Student Loan Scheme

Comments on Assumptions:

1. Average Cost of University

There are two surveys carried out in relation to the costs of going to higher education – the Credit Union survey which is used in these costings and the DIT Cost of Living Guide (http://www.dit.ie/news/archive2015/latest/title,112385,en.html). It should be noted that there was a more recent survey by the Credit Union in 2015 - http://www.creditunion.ie/communications/pressreleases/2015/title,9335,en.php which has more up-to-date figures. The Department does not have any involvement in these surveys and can't verify their findings.

The figures used in the costing refers to the average cost that parents are contributing to cover the costs of college. This is not the full cost, which in the latest Credit Union survey was estimated at €1,033 euro per month for those living away from home and €474 per month for those living at home. The cost contributed by parents will already have netted out the amount being contributed by student grants – so the basis for using this figure is unclear.

The DIT figures are €1,220 and €787 respectively (this includes the student contribution).The approach used in the costings does not take account of the different costs involved for students in the adjacent and non-adjacent categories i.e. accommodation. It is likely that the requirements are over-estimated in the case of some students and under-estimated for others.

The cost involved in participating in higher education and the level of support that should be provided by Government via grants or loans is a policy decision and as such it would be inappropriate to comment on the level of assistance proposed. However, the general approach of setting a ceiling of maintenance support provided and the proportion of that that is made up between grants and loans is valid and consistent with the approach in England. For the purposes of verifying these costings, we have used the figures presented in the proposal. This does not in any way confirm any validation of the costs etc.

2. Take-up rate of loans

While difficult to predict with any certainty given the novel nature of a student loan scheme in Ireland, it is advised that the take-up rates are likely to be on the low side. Other countries can be used as a guide. In the case of tuition loans – the take up rates in England, Australia and the Netherlands are 90%, 85% and 60% respectively. In the case of countries with maintenance loans – 50% of students avail of these in Denmark and 40% in Finland. In the table provided higher take-up rates are used – 60% for students eligible to pay the student contribution and 30% for those in receipt of maintenance payments. These should be viewed as conservative.

3. Schedule of Loan Repayments

The costing of repayments is very complex and requires detailed econometric modelling of graduate salaries and is dependent on a range of parameters including the level of loan, the income threshold, the repayment rate, and interest rates charged on loans. The cost to the State is also dependent on the discount rate applied and the interest paid by the State on borrowings.

While the Department has been engaged in some modelling work as part of the considerations of the Expert Group on Future Funding for Higher Education, these are only preliminary and it is not possible to fully model the specific arrangements set out in the proposal in the time available.

The following should assist however:

- It would appear that the monthly repayments assumed in the costings have been derived on the basis of a fixed term loan – ie the average monthly repayments if the term is set at 10 and 15 years. However, the proposal is for income-contingent repayments. This will result in much lower monthly repayments in initial years and higher repayments in later years as incomes rise. As a general guide, preliminary modelling suggests that average monthly repayments on a €16,000 loan at 8% repayment rate would be around €100, but would be only around €50 in earlier years and would take 13-15 years to pay back. While more sophisticated costing would be required, the monthly repayment rates for graduates cited in the proposal are likely to be within reason.
- The level of impaired loans is dependent on the parameters set out above and will be a matter of policy. The rate of 18% used is within the range experienced internationally, and what has come through from initial modelling in the Irish context. As outlined in the proposal – this will be written off in Government accounts at the time the loan issued so is an upfront current cost.
- Again, the repayment profile of the overall loan book is complex and it has not been possible to model this. However, from preliminary modelling loan repayments are quite slow in the initial years – typically it would be expected that only around 20% of loans issued in any given year would be repaid back in the first 5 years after graduation of that cohort. For the basis of this costing request – repayments up to 2021 will be minimal.

4. Public Borrowing Requirement

It is advised that the level of demand for loans is underestimated in the proposal. This arises from a number of factors. On the undergraduate side this mainly relates to assumptions made in relation to the take-up of loans. While difficult to predict, behaviour in countries with student loans would suggest that take up rates will be higher. The most significant under-estimation is on the postgraduate side where the number of new entrants in 2017 is significantly under-estimated. It is advised that the take-up rate is also likely to be higher than proposed.

As highlighted earlier, the level of loan to be made available is a policy matter and the Department is not making any comment on the amounts proposed aside from factual clarifications set out above. Costings have been based on loan levels in the proposal. Based on this and the assumptions set out above – the likely loan outlays in year 1 are estimated in the region of €190 million (€90 million for UGs and €100 million for PGs), rising to €490 million in year 4 when all students are included, and €630 million by 2030 as a result of demographics.

The annual outlay outlined in the proposal is incorrect. Aside from the 2017 figure being underestimated as outlined below, what happens in 2018 onwards is incorrectly presented. For

undergraduates – there will be one year of students in 2017, 2 years in 2018, 3 years in 2019 and 3.5 years in 2020 (half of UG courses are 3 year in duration). This will be the steady state of loan outlays each year – apart from demographic increases. This is set out in the attached spreadsheet. Repayments are relatively slow so the cumulative loan book will be growing significantly in early years.

Summary of Costings:

- Based on assumptions and caveats set out above – the likely annual loan outlays in year 1 are estimated in the region of €190 million (€90 million for UGs and €100 million for PGs), rising to €490 million in year 4 when all students are included, and €630 million by 2030 as a result of demographics.
- Based on this level of loans, the current cost of this in 2017 would be €38 million, rising to over €100 million in 2021.