DOCUMENT RESUME

ED 451 372 CE 081 518

AUTHOR	Fletcher, Mick
TITLE	Lifelong Learning: Is There a Logic for Loans? The Agency Reports.
INSTITUTION	Learning and Skills Development Agency, London (England).
ISBN	ISBN-1-85338-645-6
PUB DATE	2001-00-00
NOTE	13p.
AVAILABLE FROM	Learning and Skills Development Agency, 3 Citadel Place, Tinworth Street, London SE11 5EF, England, United Kingdom Tel: 020 7840 5443; Fax: 020 7840 5401; Web site: http://www.LSagency.org.uk.
PUB TYPE	Opinion Papers (120)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	Academic Education; Colleges; *Cost Effectiveness; Debt (Financial); Education Work Relationship; Educational Benefits; Educational Finance; Educational Policy; Feasibility Studies; Financial Needs; Financial Support; Foreign Countries; Income Contingent Loans; Instructional Student Costs; *Lifelong Learning; Money Management; Noninstructional Student Costs; *Outcomes of Education; *Paying for College; Policy Formation; Postsecondary Education; Public Policy; Student Attitudes; Student Financial Aid; *Student Loan Programs; Universities; Vocational Education
IDENTIFIERS	*England; Individual Learning Accounts (United Kingdom); *Return on Investment

ABSTRACT

This document explores the feasibility of loans to support English adults engaging in lifelong learning. The following topics are considered: (1) the policy context (loans in higher education, individual learning accounts, and education maintenance allowances); (2) the need for financial support; (3) attitudes toward loans; (3) financial advice, financial literacy, and knowledge about the impact of debt; (4) the returns on investment in academic and vocational learning; and (5) the costs of participation. The following conclusions are reached: (1) it seems unlikely that loans will have any role in supporting students under the age of 19; (2) it is doubtful whether loans should play a significant role in supporting learners to access programs below level 3; (3) for programs at level 3 or above, the evidence about returns on investment suggests that borrowing to finance learning could be to an individual's benefit; (4) current fees in public sector part-time courses are well below the rate at which potential students seem to look to formal loan arrangements; and (5) loans would be most likely to contribute to lifelong learning in circumstances where a combination of fees and other participation costs is substantial and the program offers the prospect of high returns to students. (MN)

learning and skills development agency

the agency reports

Lifelong learning
Is there a logic for loans?

Mick Fletcher

Published by the
Learning and Skills Development Agency

Feedback should be sent to
Information Services,
Learning and Skills Development Agency,
3 Citadel Place, Tinworth Street, London SE11 5EF
Tel 020 7962 1066 Fax 020 7840 5401
www.LSagency.org.uk

Registered with the Charity Commissioners

Editors: Penny Rogers and Manjinder Sidhu
Designers: Dave Shaw and Joel Quartey
Printer: Copyprint Ltd, London

ISBN 1 85338 645 6

Note
FEDA is now known as the Learning and Skills Development Agency.

Contents

Introduction

While student loans are now an established feature of the educational landscape, and the subject of some serious political controversy, much less has been heard about loans outside higher education. Career development loans (CDLs) have been around for some time but have aroused neither great interest nor political passion. The financial problems of many students in further education have been increasingly well documented in recent years but loans have not figured highly among proposed solutions. The pilot schemes of individual learning accounts (ILAs) have focused on linking government funding to individual contributions rather than exploring their potential to support borrowing to learn.

There are, however, signs that this is about to change. The second recommendation of the third report of the National Skills Task Force was that loans should be available to help adults cover the costs of further learning: 'A new system of income contingent loans, together with high quality advice and guidance services, should be made available to adult learners pursuing recognised qualifications.' In responding to the task force, David Blunkett asked Derek Wanless to lead a review of the funding of adult learning. Loans for lifelong learning seem to be on the agenda at last.

The aim of this report is to help identify what role there might be for loans in lifelong learning. It summarises what we know about the need for loans, their acceptability to different users and the prospects for an effective system of operation. In doing so it helps to identify what further work needs to be done before concrete proposals for a system of loans can be developed.

The policy context

The overall policy context is set out in the government consultation paper The learning age. It identifies the need for a substantial increase in investment in education and training but also stresses the fact that public resources are limited. The paper highlights the need for individuals and employers to take on more responsibility for financing learning and suggests targeting public subsidy on the most needy and those without basic skills. In general: 'individuals should invest in their own learning' and 'the Government role will be to provide incentives'.

