Keep your degree debt down

For many students, the biggest university challenge is avoiding a mountain of debt. We explain how you can help reduce your children's debts

When Which? started in 1957, only about 2 per cent of under-30s went into higher education. Fifty years on, and 43 per cent of 17- to 30-year-olds are going to university and the figure is rising year on year.

Going to university is one of the biggest financial outlays most people face, with the cost of funding a degree course being upwards of £36,000. And that's not including the possible loss of earnings for the duration of the course. However, with planning, this needn't be prohibitive.

A Which? survey of 2,677 members in March 2007 revealed that just over three quarters of parents intend to part fund their child at university. We examine just how much it is to go to university and what you can do to keep the debts down without harming your own finances.

PHOTOGRAPHY MIKE TAYLOR

MAKING ALLOWANCES

Mark and Claire Cooper, *50 and 46*

IT specialist and midwife

Mark and Claire intend to help their daughters, Freja, 18, and Heather, 16, through university. Mark and Claire will give Freja a weekly allowance of £30 to £40 to cover her expenses. Also, she will get a part-time job at university, and return to her current job during holidays. They are hoping that this allowance plus her job will cover the majority of the shortfall.

Mark says: 'We don't want either girls leaving university in debt, but it seems inevitable. Thankfully student loan repayments don't start until a minimum income is reached and the repayments are capped. This should mean the loan becomes more affordable.'

Money matters

The various costs at university – from rent to travel – soon mount up, with expenses such as insurance, food and books all having to be taken into account (for more, see 'How much a year at university costs', p19).

Tuition fees top the list of expenses (unless you study in London, where average rent is top of the costs). In 2007-08, English universities can charge tuition fees of up to £3,070. The same is true of Northern Irish universities. Welsh students studying in Wales also pay the same but they get a non-repayable fee grant of up to £1,845. This leaves them with £1,225 to pay each year. In all cases, tuition fees must be paid before courses commence.

In England, Wales and Northern Ireland, low-interest loans for full-time undergraduates are available to cover tuition fees and living expenses. Tuition fee loans are paid directly to the university by the Student Loans Company, so students aren't involved in the transaction. Scottish universities have a completely different funding structure (see 'North of the border', p18).

Loans for living, not for life

In addition to tuition fee loans, there are loans for living costs. These are the best bet for anyone who wants to keep outgoings down, and they should not be seen in the same way as other types of debt. Like a mortgage, loans will be a necessity for most. Unlike a mortgage, the interest rates are set at the rate of inflation, and adjusted each year. The rate is currently set at around 2.5 per cent and students don't start repaying the loans until they've left university and are earning more than £15,000.

The loan amount provided for living expenses depends on whether your child will be living at home (up to £3,495), away (up to £4,510) or away in London (up to £6,315). Up to a quarter of the maximum loan amount depends on your household income, with the rest being available to all students. All students should consider taking out student loans, even if they just put them in a high-interest account until they're needed. Using government money should be more economical than drawing on other investments.

There is a host of schemes that can help limit the debt shortfall

AT THE SHARP END

Sue Edwards, *46, school finance officer*

Sue and her husband Steve were delighted when their son Owen, 18, was offered a place at Nottingham, his first-choice university. They were less happy when they discovered how expensive it would be.

Sue says: 'I was really taken aback by how much university costs. We have some savings but not enough to cover Owen's university expenses. Our daughter Faye, 16, also plans to go to university and while we want to encourage our children to further their education, the expense involved is a major worry.'

Sue told us that she and her husband plan to open a cash Isa and are also considering National Savings & Investments schemes. They intend to give Owen an allowance and will do the same for Faye when she goes to university.

Grants, bursaries and awards

Some students will be eligible for these entitlements. Between 2006-08, those from English households with an annual income of less than £38,330 can get a grant of up to £2,765. Amounts vary depending on household income – a full grant would be available only to those earning less than £17,910 a year. Northern Ireland is similar but the grant is up to £3,265.

Welsh students are entitled to an assembly learning grant, from £450 up to £1,500, where household income is up to £16,830. In addition, some may get bursaries if they are on state support or registered disabled. Details of awards can be found on university websites or, for England, visit the Bursary Map website.

Applications

To establish your son or daughter's eligibility for funding you must fill in form PN1, which you can get from schools, colleges, via www.studentsupportdirect.co.uk or your local education authority. If you've missed the end of June deadline, you can still apply but the funds may not be ready before your child starts. This can present problems, not only in relation to food and lodgings, which the NUS estimates at more than £4,000 a year, but also with tuition fees.

Shortfall

If you tot up all the outgoings and take away the loans and entitlements, your child will probably be left with a shortfall of about £20,000 at the end of their studies. This represents the critical amount that needs to be saved. Both you and your child can limit this shortfall – there's a host of saving and investment schemes to help make up the shortfall, regardless of your child's age (see 'Nursery', 'School age' and 'Sixth form', opposite).

While at university, your children can help by planning their finances, too. We'll be focusing on this in the student money makeover in our next issue.

NORTH OF THE BORDER

We explain how funding works differently in Scotland

The payment structure in Scotland is different from the rest of the UK. Scottish residents attending full-time courses at Scottish universities pay a one-off fee, currently £2,289. Students can take out a loan, with interest tied to inflation, to cover this outlay. This may be scrapped in favour of free university education from 2009. Non-Scottish residents must pay £1,700 for each year of their course, which typically runs for four years. Medical degrees cost £2,700 a year. Partly income-assessed living costs loans are available to cover these outlays.

