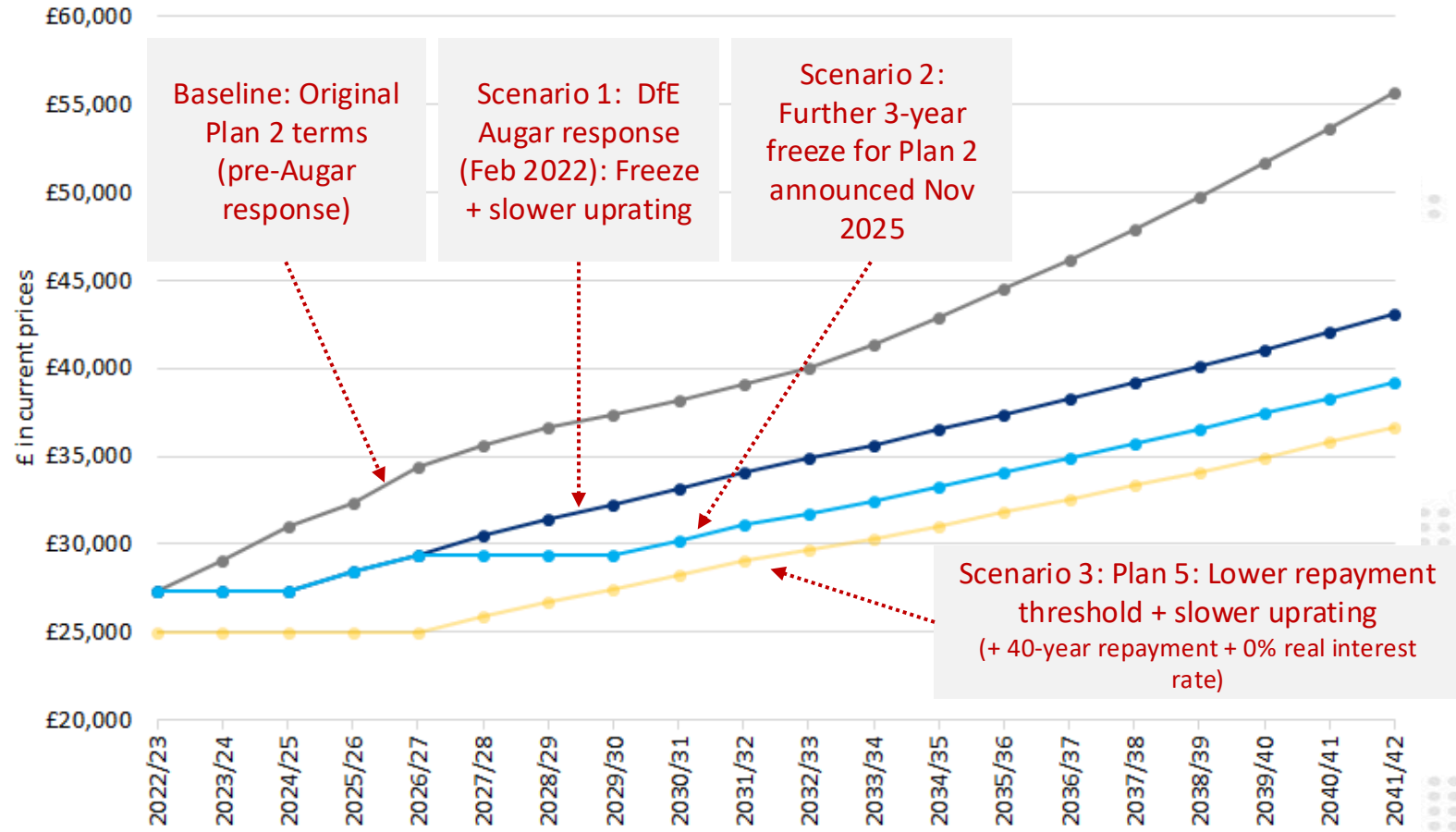
Alternative system that is approximately fiscally neutral (i.e. only a small net Exchequer cost per cohort), but with a 'stepped repayment' system:

- **Stepped repayment rates:** **3%** on earnings between £12,570 and £27,570; **5%** on earnings between £27,571 and £42,570; **7%** on earnings between £42,571 and £57,570; and **3%** on earnings of £57,571 or more
- **Real interest rates** of **3%** during study, **0-3%** for earnings between £12,570 and £42,570, and **3%** for earnings of £42,570+

Scenarios: Impact on loan repayment thresholds

Earnings thresholds for loan repayments, by scenario and year

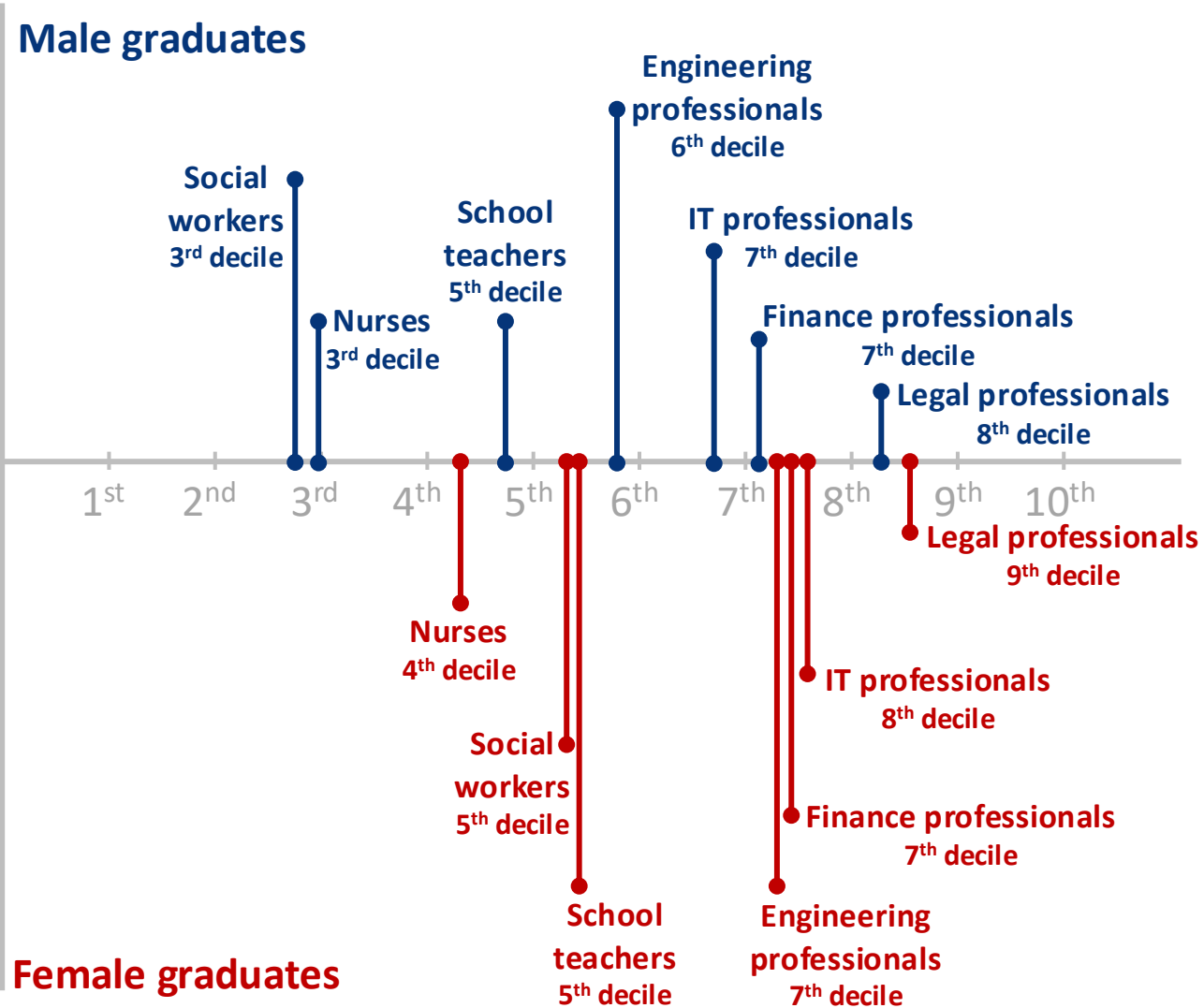
● Baseline (Plan 2 pre-Augar) ● Scenario 1 (Plan 2 post-Augar)
 ● Scenario 2 (Plan 2 post-Augar + freeze) ● Scenario 3 (Plan 5)



- The DfE's Augar response (Scenario 1), including the threshold freeze until April 2025 and the subsequent slower uprating of the repayment threshold (switching from average earnings growth to RPI forecasts¹) already led to a significant reduction in the Plan 2 repayment threshold. Hence, *in every year post-graduation*, more students in the 2022-23 cohort are earning above this threshold and are therefore liable to make (larger) student loan repayments.
- The new 3-year threshold freeze (Scenario 2) announced in November 2025 might seem like a relatively small additional change. However, it results in a lower repayment (and interest rate) threshold *in every year from 2027-28*.
- Combined, these changes imply that, by 2032-33 – 10 years after the cohort started their studies - the Plan 2 repayment threshold is now estimated to be £8,250 lower than the original system that was in place pre-Augar response¹ (Baseline). This means that graduates earning approximately £40,000 will be expected to repay ca. £740 more in that year alone.

1. The change to the approach to uprating the repayment threshold (with RPI, instead of average earnings growth) is also referred to as 'fiscal drag'.
 2. Forecast threshold under the original Plan 2 system: £40,015. Threshold under Scenario 2: £31,765. The £740 figure is calculated as 9% of the difference between these two thresholds (of £8,250).

Occupational profiles



- To understand how the design of Plan 2 loans might impact different types of graduates across the earnings distribution, we present lifetime earnings deciles (by gender), but also the **typical ‘positioning’ of different occupations along the earnings distribution to illustrate *indicatively* what types of graduates are most affected by different changes.**
- This was achieved by considering the average annual salary between the ages of 31 and 40 using Labour Force Survey data, and identifying the *approximate* positioning of the occupation benchmarked against the relevant gender-specific lifetime earnings deciles.
- For instance:
 - **Social workers:** A male graduate working as a social worker would be positioned (approximately) in the 3rd decile of male graduate earnings. A female graduate working as a social worker (with an annual salary approximately 5% less) would be positioned in the 5th decile of female graduate earnings.
 - **IT professionals:** A male graduate working as an IT professional would be positioned in the 7th decile of male graduate earnings. A female graduate working as an IT professional (with an annual salary approximately 20% less) would be positioned in the 8th decile of female graduate earnings.

Baseline & Scenario 1: Historical Plan 2 repayment terms (pre-and post-Augar response)



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Scenario 1: Total costs for the cohort

Scenario 1: Post-DfE Augar response

Resource flows (£/£m/%)	Baseline (pre-Augar response)	Scenario 1 (post-Augar response)	Difference
Exchequer			
Cost of maintenance loans	(£1,629m)	£323m	£1,952m
Cost of tuition fee loans	(£2,296m)	£373m	£2,669m
Cost of Teaching Grants	(£1,279m)	(£1,279m)	-
Total Exchequer cost	(£5,204m)	(£583m)	£4,621m
% contribution (Exch./students)			
	41%/59%	5%/95%	
RAB charge (%)	21%	-4%	-25pp
Students/Graduates (FT first degree students studying in England)			
Average debt on graduation	£50,000	£50,000	-
Average lifetime repayments (M/F)	£55,100/£26,300	£66,200/£39,200	£11,100/£12,900

Note: In terms of the total Exchequer costs, red values (in brackets) denote net costs, while black values denote net revenues.

All monetary values have been discounted to net present values and are presented in constant 2022-23 prices (mirroring the 2022-23 cohort's year of entering HE). All monetary values per student have been rounded to the nearest £100, and all totals have been rounded to the nearest £1m.