Individuals and employers should invest, it is argued, because they stand to benefit from investing in learning. This argument has already been deployed in respect of higher education. The possession of a degree confers a considerable earnings premium on individuals; it is therefore maintained that it is both right that they should contribute to the costs and patently practicable for them to do so. A third argument for seeking increased contributions from students is that it is seen as helping to reinforce efficient behaviour; students who pay are less likely to study for longer than is necessary.

Loans in higher education

Loans in higher education have served to cushion the effect of increased student contributions to both the costs of tuition and living expenses. They have not been an unqualified success – opposition particularly in Scotland has been strong – and there have been concerns about their impact on the participation of mature students and those from disadvantaged backgrounds. Nevertheless, demand from young people for higher education places has continued to grow. The cost to the public purse of higher education expansion has been partially offset. The availability of loans has been extended to part-time higher education students. In one guise or another, student loans seem likely to be an enduring aspect of higher education finance, raising the question, 'why not in further education as well?'

Individual learning accounts

A further important part of the political context has been the strong support from government for a national system of ILAs. The pilot schemes operating in a number of TEC areas are an unreliable guide to the shape of a national system. They have explored administrative mechanisms and looked at various ways of supporting priority learner groups. What has not come across clearly, however, is the central role of ILAs in supporting increased individual investment. It needs to be remembered that, in addition to distributing public funding (the £150 grants for the first 1m account holders) the ILAs have always been seen as a vehicle which can stimulate saving and borrowing in order to finance learning.

Education maintenance allowances

In 1999 the government introduced a programme of education maintenance allowances in 12 pilot areas across the country. Allowances of up to £40 per week were made available for full-time students aged 16–19 from low income families. From September 2000 the scheme has been extended so that it now covers around one-third of eligible young people; consideration will be given at the end of the pilot to its universal application, funded by the withdrawal of child benefit for those over 16. The government has also given a firm commitment to free education up to the age of 19 for both full-time and part-time students. These developments would seem to limit the need for any system of loans to those aged 19 and over.

The need for financial support

In the past few years increased attention has been paid to the financial circumstances of post-16 learners outside the higher education sector. It has been prompted by a variety of factors including the substantial erosion of support through the system of local authority discretionary awards and an increasing emphasis in public policy on widening access and participation. The DfEE and FEFC have commissioned important pieces of work which for the first time give a picture of student income and expenditure and perceived barriers to learning. The conclusion is that significant numbers of learners experience financial hardship. In *The hardship of learning* Callender reports: 'Over half of all students experienced financial hardship, two thirds had no savings, and over a quarter were in debt.' Among the most vulnerable groups – adults, parents and those from lower social classes – 'at least three quarters … had no savings and a third were in debt'.

What is less certain is the impact of financial hardship on participation or achievement. Callender notes that there is a lack of systematic research assessing the impact of finance on participation, though some evidence that financial support can be an incentive. Meagher and colleagues, in a study of non-participants in education, report that 'financial difficulties have hindered most respondents at some stage'. The report of the investigation into widening participation in further education led by Helena Kennedy, *Learning works*, also concluded that financial support was crucial. It seems highly probable that some students are prevented from participation by lack of resources, and others do not succeed for the same reason. There is clearly a need for financial support in some form for some learners, and therefore a possible role for loans. It is not clear, however, how large this group might be, or what level of support is needed to make a difference to their participation.

Attitudes to loans

A vital element in assessing the potential role of loans is the attitude of potential recipients to debt. Many, particularly those in the most disadvantaged groups, are known to be strongly opposed both to debt in general and to borrowing in order to finance education. Whether views are soundly based or not there is no doubt that aversion to debt is widespread and very real.

Meagher reports that 'the majority' would be reluctant to borrow; Callender identifies 68 per cent of younger students and 77 per cent of older ones as unlikely to consider borrowing, but on the other hand around 20 per cent of her sample would. If we focus not on the most needy but on those most likely to be able to repay there is support in both studies for the view that a significant minority would consider loans. An important finding in Callender's work is that attitudes to loans for learning are strongly linked to whether an individual thinks that the learning would pay. 'Of those who believed they would benefit financially in the long run from going to college, a half thought it not at all likely they would take out a loan'; in other words, 50 per cent would consider it.