Nursery

If you want to start early

The ideal time to begin saving for a child's university education is soon after birth.

The starting point for parents with babies and toddlers should be the child trust fund (CTF). Children born on or after 1 September 2002 are entitled to a voucher worth £250, rising to £500 for low-income families, to start their account. There is an additional government contribution of £250 (£500 for low-income families) when the child reaches seven years old. Parents, friends and relatives can add up to £1,200 to the fund each year, until the fund matures when the child reaches 18.

There are three types of CTF – cash, shares and stakeholder funds. Stakeholder funds are share-based investment schemes with capped charges. They are required to ensure the risk is spread over a range of companies, with the investment being moved to safer schemes once the child reaches 13. Share and cash CTFs operate in a similar way to share and cash Isas. Many of the big banks and building societies, as well as other financial service providers, offer CTFs, so it is worth shopping around for the best deal (for Best Buys, see 'Money monitor', p26).

The range of potential savings and investment vehicles is vast, from safe National Savings & Investments (NS&I) products and cash Isas to riskier, share-based schemes.

School age

Encourage kids to save

If your child is in the younger years at school and you are prepared to take some risks, stock market-based investments could prove a good starting point, yielding potentially greater returns in the long run than cash.

Products worth considering include unit trusts or open-ended investment companies (Oeics), which are funds in which savers' money is pooled and invested across a range of stocks and shares. Stocks-and-shares Isas are essentially tax-free 'wrappers' into which you can put collective investments, including unit trusts and Oeics.

As your child grows older and university looms, it is wise to start moving money out of stocks and shares and into safer schemes; otherwise, you run the risk of seeing your investment wiped out by a downturn in the markets.

You should also think about children's savings accounts. You can set these up in their name, so encouraging them to foster a responsible approach to saving. These accounts often come with useful goodies such as moneyboxes and calculators. An account book is also provided, so that your child can watch the amount of money grow and get into the saving habit. Children's savings accounts are ideal ways for parents and grandparents to boost their child's funds (for more, see 'Money monitor', p26).

PHOTOGRAPHY SIMON WRIGHT, JOHN TRENHOLM, SUPERSTOCK, GETTY IMAGES

How much a year at university costs

Breakdown of average annual expenses for 2006-07

LIVING COSTS

	Inside London	Outside London
RENT	£3,587	£2,689
INSURANCE	£78	£34
FOOD	£1,967	£1,578
HOUSEHOLD GOODS	£299	£277
LEISURE	£1,206	£1,191
PERSONAL ITEMS	£2,391	£1,876
TRAVEL[c]	£1,128	£1,125

LIVING COSTS SUB TOTAL
Inside London **£10,656**
Outside London **£8,770**

COURSE COSTS

	Inside London	Outside London
BOOKS, EQUIPMENT ETC	£450	£450
TRAVEL[a]	£493	£385
TUITION FEES	£3,000	£3,000[b]
OTHER FEES	£14	£14

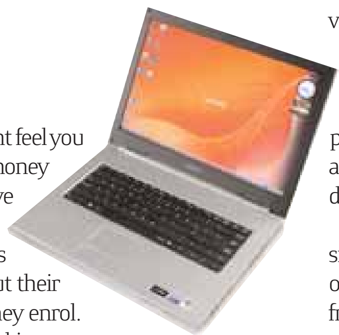
COURSE COSTS SUB TOTAL
Inside London **£3,957**
Outside London **£3,849**

TOTAL COST Inside London **£14,613** Outside London **£12,619**
POTENTIAL INCOME[d] Inside London **£7,627** Outside London **£6,304**
SHORTFALL (the debt you need to limit) Inside London **£6,986** Outside London **£6,315**

Source: National Union of Students
a To and from university and field trips
b Does not include Scotland
c Other travel including holidays
d Includes tuition fee loan, living cost loan and maintenance grant (if given)

Sixth form

It's not too late to help



If your child is approaching school leaving age you might feel you have missed the boat. Not so. You could free up some money by reorganising your finances. For instance, if you have £3,000 in savings (or £3,600 from April 2008), you should consider placing it in a tax-free cash Isa. This ongoing investment will help your children throughout their studies, even if the money might not be there when they enrol.

If you don't have savings, you might contemplate unlocking some of the equity in your home. Further advances from your mortgage provider and remortgages are possible. However, try to borrow only what you need to cover a specific purpose, such as a term's rent or to provide an allowance. If you don't, you may find yourself dipping into your equity to fund other, non-essential purchases.

Current account and offset mortgages, such as the Royal Bank of Scotland's One Account, are probably better options, as they provide a flexible means of borrowing up to an agreed sum. These bring your savings and debts into one place, making managing your money easier. Interest earned on current and savings accounts is credited against that charged on borrowings. Some providers such as Newcastle Building Society, offer family offset accounts, allowing parents to balance savings against their children's debts.

One in five respondents to the Which? survey said they'd consider buying property for their child to live in at university. This option would reduce their living expenses, and the rental revenue from other lodgers would help cover the mortgage.

Alternatively, you could draw on your own earnings. If so, it may be better to spread payments, perhaps via a standing order, rather than handing over a lump sum. This will help your kids to budget.

Contacts

Bursary Map
www.bursarymap.direct.gov.uk
Child Trust Funds
0845 302 1470; www.childtrustfund.gov.uk
Universities and Colleges Admissions Service
0870 112 2211; www.ucas.com
Student Awards Agency for Scotland
0845 111 0241; www.saas.gov.uk
National Union of Students
020 7380 6600; www.nusonline.co.uk