¹ Note that our RAB charge estimates here are expected to be *lower* than the official RAB charge estimates for England produced by the Department for Education (e.g. see [here](#)). This is predominantly because our analysis is based on *higher* graduate earnings estimates (based on a combination of Labour Force Survey and British Cohort Study data) than the graduate earnings forecasts that the official DfE model is based on. The DfE model instead relies on microdata on student loan borrowers from the Student Loans Company (which are not publicly accessible), combined with Longitudinal Educational Outcomes data, which provide more pessimistic graduate earnings forecasts.

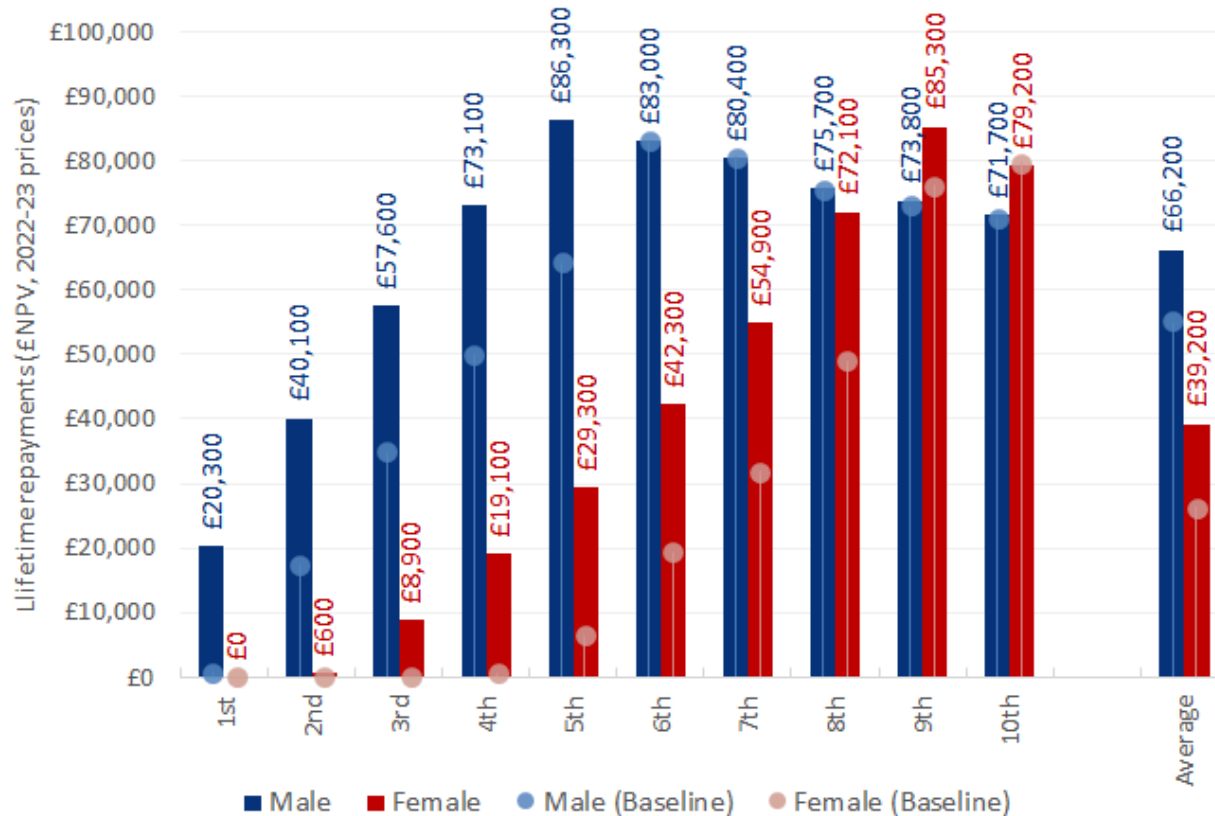
- Under the 'Baseline' – i.e. the original system pre-Augar response – the public purse cost of the system for the 2022-23 cohort was estimated at ca. **£5.2bn**. Most of this cost was associated with **tuition fee and maintenance loan write-offs (£2.3bn and £1.6bn, respectively)**, with an estimated RAB charge of **21%**. The remaining **£1.3bn** is associated with Teaching Grants paid directly to HE providers.
- Under the post-Augar system (Scenario 1) the Exchequer cost per cohort declines significantly, to £583m (a £4.6bn (89%) decline)**. This is due to a substantial reduction in fee and maintenance loan write-offs, driven by the much lower repayment (and interest rate) thresholds. Specifically, the estimated **RAB charge associated with the cohort turns negative (-4%; a 25 percentage-point decline compared to the Baseline)**. This is due to the much slower uprating of the repayment and interest rate thresholds following the Augar response, which, combined with the retention of real interest rates, results in **much higher graduate loan repayments**. Overall, under Scenario 1, these higher repayments generate Exchequer *revenue* of **£696m** per cohort (rather than cost) from the student loan system.
- Considering the costs of fees, maintenance and Teaching Grants, the balance of contribution between the Exchequer and students/graduates stands at **41%:59%** under the Baseline (pre-Augar) system. Under Scenario 1 (the post-Augar) system, this stands at **5%:95%** instead.
- Hence, the post-Augar response changes to Plan 2 resulted in a very **large shift in the balance of contribution from the Exchequer to graduates**.

Scenario 1: Graduate loan repayments

Scenario 1: Post-DfE Augar response

Total loan repayments by English domiciled students who complete FT first degrees in England (NPV in 2022-23 prices), by lifetime earnings decile and gender

Scenario 1 (post-Augar Plan 2) vs. Baseline (pre-Augar Plan 2)



Note: All values have been discounted to net present values, are presented in constant 2022-23 prices, and have been rounded to the nearest £100.

Under the **Baseline** (i.e. the **pre-Augar response system**), the average total loan repayments for students in the 2022-23 cohort would have stood at **£55,100** for male graduates and **£26,300** for female graduates (all in NPV terms in 2022-23 prices, for full-time first degree students only). Given the income-contingency of the loan repayment system, these repayments vary considerably across the income distribution.

The changes to the repayment and interest rate thresholds announced in the **Augar response** have significantly increased these average total loan repayments per graduate. Overall, the estimated average repayment for men increased from **£55,100** to **£66,200** (i.e. by **£11,100**), with an even larger increase for women, from **£26,300** to **£39,200** (a **£12,900** rise).

The larger increase for women reflects **differential impacts across the earnings distribution**: Low- and middle-earning graduates see a substantial increase in their repayments, while high-earning graduates are *essentially* unaffected (men on or above the 6th lifetime decile, and women on the 10th decile). The increase for low- and middle-income graduates is driven by the lower repayment thresholds: since these graduates would *not* be expected to fully repay their loan - either under the Baseline or under Scenario 1 - they therefore make higher annual repayments over the 30-year repayment period. The slower growth in interest rate thresholds does not affect these graduates' repayments, with the only impact being to increase the unpaid interest on their loans that will eventually be written off after 30 years.

Scenario 2: Current Plan 2 terms (with the new threshold freeze)



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Scenario 2: Total costs for the cohort

Resource flows (£/£m/%)	Baseline (pre-Augar response)	Scenario 2 (current Plan 2)	Difference
Exchequer			
Cost of maintenance loans	(£1,629m)	£855m	£2,484m
Cost of tuition fee loans	(£2,296m)	£1,103m	£3,399m
Cost of Teaching Grants	(£1,279m)	(£1,279m)	-
Total Exchequer cost	(£5,204m)	£679m	£5,883m
% contribution (Exch./students)			
	41%/59%	-5%/105%	
RAB charge (%)	21%	-11%	-32pp
Students/Graduates (FT first degree students studying in England)			
Average debt on graduation	£50,000	£50,000	-
Average lifetime repayments (M/F)	£55,100/£26,300	£68,500/£43,200	£13,400/£16,900

Note: In terms of the total Exchequer costs, red values (in brackets) denote net costs, while black values denote net revenues. All monetary values have been discounted to net present values and are presented in constant 2022-23 prices. All monetary values per student have been rounded to the nearest £100, and all totals have been rounded to the nearest £1m.

¹ Again, note that our RAB charge estimates here are *lower* than the official RAB charge estimates for England produced by the Department for Education (e.g. see [here](#)), due to differences in the graduate earnings forecasts used to estimate graduate loan repayments.

However, our estimates are comparable to similar figures published by the Institute for Fiscal Studies (as part of their student finance calculator, [here](#)), which estimates a RAB charge for the 2022-23 cohort under the current Plan 2 loan terms of **-18%**. This assumes the same real discount rates as our analysis here (see the [Annex](#)); under a 0% real discount rate (which is the default setting in the IFS calculator), the IFS RAB estimate stands at **-4%**.

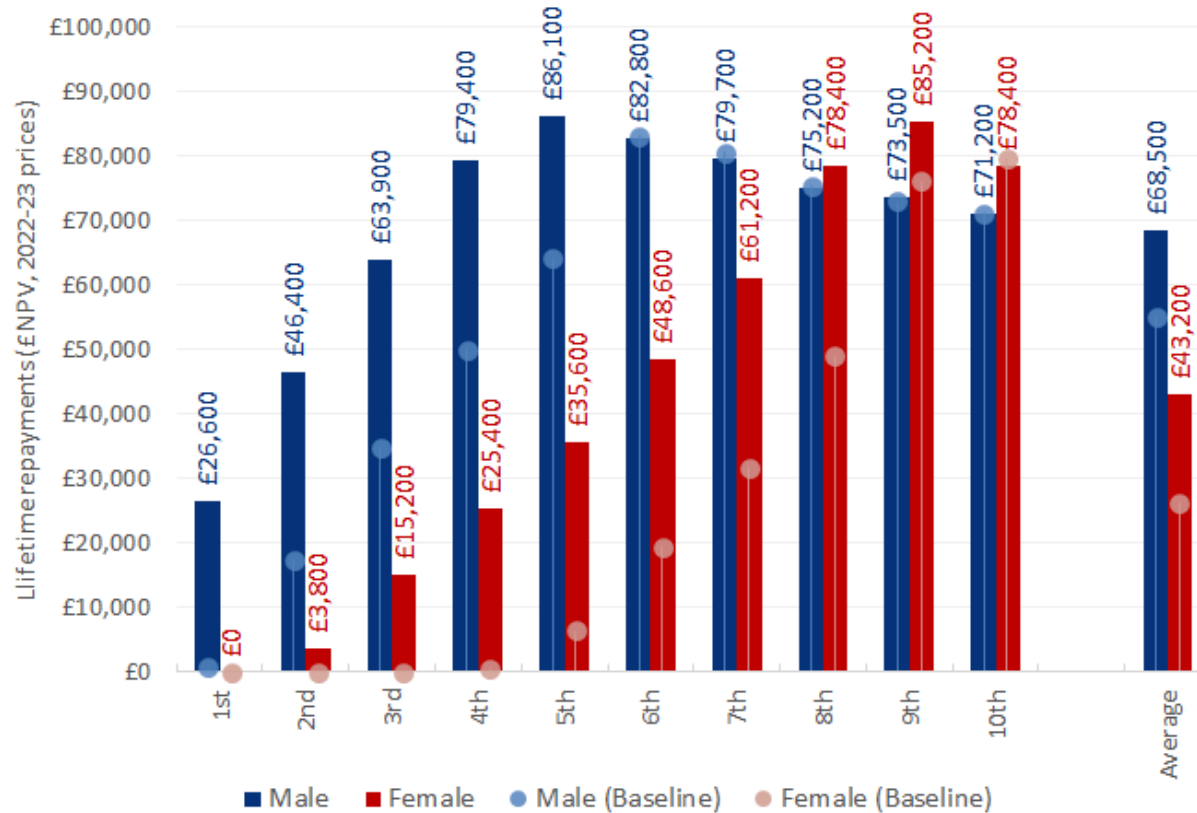
² This closely matches the corresponding **£1.3bn** estimate published by the Institute for Fiscal Studies (see Section 5.3 [here](#)).