The history of career development loans (CDLs) seems to confirm that the market for loans outside higher education is small. Since they were introduced in 1988/9 just over 105,000 loans have been taken out and the annual rate seems to have peaked at 15,000 per year in 1994/5. Nevertheless, the CDL annual reports suggest that the loans, the average value of which has risen from around £2500 to £3500 over the past decade, are a key determinant of whether an individual undertakes a particular course of training or not. Over 80 per cent of those taking a CDL report that they would not otherwise have undertaken training. It is also relevant to note that a high proportion of CDLs have been taken out to finance training which has not been available at subsidised rates in the public sector – flying lessons or HGV driver training, for example.

Potential role of income contingent loans

Over the past year the Learning and Skills Development Agency (formerly FEDA), together with Dorset TEC, the Construction Industry Training Board, the East Midlands Development Agency, Learning and Business Link, the Institute of Personnel and Development, Scottish Enterprise and Ufl, has sponsored a research project looking at the potential role of income contingent loans (ICLs) in further education and training. A report on the whole project is planned for April 2001.

In February and March 2000, as part of the larger enquiry, a series of focus groups were facilitated by Mark Corney of MC Consultancy, exploring attitudes to borrowing. The groups covered the employed and the unemployed; those aged 16–24 and those aged 25–54. The total of 89 participants contained 48 men and 41 women but there were no representatives of minority ethnic groups. Out of the whole group, 68 had participated in some form of post-initial education or training in the previous three years. Of these, 24 had used their own resources to pay for tuition or associated maintenance costs. In the majority of cases the costs had been met from income but in four cases learners had borrowed from family or friends.

The small groups were asked a series of questions about financing study. In general, their view was that learning should be supported by public funds, but there was also an acceptance that the government might eventually transfer costs to individuals. Though many were not motivated to study at the moment they recognised that they might need to participate in learning at a later stage in life.

In general, participants felt that if the costs of learning were under £1000 they would try to manage without a formal loan; a grant or loan would be needed above this level. While a minority felt that, if they needed to borrow, commercial facilities would be adequate, most argued that special loans for lifelong learning were needed. Ideally such loans should:

- have zero interest, at least during the course
- have repayment linked to ability to pay
- cover both tuition and maintenance
- be managed by a non-financial institution
- be open to everyone.

The consultant asked participants for their reaction to two loan models without revealing that the models were based on the CDL and the higher education loan. There was a very clear preference for the features of the higher education loan: the critical factor was income contingency. To be fair it was felt that loan repayments should be suspended if borrowers lost their jobs or if their income fell: it took the risk out of borrowing. While the circumstances in which individuals might feel it necessary to take out a loan for learning remained restricted there was no doubt that the income contingent model would significantly encourage take-up.

Financial advice and financial literacy

Any consideration of the increased use of loans to support students in further education must raise the questions of financial advice and financial literacy. Are all students able to assess the costs and benefits of particular options? Who can they turn to for support? The need for improved education guidance for adults is frequently raised. If decisions about which course to take and how to finance it increasingly involve the calculation of returns and repayment periods adult guidance takes on a whole new dimension with implications for the training of advisers, and perhaps codes of conduct and redress for those who are badly advised. It is worth noting that, in the USA, community colleges often employ specialists who advise students on how to fund their learning. We might usefully learn from their experience.

The impact of debt

We also need to know more about the impact of debt upon individuals and to place loans for learning in the context of the wider issue of debt in general. There is an overall increase in the level of household debt in the UK, fuelled most notably by aggressive marketing by credit card companies. Recent figures from the Office of Fair Trading suggest that consumer credit has risen by 60 per cent in the past four years; the average debt per person (excluding mortgages) now stands at £2500 (*Guardian*, 19 December 2000). There is evidence, for example from the increased numbers approaching Citizens Advice Bureaux, that many people are unable to manage their debts and get into financial difficulties. There is also evidence that those least able to repay debts often acquire them on the least advantageous terms, from loan sharks rather than banks.

An expansion of loans for further education might impact upon this picture in two ways: by directly increasing the level of debt which individuals take on, and perhaps indirectly by encouraging borrowing and reducing the stigma which still attaches to debt in some communities. It would seem wise therefore that any policy to extend the use of loans should be accompanied by research into the effects of increased levels of debt, and increased support for individuals on how to manage their financial affairs. In this context the establishment by the government of an advisory group on financial literacy, chaired by Derek Wanless, is to be welcomed.

The returns to learning

A key factor in considering the viability of a system of loans is the extent to which learning leads to increased income. There is ample evidence that acquiring a degree pays off in terms of extra earnings; this correlates with the relative readiness of university students to take on debt. Young university students in particular have not been dissuaded from participating by the need to take out a loan and at least 60 per cent of those eligible to take out a loan do so.

Existing research shows that an individual's attitude to taking on a loan is strongly influenced by perceptions of the expected return. While the relatively low percentage of Callender's respondents who expected learning to pay might be disappointing, their consequent aversion to using loans is at least rational. A similar assessment of costs and returns underlies the comments made in Corney's focus groups and their general preference for income contingency.

Returns to academic and vocational qualifications

Most research on the returns to individuals has concentrated on the highest qualifications. A recent report for the National Skills Task Force however adds considerably to our knowledge of the value of a range of academic and vocational qualifications. It suggests that, while those seeking to acquire low level qualifications might be right to reject borrowing, the returns to qualifications at Level 3 and above are significant. A clearer appreciation of the worth of getting qualified might both encourage participation and the willingness to pay and to borrow in order to participate. The report summarises the position as follows:

> *Generally, lower level NVQ and City and Guilds qualifications do not yield a significant economic return for men or women ... Men with an NVQ 3–5 qualification earn around a 6–9 per cent return, the return for a City and Guilds Craft is approximately 4–7 per cent, and for a City and Guilds Advanced 7–10 per cent. For an OND/ONC the return is 7–12 per cent and the male return for an HNC/HND is 6–22 per cent.*
>
> *The returns to academic, vocational and basic skills in Britain*

The returns for women are in most cases less than those for men but at Level 3 and above they are still clear. Qualifications in teaching and nursing produce strong positive returns.

Overall, the returns for academic qualifications are higher than those for vocational ones. This is offset to some extent by the fact that academic qualifications can sometimes take longer to achieve. Men who possess a degree,for example, earn around 28 per cent more than those with just A-Levels while an HND only yields an extra 15 per cent; but since the degree typically takes three years and the HND two, the rates per year are 9 per cent and 7.5 per cent respectively. In a similar way the *rate* of return to an individual's investment of time and money might also be better for part-time learning opportunities.

The costs of participation

The available research suggests that the acquisition of qualifications at Level 3 or above can yield a significant return in terms of lifetime earnings. It is not just associated with higher rates of pay but with an increased likelihood of getting and keeping a job. Before we can conclude that it is economically rational to take out a loan to engage in learning however it is necessary also to examine the costs of engagement in learning. If the costs are too high the investment is not justified; below a certain level it is not necessary.

There are several sources of evidence on what it costs current participants to engage in education. Callender's work in particular identifies the costs incurred by different groups of students; an analysis of current fee and fee remission policies in further education suggests the range of costs which learners will typically encounter. This data however needs to be heavily caveated. Callender's work covers only those students who have overcome financial barriers; not those who have faced greater challenges or been defeated by them. Also, an analysis of fees can only reflect current practice. Fee levels might change, as indeed they did in higher education, in close conjunction with the introduction of loans.

Callender identifies the extra costs of participation in learning as averaging nearly £600 per year. Students received only £97 on average from various forms of support and, in practice, fewer than one-quarter of students received any help at all. The largest cost for 16–19 year olds was transport, which averaged £231 per year; for many adults the cost of childcare was the largest item and the average cost for those incurring it was close to £1000.

Individual circumstances

These figures however take no account of basic living costs. As an indication of the total sums involved, student finances (in 1997/8) were summarised as follows: 'Average student income ... was £5192 while their expenditure was £6149. They made up this shortfall by drawing £572 from savings, borrowing £199 and by not paying £40 owed on bills.'

Income varied considerably by age however. Those aged 16–18 had incomes averaging £2202, compared with £6929 for those aged 19+. This is perhaps the clearest illustration of a more general point: the financial needs of students vary substantially depending on their family circumstances, their mode of study and the level and location of their course.

Student fees

In assessing the possible role of loans for lifelong learning careful account must be taken of the fees paid by students. In practice it is less of an issue than it might appear because, in the public sector, fees typically represent around 25 per cent of the cost of provision for qualification-bearing programmes and many students also have this proportion remitted.

In the further education sector fees are charged to under one-third of students, just over 1m learners in total. Only 8 per cent of those under the age of 19 are liable; mostly those on part-time programmes of whom some 30 per cent currently pay. This will change with the implementation of the government's new commitment to free education until age 19. Just over one-third of adults pay fees, with no significant difference between those aged 19–25 and older groups. Slightly fewer of those aged 60+ pay fees.