- As outlined above (see [this slide](#)), the new 3-year Plan 2 threshold freeze will result in a **further decrease in the repayment and interest rate thresholds compared to both the pre-Augar Baseline and the post-Augar response (Scenario 1)**, from April 2027 onwards.
- As a result, the estimated Exchequer cost for the cohort has declined even further. Under this **current Plan 2 system**, graduate loan repayments are large enough to push the funding system as a **whole** into surplus, generating an estimated **net surplus for the Exchequer of £679m per cohort¹**. This represents a total of **£5.8bn** in Exchequer savings compared to the original Plan 2 system (i.e. the 'Baseline' system pre-Augar). The estimated Exchequer 'revenue' associated with the loan system (of ca. **£2.0bn** in total) now outweighs the cost of Teaching Grants for the cohort (of **£1.3bn**). The RAB charge under current Plan 2 repayment terms is estimated at **-11%** (a 32 p.p. change vs. the Baseline).
- Compared to Scenario 1, the new 3-year threshold freeze reduces the Exchequer cost of the system for this single cohort by ca. **£1.3bn²** (based on a net Exchequer cost of **£583m** in Scenario 1, vs. a net Exchequer surplus of **£679m** in Scenario 2).
- The estimated balance of contribution between the Exchequer and students/graduates now stands at **-5%:105%** (vs. **41%:59%** under the Baseline (pre-Augar) system).

Scenario 2: Graduate loan repayments

Total loan repayments by English domiciled students who complete FT first degrees in England (NPV in 2022-23 prices), by lifetime earnings decile and gender

Scenario 2 (current Plan 2) vs. Baseline (pre-Augar Plan 2)



Note: All values have been discounted to net present values, are presented in constant 2022-23 prices, and have been rounded to the nearest £100.

- The *additional* reduction in the repayment and interest rate thresholds resulting from the new 3-year freeze has **further increased the average lifetime loan repayments** estimated for the 2022-23 cohort:
 - Average repayments for men have increased to **£68,500** (vs. **£55,900** in the Baseline (pre-Augar system), and **£66,200** under Scenario 1 (post-Augar but pre-freeze system)). Hence, on average, male graduates' lifetime repayments are now expected to be **£13,400** higher than under the original Plan 2 system.
 - Average repayments for women have increased to **£43,200** (vs. **£26,300** in the Baseline, and **£39,200** under Scenario 1). On average, female graduates' lifetime repayments are thus **£16,900** higher than under the original Plan 2 system.
- As with the reductions in the thresholds from the Augar response, the new 3-year freeze again predominantly increases repayments for low- and middle-earning graduates (e.g. nurses, social workers and teachers), while leaving higher earning graduates largely unaffected (e.g. legal, IT and finance professionals).

Scenario 3: What do the new Plan 5 repayment terms look like?



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Scenario 3: Total costs for the cohort

Scenario 3: Plan 5 applied in 2022-23

Resource flows (£/£m/%)	Scenario 2 (current Plan 2)	Scenario 3 (Plan 5)	Difference
Exchequer			
Cost of maintenance loans	£855m	(£492m)	(£1,347m)
Cost of tuition fee loans	£1,103m	(£736m)	(£1,839m)
Cost of Teaching Grants	(£1,279m)	(£1,279m)	-
Total Exchequer cost	£679m	(£2,507m)	(£3,185m)
% contribution (Exch./students)	-5%/105%	20%/80%	
RAB charge (%)	-11%	7%	+18pp
Students/Graduates (FT first degree students studying in England)			
Average debt on graduation	£50,000	£49,100	(£900)
Average lifetime repayments (M/F)	£68,500/£43,200	£52,900/£39,400	(£15,600)/(£3,800)

Note: In terms of the total Exchequer costs, red values (in brackets) denote net costs, while black values denote net revenues. All monetary values have been discounted to net present values and are presented in constant 2022-23 prices. All monetary values per student have been rounded to the nearest £100, and all totals have been rounded to the nearest £1m.

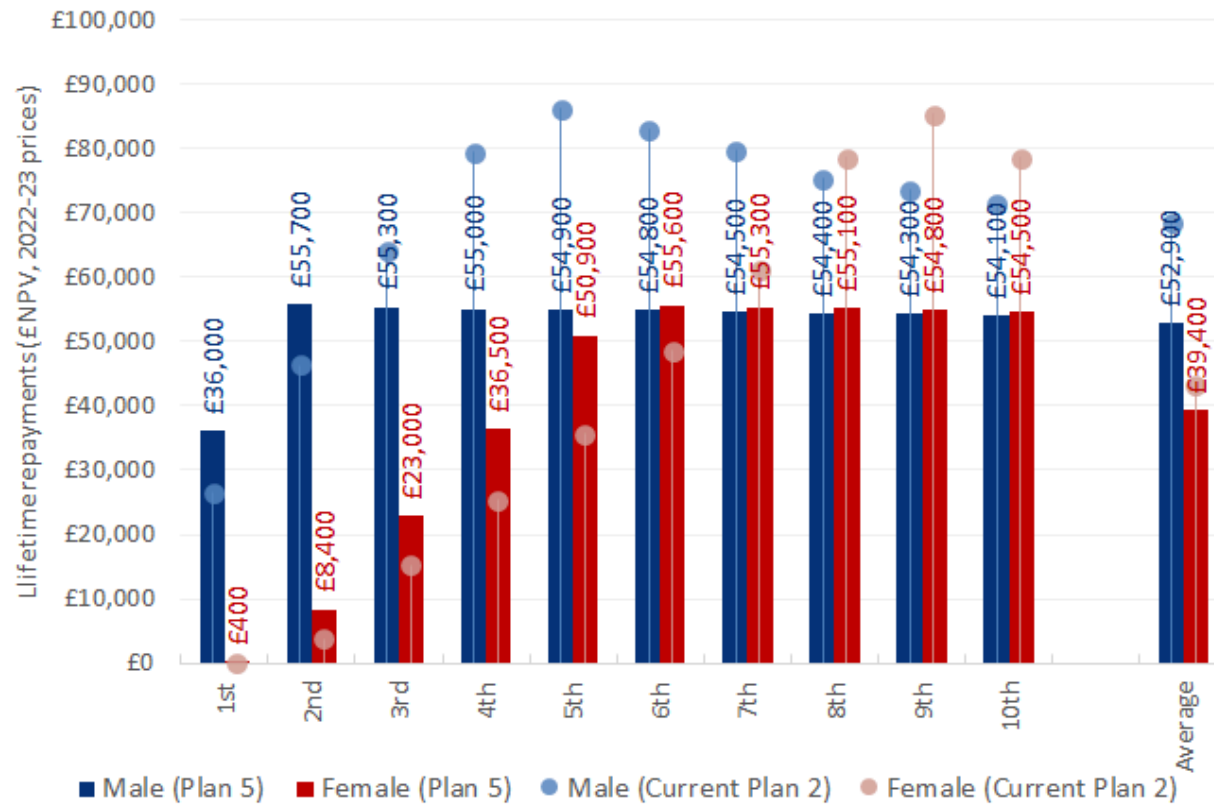
- In addition to modelling the above changes in Plan 2 terms, we also assess the impact on the Exchequer and graduates *if the 2022-23 cohort had instead been on the new Plan 5 repayment terms*. Plan 5 was introduced for students who entered HE from 2023-24 onwards, and involved a range of major changes to the repayment threshold, loan interest rates, and the loan repayment period (see [above](#)).
- Here, we compare Plan 5 to the *current Plan 2 repayment terms* (i.e. Scenario 2).
- Under the Plan 5 loan repayment system, the public purse cost of the system for the 2022-23 cohort is estimated to be **£2.5bn** (an increase of almost **£3.2bn** compared to the costs of the current Plan 2 system). With an estimated RAB charge of **7%**, approximately half of the cost of Plan 5 is associated with **fee and maintenance loan write-offs** (£736m and £492m, respectively). The remaining **£1.3bn** is again associated with Teaching Grants paid to HE providers.
- The Exchequer costs under Plan 5 are much larger than under the *current Plan 2 system* (Scenario 2). The higher cost is driven by the removal of real interest rates under Plan 5 (resulting in lower average loan repayments), which outweighs the effects of the lower repayment threshold and the longer repayment period. Hence, overall, on average, graduates would repay *less* under Plan 5 than under current Plan 2.
- However, as shown on the next slide, there are **important distributional effects** in terms of which graduates are affected.

Scenario 3: Graduate loan repayments

Scenario 3: Plan 5 applied in 2022-23

Total loan repayments by English domiciled students who complete FT first degrees in England (NPV in 2022-23 prices), by lifetime earnings decile and gender

Scenario 3 (Plan 5) vs. Scenario 2 (current Plan 2)



Note: All values have been discounted to net present values, are presented in constant 2022-23 prices, and have been rounded to the nearest £100.

- Under **Plan 5** (applied to the 2022-23 cohort), the removal of real interest rates during study would result in a small decline in the average debt on graduation (by **£900** from **£50,000** to **£49,100**).
- Average total loan repayments would stand at **£52,900** for male graduates and **£39,400** for female graduates. In other words, compared to the current Plan 2 terms (Scenario 2), male and female graduates (on average) would repay approximately **£15,600** and **£3,800 less** on average, respectively.
- The reduction in average repayments for male graduates (in particular) reflects the beneficial impact for the **middle- and high-income earners** of the removal of real interest rates, which essentially ‘guillotines’ their repayments. However, **graduates at the lower end of the distribution** would repay *more* than under the current Plan 2, due to the extension of the repayment period. Male graduates between the 2nd and 9th deciles would essentially all repay around **£54,000 to £56,000**.
- Similarly, middle- and high-earning female graduates benefit from the removal of real interest rates, while low-income female graduates would repay *more* under Plan 5 than under Plan 2.
- Overall, the move from Plan 2 to Plan 5 would benefit higher earning (predominantly male) graduates, at the expense of lower earning (predominantly female) graduates.**

Scenario 4: What might a stepped Plan 2 repayment system look like?



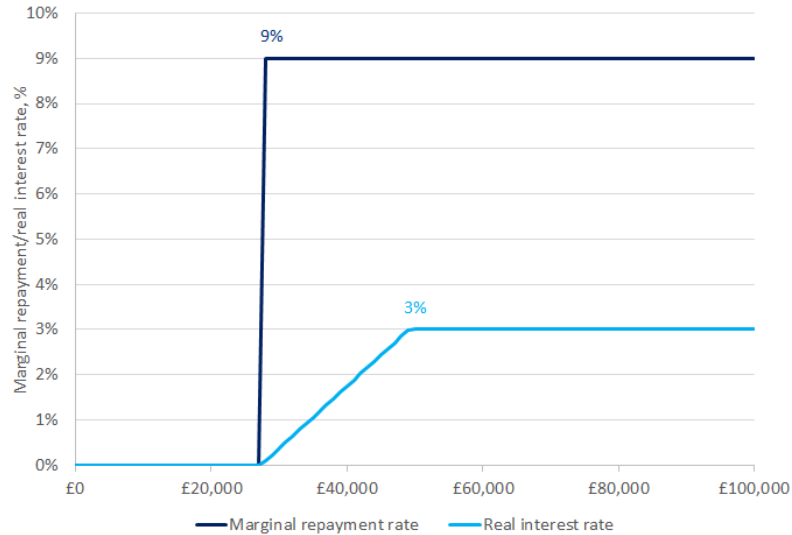
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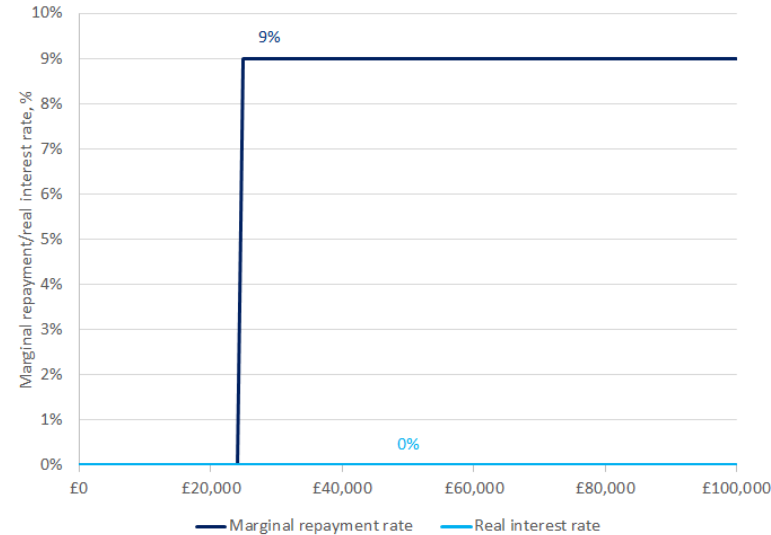
Scenario 4: Stepped repayments

- Following the different retrospective changes to the original Plan 2 repayment system (**Scenario 2**), the Exchequer is expected to generate a surplus of **£679 million** per cohort. Although the introduction of Plan 5 loans (**Scenario 3**) has rebalanced the contribution between the Exchequer and graduates, it is to the exclusive benefit of high-earning graduates and at the expense of low-earning graduates. There is also the wider issue of affordability associated with the payroll deductions for graduates (9% above the repayment threshold). **What changes might be made to Plan 2 loans (or eventually to Plan 5 loans) that might address some of these issues?**

Scenario 2: Current Plan 2 terms



Scenario 3: Plan 5 terms



Scenario 4: Stepped repayments



- In **Scenario 4**, we model a potential **stepped repayment system**. Based off the current Plan 2 system, instead of the flat **9% repayment rate** above the repayment threshold (for 30 years), we model marginal repayment rates of **3%** on earnings between **£12,570** (the PAYE tax-free threshold) and **£27,570**; **5%** between **£27,571** and **£42,570**; **7%** between **£42,571** and **£57,570**; and reverting back down to **3%** above **£57,571**.
- Income-contingent real interest rates would start at **£12,570**, increasing to the maximum of **3%** at **£42,570** (i.e. the total interest rate would be 3% + RPI at that earnings level). The repayment period stays at **30 years** (as under the current Plan 2 terms).

Scenario 4: Total costs for the cohort

Scenario 4: Plan 2 with stepped repayment system

Resource flows (£/£m/%)	Scenario 2 (current Plan 2)	Scenario 4 (stepped repayment)	Difference
Exchequer			
Cost of maintenance loans	£855m	£575m	(£280m)
Cost of tuition fee loans	£1,103m	£752m	(£351m)
Cost of Teaching Grants	(£1,279m)	(£1,279m)	-
Total Exchequer cost	£679m	£48m	(£631m)
% contribution (Exch./students)			
	-5%/105%	0%/100%	
RAB charge (%)	-11%	-7%	+4pp
Students/Graduates (FT first degree students studying in England)			
Average debt on graduation	£50,000	£50,000	-
Average lifetime repayments (M/F)	£68,500/£43,200	£65,800/£41,400	(£2,700)/(£1,800)

Note: In terms of the total Exchequer costs, red values (in brackets) denote net costs, while black values denote net revenues. All monetary values have been discounted to net present values and are presented in constant 2022-23 prices. All monetary values per student have been rounded to the nearest £100, and all totals have been rounded to the nearest £1m.

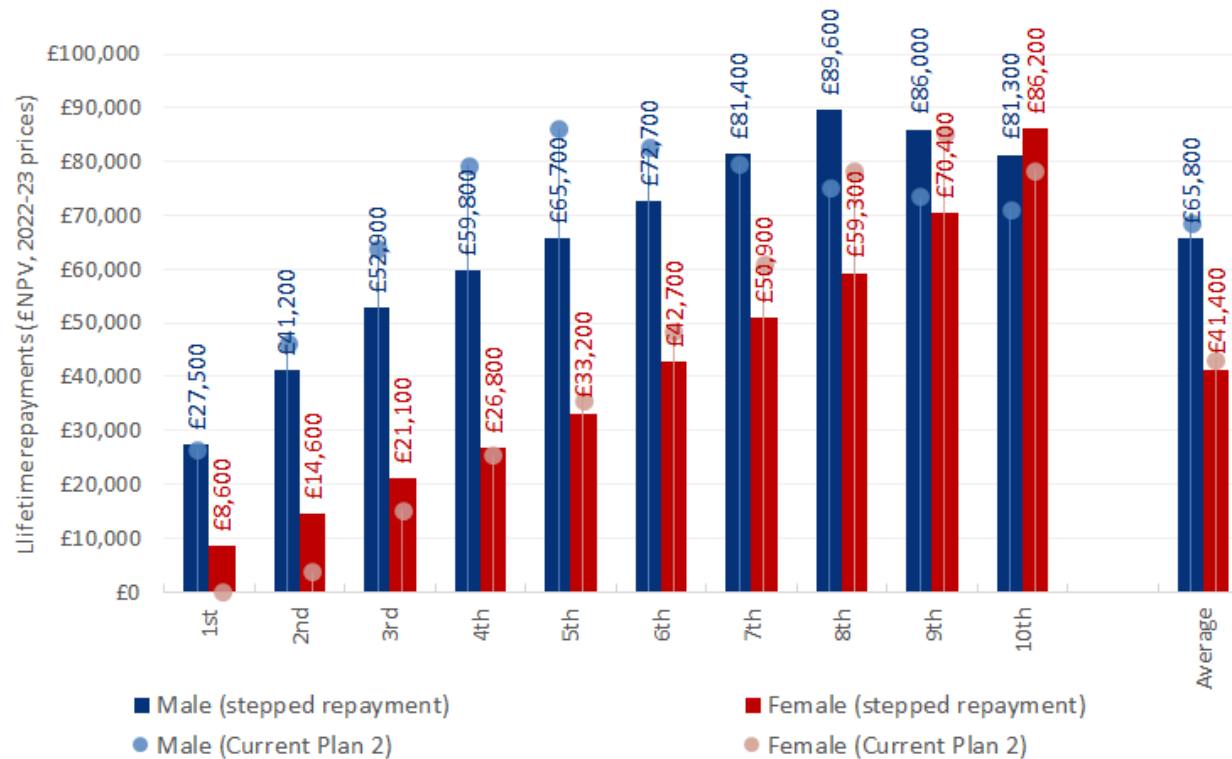
- Compared to the current Plan 2 system (Scenario 2), under the stepped repayment system (Scenario 4), the public purse cost for the 2022-23 cohort is estimated at **£48m** (an increase of **£631m**). With an estimated RAB charge of **-7%**, the surplus associated with fee and maintenance loan write-offs (**£752m** and **£575m**, respectively) essentially offsets the **£1.3bn** costs of Teaching Grants paid directly to HE providers – so that **the net Exchequer funding cost per cohort is (close to) zero¹**.
- Reflecting this (almost) zero net Exchequer cost, the balance of contribution between the Exchequer and students/graduates would stand at **0%:100%** under this stepped repayment system.
- Under the stepped repayment system, the average debt on graduation is unchanged at **£50,000**. Average lifetime loan repayments are estimated to decrease slightly, to **£65,800** and **£41,400** for male and female graduates (i.e. a reduction of **£2,700** and **£1,800**, respectively). However, again there are differential effects across the income distribution (see next slide).
- Illustrating the sensitivity of the system to alternative assumptions about the specific repayment terms, to arrive at approximately the same Exchequer cost as under the current Plan 2 system (Scenario 2), this could be achieved by increasing the repayment period by 1 year (to 31 years).

Scenario 4: Graduate loan repayments

Scenario 4: Plan 2 with stepped repayment system

Total loan repayments by English domiciled students who complete FT first degrees in England (NPV in 2022-23 prices), by lifetime earnings decile and gender

Scenario 4 (stepped Plan 2) vs. Scenario 2 (current Plan 2)



Note: All values have been discounted to net present values, are presented in constant 2022-23 prices, and have been rounded to the nearest £100.

- The stepped repayment system modelled here would result in average total loan repayments of **£65,800** for male graduates and **£41,400** for female graduates – i.e. graduates would repay approximately **£2,700** and **£1,800 less** on average compared to the current Plan 2 system, respectively.
- The lower marginal repayment rates would mean that graduates at the lower end of the earnings distribution would typically make *lower* total repayments than under the current Plan 2 system (Scenario 2), although the exception to this relates to the lowest earning female graduates.
- Graduates with higher earnings would repay *more* than under the current Plan 2 terms, making the loan repayment system *somewhat* more progressive (and *much more* progressive than the Plan 5 repayment system that was introduced in 2023-24).
- A critical feature of the stepped repayment system is that higher earning graduates are retained in the repayment system for longer. Specifically, the **presence of real interest rates** (reaching the maximum 3% rate at a lower level of earnings) **and** the ‘**step down**’ in marginal repayment rates (to 3% beyond earnings of £57,570) results in high-earning graduates contributing for longer.
- While there are only relatively small differences in lifetime repayments compared to the current Plan 2 system, the comparison of repayments by lifetime earnings decile with Plan 5 is stark.

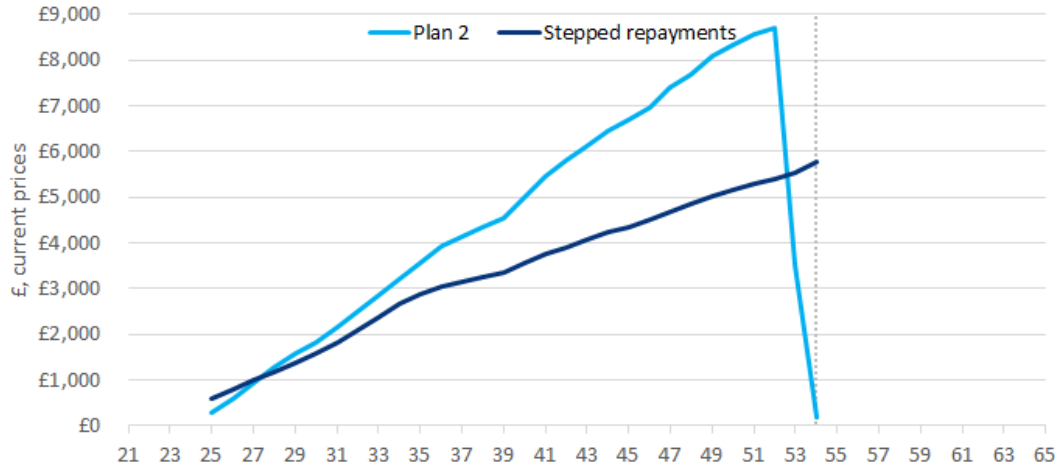
Scenario 4: Graduate loan repayments

Scenario 4: Plan 2 with stepped repayment system

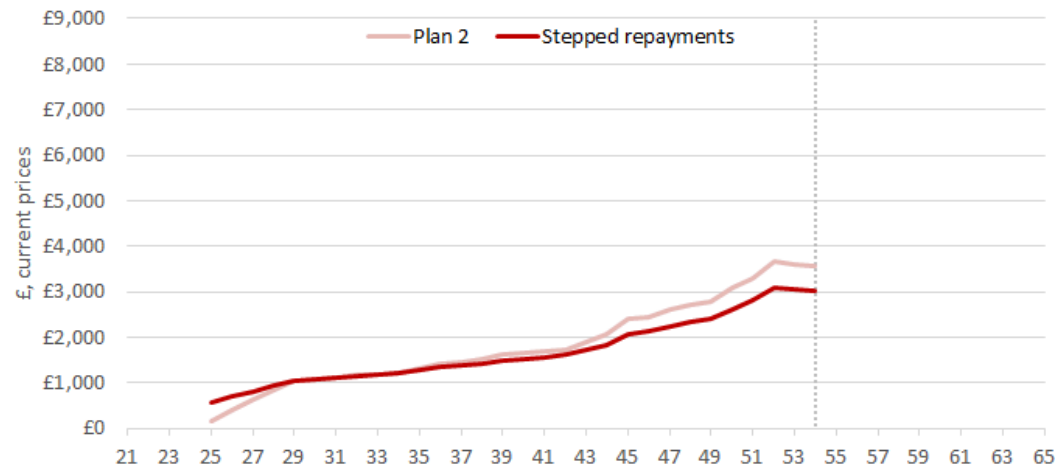
Loan repayment profiles (by age) for English domiciled students who complete FT first degrees in England (cash terms in current prices)

5th decile only (for illustration)

Men

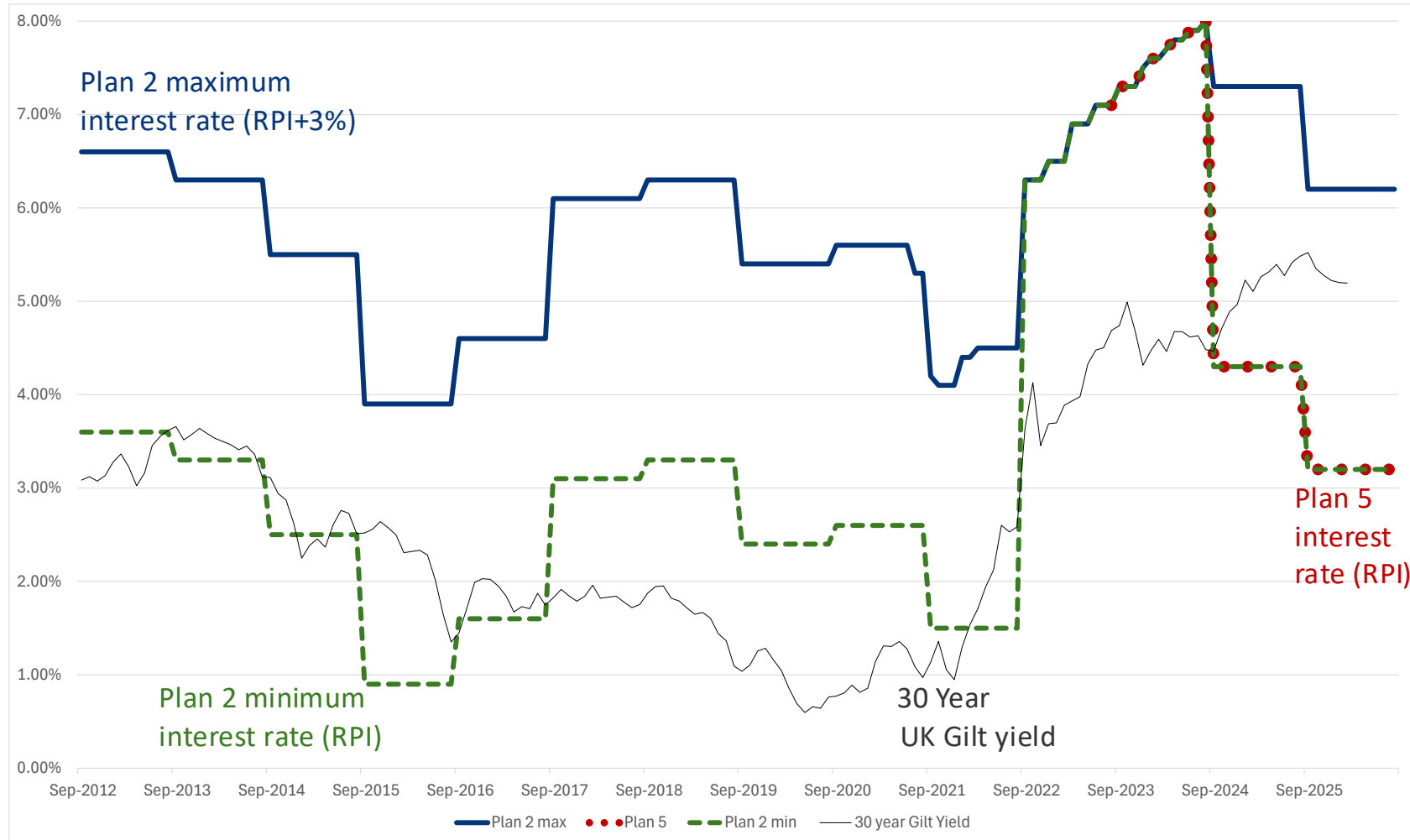


Women



- While the stepped repayment system would have only a relatively small impact on graduates' *total* repayments over the *entire* repayment period, it would address some of the affordability issues faced by graduates, by **lowering the current payroll deductions of 9% above the repayment threshold**.
- This is due to the lower marginal loan repayment rates that would be applied under the stepped repayment system (between **3-7%** depending on earnings, vs. the flat rate of 9% under the current Plan 2 system). As a result, in the longer term, the *annual* repayments for graduates would typically be *lower* (i.e. less burdensome) under the stepped repayment system than under the current Plan 2.
- However, note that in the short term, graduates' annual loan repayments would typically be marginally *higher* under the stepped repayment system in the first few years post-graduation. This is driven by the lower repayment threshold at which graduates would become liable for repayment (**£12,570** under the stepped repayment system here, vs. **£27,295** under the current Plan 2 system).

Student loan interest rates vs. 30-year UK Gilt yield



Source: [Student Loans Company \(2025\) Income Contingent Student Loan repayment plans & interest rates and calculations \(England\) link](#); [Student Loans Company \(2025\) Guidance: How interest is calculated - Plan 5 link](#); [Student Loans Company \(2026\) Guidance: How interest is calculated - Plan 2 link](#); [UK Debt Management Office \(2026\) Historical Average Daily Conventional Gilt Yields link](#). The historical monthly average gilt yields quoted on this page are simple averages of the close of business redemption yields for each month of the prevailing 30 year benchmark gilts.; [House of Commons Library \(2026\), Student loans: Interest rates and repayment thresholds FAQs link](#)

- The **maximum interest rate on Plan 2 loans** (standing at RPI +3%) has exceeded the (average monthly) **yield on the 30-year Gilt** over the entire period since the introduction of Plan 2 loans in 2012. The Gilt yield essentially captures the interest rate that the UK government pays to borrow money – including the amounts borrowed to fund the student loan outlay. The maximum Plan 2 interest rate exceeded the Gilt yield by as much as 5.2 percentage points in August 2019, but by only ca. 1 percentage point in 2026.
- When introduced, given the level of RPI at the time, **Plan 5 loan interest rates** were capped (as were all Plan 2 loans (at the same rate)) between September 2023 and August 2024. In September 2024, the interest rate levied on Plan 5 loans declined to 4.3% (which was broadly comparable to the 30-year Gilt Yield at the time).
- As of February 2026, the long-term cost of government borrowing stands in the region of 5.2% compared to the most recent Plan 5 interest rate of 3.2% applicable from September 2025 to August 2026. As such, Plan 5 graduates (and in particular, the highest earning graduates) are currently in receipt of very significant interest rate subsidies.

Conclusion



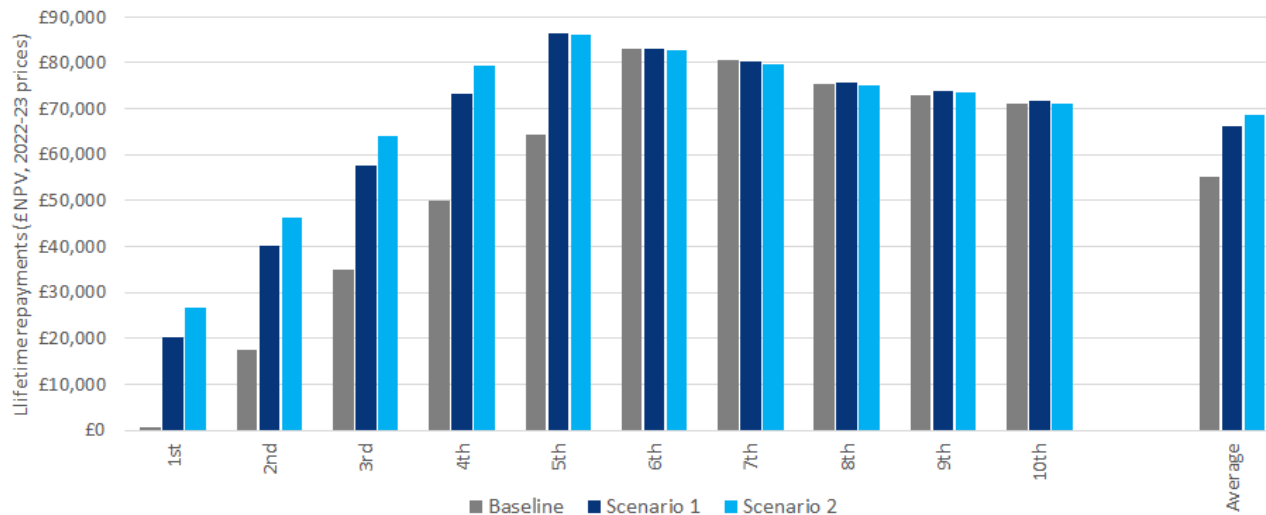
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Summary and conclusion

Resource flows (£/£m/%)	Baseline (pre-Augar response)	Scenario 1 (post-Augar response)	Scenario 2 (current Plan 2)
Exchequer			
Cost of maintenance loans	(£1,629m)	£323m	£855m
Cost of tuition fee loans	(£2,296m)	£373m	£1,103m
Cost of Teaching Grants	(£1,279m)	(£1,279m)	(£1,279m)
Total Exchequer cost	(£5,204m)	(£583m)	£679m
% contribution (Exch./students)			
	41%/59%	5%/95%	-5%/105%
RAB charge (%)			
	21%	-4%	-11%

Total loan repayments by male English domiciled students who complete FT first degrees in England (NPV in 2022-23 prices), by lifetime earnings decile



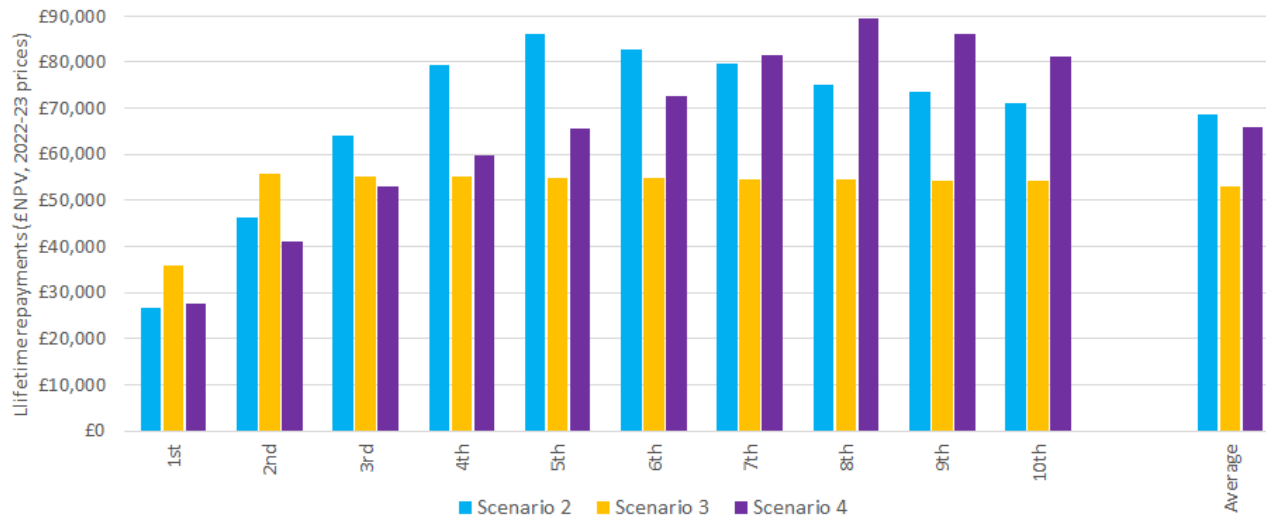
- While the new Plan 2 threshold freeze announced in November’s Budget has received substantial media coverage, earlier changes to Plan 2 that were implemented in response to the Augar Review – resulting in much larger impacts on graduates – have received much less attention. **The combined changes to Plan 2 since 2022 have significantly reduced the Exchequer cost of the system, from a net cost of £5.2bn for the 2022-23 cohort to a net surplus of £679m (a £5.9bn difference).** The recently announced 3-year threshold freeze accounts for ‘only’ **£1.3bn** of that difference, whereas the Augar response changes account for **£4.6bn**.
- The balance of contribution between the Exchequer and students/graduates has changed from **41%:59%** to **-5%/105%**.
- The repayment term changes have resulted in a significant increase in the overall average lifetime loan repayments made by graduates. However (and as ever when it comes to repayment term changes), there are important distributional effects: While repayments have increased for low- and middle-income earning graduates, high-income graduates have been almost unaffected by the changes.

Note: All values have been discounted to net present values, are presented in constant 2022-23 prices. The bottom chart displays loan repayments for *male graduates only* (for illustration purposes).

Summary and conclusion

Resource flows (£/£m/%)	Scenario 2 (current Plan 2)	Scenario 3 (Plan 5)	Scenario 4 (stepped repayment)
Exchequer			
Cost of maintenance loans	£855m	(£492m)	£575m
Cost of tuition fee loans	£1,103m	(£736m)	£752m
Cost of Teaching Grants	(£1,279m)	(£1,279m)	(£1,279m)
Total Exchequer cost	£679m	(£2,507m)	£48m
% contribution (Exch./students)			
	-5%/105%	20%/80%	0%/100%
RAB charge (%)			
	-11%	7%	-7%

Total loan repayments by male English domiciled students who complete FT first degrees in England (NPV in 2022-23 prices), by lifetime earnings decile



- Under the Plan 5 loan repayment system, the public purse cost of the system for the 2022-23 cohort is estimated to be **£2.5bn** (an increase of almost **£3.2bn** compared to the costs of the current Plan 2 system in operation).
- However, the reduction in average repayments for graduates reflects the beneficial impact of the removal of real interest rates for **middle-income and high-income earners. Graduates at the lower end of the earnings distribution repay more** under Plan 5 than under the current Plan 2, due to the extension of the repayment period.
- Compared to the current Plan 2 system (Scenario 2), under the stepped repayment system (Scenario 4), the public purse cost for the 2022-23 cohort is estimated at **£48m** (an increase of **£631m**). **Under this system, graduates on average would contribute more than under Plan 5, but less on average compared to the current Plan 2 system.**
- However, graduates at the lower end of the earnings distribution would typically make *lower* total repayments while graduates with higher earnings would repay *more* than under the current Plan 2 terms, making the loan repayment system *somewhat* more progressive than current Plan 2 loans (and *much more* progressive than the Plan 5 repayment system that was introduced in 2023-24).

Note: All values have been discounted to net present values, are presented in constant 2022-23 prices. The bottom chart displays loan repayments for male graduates only (for illustration purposes).

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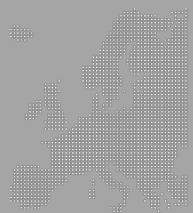
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ANNEX

Methodology and assumptions



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Assumptions and methodology

- The model considers the total number of full-time and part-time **English-domiciled first-year students that started undergraduate qualifications at any higher education institution in the UK in the 2022-23 academic year**. We use student data published by the Higher Education Statistics Agency (HESA, [here](#)) for 2022-23, which shows that there were **526,470 first-year undergraduate English domiciled students in the relevant cohort of interest** (see [next slide](#))¹. This **excludes students studying for institutional credits only**, as these students are typically not eligible for public funding.
- Part-time students are assumed to study at **50% full-time equivalence (FTE)**².
- The underlying analysis of loan repayment outcomes is undertaken separately by gender. Based on HESA information on English domiciled qualification completers (who graduated from institutions anywhere in the UK in 2022-23) by gender and qualification level ([here](#)), we assume the following **gender split**:

Qualification level	Full-time		Part-time	
	Male	Female	Male	Female
Other undergraduate	47%	53%	36%	64%
HNC/HND	46%	54%	83%	17%
Foundation Degree	24%	76%	32%	68%
First degree	40%	60%	43%	57%

- We assume the following **average age at enrolment** (based on HESA information³) and **average duration of qualification attainment** (by qualification level and study mode):

Qualification level	Age at enrolment		Study duration	
	Full-time	Part-time	Full-time	Part-time
Other undergraduate	29	34	1	2
HNC/HND	23	28	2	4
Foundation Degree	28	32	2	4
First degree	22	31	3	6

- Based on data published by the Office for Students ([here](#)), we assume an annual continuation rate of **89%** for full-time first degree students and **77%** for part-time first degree students. At sub-degree level, the assumptions stand at **80%** for full-time students and **83%** for part-time students. These percentages capture the proportion of students that were continuing in the study of an HE qualification (or had gained a qualification) approximately 1 year after they started their course (for full-time students who entered between 2019-20 and 2022-23) or 2 years after they started their course (for part-time students who entered between 2018-19 and 2021-22 - where we have assumed a constant drop-out rate each year to get to an assumed *annual* continuation rate). The continuation rate data covers UK domiciled students studying at HEIs and further education colleges located in England only.

¹ The analysis includes students studying at higher education institutions only (including alternative providers) but generally excludes students at further education colleges (except colleges based in Wales, which are included in the relevant HESA data - but there are only very few English domiciled students studying at these institutions, so the number is negligible).

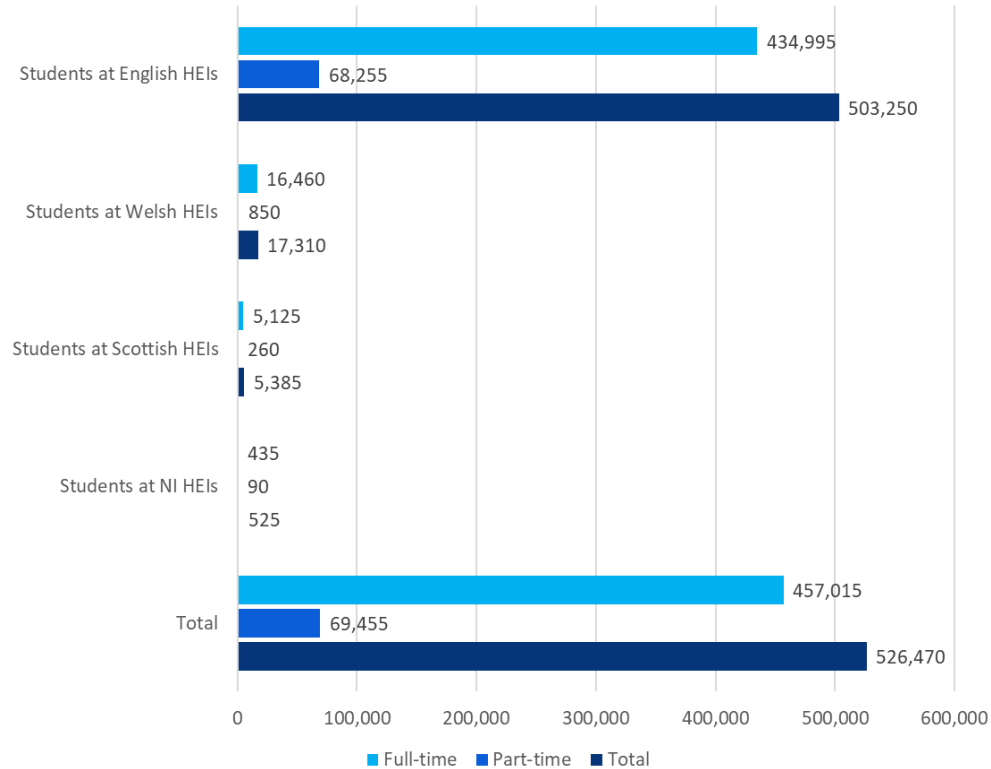
² Based on data provided to us by HESA on the average study intensity among all UK domiciled first-year part-time students studying anywhere in the UK in 2021-22 (separately by study level and again excluding students studying for credit only).

³ The assumptions in relation to the age at enrolment are based on data provided to us by HESA on the average age at enrolment among all UK domiciled first-year students starting HE qualifications anywhere in the UK in 2021-22 (separately by study level and mode).

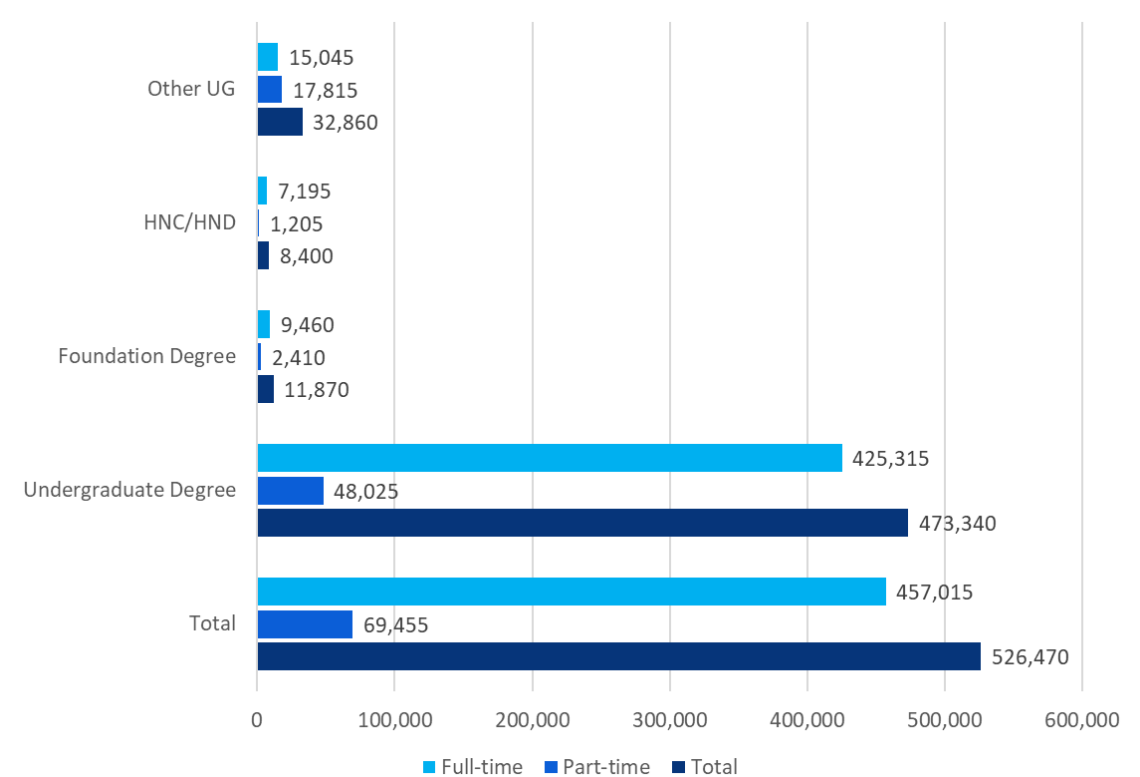
Assumptions and methodology

- The analysis is based on a total of 526,470 first-year undergraduate English-domiciled students studying anywhere in the UK:

By location of study and study mode



By study level and mode



Note: All student numbers are rounded to the nearest 5. The information is based on the 2022-23 academic year and generally includes students studying at higher education institutions only (excluding further education colleges, apart from a very small number of students studying at Welsh further education colleges), and excludes students studying for institutional credits at undergraduate level (i.e. students who are not studying for a qualification).

Source: London Economics' analysis based on data published by the Higher Education Statistics Agency ([here](#))

Assumptions and methodology

- The analysis assumes a **(gross) tuition fee charged** to English domiciled **full-time students studying anywhere in the UK** in 2022-23 of **£9,250**, and **£4,625** for part-time students (pro-rata, based on the corresponding full-time fee adjusted for part-time study intensity).
- The above fees constitute *gross* fees before the deduction of any fee waivers. In terms of these **fee waivers as well as other (non-fee) bursaries** provided to students, based on Office for Student data from its access and participation plans monitoring exercise in 2020-21 ([here](#)), according to institutions' access plans for 2022-23, we assume that approximately **0.3%** of the tuition fee charged in excess of the Basic Fee (of **£6,165** per annum in 2022-23 for full-time students) is handed back to students in the form of **fee waivers/bursaries**, with an additional **9.6%** provided through **maintenance bursaries**. Mirroring the household income thresholds associated with maintenance loans for English domiciled undergraduate students, we assume that these bursaries are only available to students with a household income of **£25,000** or less. In the absence of corresponding bursary data for RUK institutions, we assume that these bursaries available in England *also* apply to English domiciled students studying in **Wales, Scotland, and Northern Ireland**.
- We deduct the resulting estimated fee bursary/waiver from the above average fees per student per year (though note again that the relatively low estimated fee bursary per student only has a negligible impact on the assumed 'net' fee).
- We assume that both full-time and part-time students cover the resulting average net fees by taking out a (non-means-tested) **tuition fee loan** of the same amount from the Student Loans Company. Based on SLC data on student support provided to English students in 2022-23, we assume a **fee loan take-up rate of 95% for full-time students**¹ (i.e. that 95% of all full-time students in the relevant student body avail of this fee loan), and **43% for part-time students**.
- In terms of growth in subsequent academic years (where relevant), we set fees (and associated fee loans) to increase as announced by the UK government, to **£9,535** for English domiciled full-time undergraduate students studying anywhere in the UK in 2025-26, and then to **£9,790** and **£10,050** in 2026-27 and 2027-28, respectively (see [here](#)). We assume that fees for part-time undergraduate students will increase at the same rate, as these fees are calculated on a pro-rata basis relating to full-time tuition fees.



¹ The full-time take-up rate was calculated by dividing the number of English domiciled full-time undergraduate students in receipt of SLC fee loans in 2022-23 (i.e. *funded* students from SLC data, [here](#)) by the *total* number of English domiciled full-time undergraduate students studying at UK HEIs in 2022-23 (from HESA data, [here](#)). We undertook similar calculations for part-time students to estimate the part-time fee loan take-up rate.

Assumptions and methodology

- In terms of **maintenance funding**, under the funding system in 2022-23¹:
 - **Full-time students** living away from home outside of London (**LAFHOL**) were eligible for a maximum maintenance loan of **£9,706** (for household income **up to £25,000**), declining to a minimum of **£4,524** (for household income of **more than £62,311**). Students living away from home in London (**LAFHIL**) are eligible for a maximum loan of **£12,667** (for household income **up to £25,000**), declining to a minimum of **£6,308** (for household income of **more than £70,022**); and students living at home (**LAH**) are eligible for a maximum loan of **£8,171** (for household income **up to £25,000**), declining to a minimum of **£3,597** (for household income of more than **£58,253**).
 - **Part-time students** are eligible for the same maintenance loans as full-time students but on a pro-rata basis. For example, based on the assumed 50% study intensity, we assume that LAFHOL part-time students are eligible for a maximum maintenance loan of **£4,853** in 2022-23 (again for household income **up to £25,000**)).
- We have modelled full-time students' maintenance loan eligibility by **students' living conditions**. We calculate these estimates separately for students studying in England vs. in RUK, assuming that **100%** of RUK students live away from home outside of London (LAFHOL). For full-time students studying in England, we assume that **24%** are LAH students, **60%** are LAFHOL students, and the remaining **15%** are LAFHIL students². For part-time students studying in England, based on the same sources, we assume that **23%** are LAH students, **71%** are LAFHOL students, and the remaining **7%** are LAFHIL students.
- In terms of **maintenance loan take-up rates**, again based on SLC data on student support for English domiciled undergraduate students in 2022-23, we assume a **maintenance loan take-up rate of 93% for full-time students**, and **4% for part-time students**³.
- Students' eligibility for maintenance loans is based on their **household income**:
 - As there is no suitably granular information on students' household income levels available for English domiciled students, we combine the above-described household income thresholds with separate information from the Student Loans Company (SLC, [here](#)) on the distribution of *Welsh* domiciled undergraduate students by household income. Specifically, our assumptions are based on the proportion of Welsh domiciled students in receipt of full, partial, or nil maintenance grants from Student Finance Wales in 2022-23 (and the associated household income thresholds applicable to Welsh maintenance grants in that year) – separately for full-time students and part-time students.
 - As this information is based on Wales, we adjust the assumptions for differences in average household income between England and Wales. Specifically, we adjust the assumptions for the ratio of median gross weekly earnings in England vs. Wales, based on 2022 data from the Annual Survey of Hours and Earnings published by StatsWales ([here](#)).
- In terms of **growth over time**, we:
 - Assume that **students' household income** increases with UK-wide nominal average earnings growth in each year;
 - Use historical/current **maximum maintenance loan** amounts that applied to the cohort between the 2023-24 and 2025-26 academic years, and already announced future growth rates for the 2026-27 and 2027-28 academic years (see [here](#))⁴; and
 - Assume that the **household income thresholds associated with maintenance loans** (which have remained almost unchanged since 2016-17) remain constant in all years.

¹ For more information on the funding rates applicable to the 2022-23 cohort, see the Student Loans Company's Financial Memorandum for 2022-23 [here](#).

² The distribution of students across these different living conditions is based on information from the 2021-22 Student Income and Expenditure Survey for England (on the proportion of full-time students living at home vs. living away from home; [here](#)), combined with HESA data on the number of first-year English domiciled full-time undergraduate students living in London vs. elsewhere in the UK in 2022-23 ([here](#)).

³ The full-time take-up rate was calculated by dividing the number of English domiciled full-time undergraduate students in receipt of SLC maintenance loans in 2022-23 (i.e. *funded* students from SLC data, [here](#)) by the *total* number of English domiciled full-time undergraduate students studying at UK HEIs in 2022-23 (from HESA data, [here](#)). We undertook similar calculations for part-time students to estimate the (low) part-time maintenance loan take-up rate.

⁴ The increase in maintenance support for 2026-27 was announced in November 2025. At the same time, increases in tuition fees were announced for both 2026-27 and 2027-28 ([here](#)). As the increases in both maintenance support and tuition fees in 2026-27 are the same (in percentage terms), we assume that maintenance support will also increase at the same rate as tuition fees in 2027-28 (although this has not (yet) been officially announced).

Assumptions and methodology

Loan repayment terms

- In terms of student loan repayment terms, based on the Plan 2 loan repayment terms that would have applied for the 2022-23 cohort *before* the DfE's Augar response was announced (i.e. the 'Baseline' scenario modelled here):
 - Student loans accumulate interest of **3% + RPI during study, 0-3% + RPI** for earnings **between £27,295 and £49,130** post-graduation, and **3% + RPI** for earnings of **£49,130 or more**¹;
 - Loans are repaid at a rate of **9% of earnings above £27,295** per annum. This earnings threshold (and the above-mentioned higher interest rate threshold) is uprated with average earnings growth in each subsequent year (also see the [next slide](#) for more information); and
 - All loans are written off **30 years** from the Statutory Repayment Due Date (SRDD).
- Our assumptions in relation to loan repayment terms under **Scenarios 1 to 4** are outlined in more detail throughout the main slides above ([here](#) and [here](#)).

Calculating the RAB

- We use the following equation to calculate the RAB charge:

$$RAB\ charge = \frac{NPV\ loan\ outlay - NPV\ repayments}{NPV\ loan\ outlay}$$

- The RAB charge is therefore calculated based on the net present value (i.e. discounted value) of the aggregate loan outlay provided to students in the 2022-23 cohort over the course of their studies (i.e. in total throughout all years of study), as well as the net present value of the total estimated loan repayments expected to be made by these students after they graduate.
- The assumed underlying discount rates are outlined on the net slide.



Assumptions and methodology

- We use OBR outturn data and medium- and long-term forecasts in relation to the actual and expected **RPI** per annum and **nominal average earnings growth** per annum (see [here](#) (for outturn data and medium-term projections from the OBR's March 2026 Economic and Fiscal Outlook) and [here](#) (for long-term projections from the OBR's March 2025 Economic and Fiscal Outlook; these are the most recent long-term forecasts that are currently available from the OBR)).
- Loan interest rates:** The **loan interest rate** is usually set in September each year, based on up to 3% plus the RPI¹ of *March in that same year* (e.g. the September 2025 interest rate would be based on March 2025 RPI). Interest rates up to the 2025-26 academic year are based on previously applied interest rates for Plan 2 loans (see [here](#)). For subsequent academic years, we use the forecast RPI for the corresponding *first quarter* (January to March) of each year from the OBR's medium-term projections (e.g. we use forecasts for Q1 2026 for the assumed interest rate in 2026-27), and the *annual figure* for the corresponding previous financial year from the long-term projections (e.g. we use forecasts for financial year 2031-32 for the assumed interest rate in 2032-33)².
- Repayment and interest rate threshold uprating:** Under the baseline scenario, we uprate the loan repayment threshold and upper interest rate threshold in line with nominal average earnings growth. Specifically, we assume that these thresholds would have increased in April each year in line with average earnings growth in the year to the *previous March* (aligning with the Government's approach in previous years). For example, we assume that the threshold in 2023-24 would have increased in line with earnings growth up to Q1 2022. We follow a similar approach when uprating these thresholds in line with RPI under Scenario 1 to Scenario 4.
- Discount rates:** In terms of discount rates used for **the estimation of aggregate financial flows across the cohort and to calculate the RAB charge** (which is based on expected loan repayments and loan outlay in NPV terms in constant prices, see [above](#)), we assume a discount rate of **-1.30% + RPI** up to and including 2029-30, and **-0.20% + RPI** from 2030-31 onwards. These rates are based on official HM Treasury discount rates for financial instruments to be applied as of 31st March 2023 (see [here](#) and [here](#)). This follows the same approach used by the Department for Education in its forecasts of the RAB charge and the associated long-run cost of student loans ([here](#)); however, here, we apply the discount rates that applied when these loans were first provided (i.e. 2022-23) rather than the *current* HM Treasury discount rates as of March 2026.
- Importantly, these real discount rates are often lower than the actual long-term real Government cost of borrowing** (i.e. Government Gilt yields), since the official discount rates applied to student loans predominantly reflect *historical* rather than current Gilt yields (e.g. see a report by the Institute for Fiscal Studies ([here](#))). This results in a significant *underestimation* of the true Exchequer cost of providing student loans, and, therefore, an effective implicit public subsidy for these loans. While our use of the above discount rates reflects the Government's own approach to measuring the cost of student loans, this constitutes a key caveat associated with our estimates, as further discussed below (see [this slide](#)).

¹ Note that the Retail Price Index will be effectively abolished from 2030 onwards, after which it will equal the (lower) measure of Consumer Price Index inflation.

² Note that the analysis here does not incorporate the recently announced interest cap at 6% for Plan 2 borrowers that will apply for the 2026-27 academic year ([here](#)), but this is expected to potentially only have a relatively small impact on graduates.

Assumptions and methodology

- As outlined above, the analysis focuses on **English domiciled students in the 2022-23 cohort studying at higher education institutions anywhere in the UK**. Therefore, the estimated level of Teaching Grant funding associated with the cohort includes Teaching Grants paid to **English HEIs** (by the Office for Students) and **Welsh HEIs** (by the Commission for Tertiary Education and Research (now Medr)).
- In contrast, English students studying in **Scotland** and **Northern Ireland** typically do not attract any Teaching Grant funding (from the Scottish Funding Council and the Department for the Economy Northern Ireland, respectively). This is because these students are charged much higher tuition fees as compared to ‘home’ students studying in Scotland and Northern Ireland, so that the Teaching Grants paid to HEIs by the respective HE funding bodies in these Home Nations generally apply to ‘home’ domiciled students only.
- The average Recurrent Teaching Grant per student studying in **England** is derived by combining information on the high-cost subject funding rate per FTE student by subject band in 2022-23 with information on the distribution of students by subject band (both published by the Office for Students, [here](#)), as follows:

Subject band	Funding per FTE, £	% of FTE students
Band A	£10,580	3%
Band B	£1,587	21%
Band C1.1	£265	10%
Band C1.2	£126	11%
Band C2	-	18%
Band D	-	37%
Total	-	100%

Resulting average per FTE	£650
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- We then combine this with the average other funding allocations per student in England (of **£365** per FTE, including other funding for high-cost courses, funding for student success and access, and funding for specialist providers¹). The resulting total average Teaching Grant per full-time student studying in **England** was estimated at approximately **£1,015** per year. Based on the assumed average study intensity, the corresponding average funding per part-time student was estimated at **£505**.
- To estimate the average level of Teaching Grant per student per year for students studying in **Wales**, we use HESA financial data ([here](#)) and student data ([here](#)) for the 2022-23 academic year. We divide the total Recurrent Teaching Grant income received by institutions in Wales by the total number of relevant students to whom these Teaching Grants typically apply. In other words, we exclude any non-UK domiciled students² and any higher degree (research) students, since it is assumed that there is no Teaching Grant funding paid for these students. We again adjusted for the assumed average study intensity among full-time students vs. part-time students, to arrive at separate rates of Teaching Grant funding per student per year by study mode.
- Using this approach, we assume the following **average Teaching Grant funding rates per student per year** in other Home Nations (rounded to the nearest £10):

Study location	Full-time	Part-time
Wales	£520	£260
Scotland	-	-
Northern Ireland	-	-

- We use published Office for Students funding allocations for the 2023-24 to 2025-26 academic years to calculate growth rates in these Teaching Grants over time. For simplicity, we apply the same growth rate to Teaching Grants in Wales. After 2025-26, we assume that these Teaching Grant funding rates do *not* increase further.

¹ This was derived by dividing the total level of funding across these categories (**£474 million**) by the total number of OfS-fundable FTEs (ca. **1.30 million FTEs**, including fundable undergraduate and post-graduate taught students)

² Some EU domiciled students may still be covered by Teaching Grant funding (e.g. if they started their course in 2020-21 or before), but, for simplicity, we assume that this funding does not cover any EU domiciled students (given the significant changes to funding rules for EU students post-Brexit).

Assumptions and methodology

- The estimation of student loan outcomes (such as the RAB charge) relies on **forecasting the student cohort’s predicted lifetime earnings** by qualification level (again broken down into first degrees, Foundation Degrees, HNCs/HNDs and other undergraduate qualifications), gender, study mode, and lifetime income decile. To estimate these lifetime earnings profiles, we make use of **pooled UK Quarterly Labour Force Survey (LFS) data for the period 2011 Q1 to 2025 Q4**, combined with information from the **1970 British Cohort Study (BCS)** (which follows a cohort of individuals born in a single week of April 1970 (in England, Wales, and Scotland), with the most recent data available for age 51 of the cohort).
- Using the **Labour Force Survey** data, we first assessed the annual salaries of individuals in possession of each of the different higher education qualifications¹ (expressed in June 2022 values, inflated/deflated using average weekly earnings growth data). For each type of qualification, the earnings were assessed separately by income decile (including the 1st to 9th income deciles and the 95th percentile²), gender, and age (for first degrees) or age band (for qualifications below degree level (due to sample size)). To generate ‘smoothed’ age-earnings profiles for sub-degree qualifications, the original results by age band were assigned to the mid-point of the given band (e.g. age 28 for age band 26-30), and we then assumed constant annual growth between two given mid-points (e.g. we assumed constant annual growth between age 28 (the mid-point of band 26-30) and 33 (the mid-point for band 31-35)).
- To assess the expected loan repayments for part-time students specifically (who typically start repaying their loans *during study*), we further calculated earnings by decile (and the 95th percentile) for individuals in possession of Level 3 qualifications as their highest level of attainment (used as part-time students’ assumed earnings during study), again separately by age and gender.
- The LFS analysis provided us with earnings estimates by decile (and qualification level, mode, and gender), where the earnings deciles are defined *at each individual age* (e.g. the 1st decile at age 30 means that 10% of individuals in the data have earnings smaller than or equal to the given earnings *at that age*). However, to take account of graduates’ income mobility over their lifetime (i.e. the extent to which graduates move across the income distribution over time), we then **combined the LFS results with an analysis of data from the BCS** (focusing on data for ages 26 to 51 of the 1970 cohort) to generate **age-earnings profiles by lifetime earnings decile**.
- Specifically, based on weekly earnings information available within the BCS data, we again divided individuals within the distribution into 10 income deciles *at each individual age* observed in the study³. Again, the analysis was undertaken separately by gender and qualification level attained, where we distinguished between individuals in possession of first degrees vs. all other undergraduate qualifications (note that a further disaggregation into different types of sub-degree qualifications was not possible within the BCS data).
- From the LFS analysis, we then imported the estimated annual earnings value (in June 2022 prices) corresponding to each age and income decile (again separately by qualification level⁴).

¹ This includes all individuals in possession of the given qualification, *irrespective of* whether that qualification was their highest educational attainment or not (e.g. the average earnings for individuals in possession of first degrees includes individuals who subsequently completed a Master and/or Doctorate degree).

² The 95th percentile here was used to approximate the earnings for individuals on the 10th decile (i.e. rather than using the actual value for the 10th (i.e. 100th percentile) within the LFS data, since this captures the maximum earnings value observed in the data in each instance and is likely to include significant outliers).

³ Note that the BCS data is not available for each separate age but is instead based on multiple ‘sweeps’ of data collections undertaken at specific ages for the cohort (e.g. age 26, 30, 34, 38, 42, 46 and 51; see [here](#) for more information). We assume here that individuals stay in the same decile between two sweeps (and stay in the last recorded decile after the age of 51). In addition, to boost sample size, imputation was undertaken in case of a respondent not being available at a given age (or missing information more generally).

⁴ Again, separately for first degrees, Foundation Degrees, HNCs/HNDs, and other undergraduate qualifications.

Assumptions and methodology

Graduate earnings

- Using the merged LFS/BCS data, we then computed the lifetime earnings for each individual within the data, based on the sum of annual earnings between the assumed first year post-graduation for our relevant cohort of students (i.e. the age at completion for each given qualification (e.g. age 25 for full-time first degrees)¹) and the assumed age of retirement (68). This allowed us to assign each individual to a *lifetime* earnings decile (again by gender and qualification level).
- Finally, for each single year of age, we then computed the **average earnings among all individuals within the specific lifetime earnings decile** (e.g. the average earnings at age 30 among individuals in the 1st lifetime earnings decile), i.e. we generated age-earnings profiles by lifetime decile (for each gender and qualification). We then further ‘smoothed’ these age-earnings profiles using 3-year rolling averages.

Graduate employment probabilities

- Again using LFS data, we also calculated the **employment rate** (i.e. the proportion of individuals in employment) for individuals in possession of the different qualification levels of interest, by age/age band, and gender.
- To reflect the fact that the age of retirement is planned to be increased to age 68 (compared to 65 for most respondents in the historical LFS data), we assume that the trend in employment rates observed from the age of 55 onwards will reflect the trend currently observed from age 52 onwards (in other words, the analysis ‘shifts’ the decline in employment rates due to approaching the age of retirement back by 3 years). As a result, the decline in employment rates occurs at a slower rate than what is observed in the historical LFS data², so that our estimated employment rates at age 68 are in line with what is currently observed at age 65.
- Combining the resulting age-earnings and age-employment profiles, we then estimate the employment-adjusted annual age-earnings profiles of individuals in possession of each qualification, by study mode, gender, and lifetime earnings decile. We adjust these age-earnings profiles for expected future growth, i.e. to account for the fact that earnings are expected to increase over time** (using the above-mentioned Office for Budget Responsibility forecasts of average nominal earnings growth per year (see [this slide](#))).

¹ See [this slide](#) for more information on the assumed age at graduation by qualification level and mode among the 2022-23 student cohort.

² We use a 2-year annualised change to determine these new rates of decline (to provide a smoother evolution).

Assumptions and methodology

- Our modelling is based on a range of key simplifying assumptions to avoid excessive complexity and to keep the analysis flexible and tractable. Therefore, our modelling is subject to **several key limitations and caveats**:
 - The analysis is based on estimated (employment-adjusted) average lifetime earnings profiles across a range of different groups of graduates (estimated separately by gender, age, qualification level, mode of study, and lifetime earnings decile), which are necessary to allow us to estimate graduates' expected lifetime loan repayments under each scenario. These estimates are highly uncertain, and rely on (and are sensitive to) forecasts of average earnings growth and inflation many years into the future.
 - We implicitly assume that, aside from any changes modelled under the different scenarios here, there will be no change in HE fees and funding policy for many decades into the future (e.g. aside from any changes modelled here, we assume that there will be no further change in repayment terms for the relevant cohort going forward).
 - We also assume that the HE funding system (including loan repayment conditions) does *not* affect graduates' gross lifetime earnings.
 - To avoid excessive complexity, our estimates of graduates' lifetime loan repayments do *not* adjust for potential graduate income from investments; early or voluntary repayments; early loan cancellation (e.g. due to death or disability); or loan repayments by drop-outs.

- **Another important caveat relates to our use of official discount rates to estimate the cost of student loans.** As noted [above](#), the official HM Treasury discount rates applied by the DfE to estimate the RAB charge and the long-run cost of student loans are currently substantially lower than the current Government cost of borrowing.

Specifically, as detailed in a 2024 report by the Institute for Fiscal Studies (IFS, [here](#)):

“If the government can borrow at a lower rate of interest than the interest it charges on student loans, then borrowing to lend money to a student who goes on to repay the loan in full will be a profitable transaction for the government (because the interest it pays on its extra borrowing is more than offset by the interest it receives from the student). When the opposite is true, the transaction is loss-making: it becomes costly for the government to provide student loans even to those students who go on to repay them in full, because the interest costs on the government’s borrowing exceed the interest payments received from the student.”

Hypothetically, in the calculation of the long-run Exchequer cost of student loans, the Government’s borrowing costs are accounted for through the discount rate, which determines the effective value of expected future repayments relative to the up-front loan outlay (and a higher discount rate means that future repayments are valued less). However, the HMT discount rates used by the DfE to produce its official student loan statistics are much lower than the current long-term Government cost of borrowing (measured by long-term gilt yields), since the official discount rates reflect *historical* (as opposed to current) gilt yields.

All of this implies that the DfE’s official statistics for England likely *understate* the true cost of student loans to the Exchequer. Since we use the same HMT discount rates for consistency with the Government’s own official student loan calculations, the same applies to our estimates here.