The level of fees paid in the further education sector is relatively low. Most students pay less than £100. While the average (arithmetic mean) fee paid is just over £150 the median student fee is under £100. As would be expected the fees paid for full-time programmes are generally higher than for part-time (a mean fee of almost £350 and a median of almost £300), but only some 7 per cent of students on full-time, full-year programmes pay fees at all. This is largely a product of the fact that full-time students are predominantly under the age of 19.

The fees paid for programmes at Entry level and Levels 1 and 2 are below the average, reflecting perhaps the shorter duration of many courses in these categories. For programmes at Levels 4 and 5 fees are above average; these programmes are also the only category where a majority of students pay.

There is a variety of reasons why students do not pay fees. There are key policy differences between:

- full-time students aged 16–18 (ie under 19 in the September at the start of their programme) who are exempt from fees under the 1992 Education Act
- those in receipt of unemployment benefit or income support and their dependants for whom there are national arrangements for fee remission funded by the FEFC
- those whose fees are remitted as a result of a local college policy and are therefore funded from the college budget.

The approximate proportions in each category are set out in the table below.

Payment and non-payment of fees

	1995/6	1998/9
	%	%
Exempt under the 1992 Education Act	17.5	24
On benefit/income support	15.0	9
Learning goal is ABE/ESOL*	6.0	4
Local college policy	20.0	28
Other	7.5	8
Paid in full	34.0	27
Total	100	100

*ABE, adult basic education;
ESOL, English for speakers of other languages

Outside further education, fees charged to students are generally higher. In local authority adult and continuing education the average level of subsidy is substantially less than 75 per cent, though equally there are frequent arrangements to remit fees for adult basic education and similar programmes. In the private training sector fees charged to students can often be substantially higher and it is interesting that it is in this area that CDLs appear to be more frequently used.

Conclusions

The general conclusion to be drawn from this brief survey is that there is a role for loans in post-16 education and training, but probably one which is tightly circumscribed.

- It seems unlikely that there will be any role for loans in supporting students under the age of 19. The government is committed to the provision of free education for this age group; and for those whose parents find difficulty in supporting continued involvement in learning there will probably be public subsidy through a universal system of education maintenance allowances.
- It is doubtful whether there should be a significant role for loans in supporting learners to access programmes below Level 3. The available evidence on the returns to individuals suggests that the financial benefits are modest and uncertain. Even if individuals were prepared to take a loan the Treasury might be reluctant to lend if it seemed that many learners would not reach the income levels needed to trigger repayments.
- For programmes at Level 3 and above the evidence on returns suggests that it could be in an individual's financial interest to borrow to finance learning. A loan scheme might also be viable in that there seems a good prospect of loans being repaid. A focus on returns to the individual would seem to provide a more logical basis for a policy than a distinction between further education and higher education.
- In the largest part of the potential market – part-time courses of further education – current fee levels in the public sector are well below the rate at which potential students seem to look to formal loan arrangements. When other costs of participation are taken into account however the need for loans or other forms of public support seems more compelling. Fees charged in the private sector are not normally subsidised and there seems no logical reason to restrict loans to publicly funded education.
- Loans would be most likely to make a contribution to lifelong learning in circumstances where a combination of fees and other participation costs is substantial and the programme offers the prospect of high returns to participants. At present such a combination of factors is found in full-time programmes at Level 3 and above, and in programmes outside the scope of current public sector subsidies.

References

Callender C. *The hardship of learning.* South Bank University, 1998.

Dearden L, McIntosh S, Myck M, Vignoles A. *The returns to academic, vocational and basic skills in Britain.* DfEE, 2000.

DfEE. *The learning age: a renaissance for a new Britain.* DfEE, 1998.

Herbert A, Callender C. *The funding lottery.* PSI, 1997.

Kennedy H. *Learning works.* FEFC, 1997.

Meagher N, Robson, E. *Financial needs of non-participants in education and training.* University of Newcastle, 1998.

National Skills Task Force. *Third report of the National Skills Task Force.* DfEE, 2000.

The government's consultation document *The learning age* identifies the need for a substantial increase in investment in education and training, but also emphasises that public resources are limited. The report highlights the need for individuals and employers to take on more responsibility for financing learning and recommends targeting public subsidy on those in greatest need and those without basic skills. *Lifelong learning: is there a logic for loans?* identifies what role there might be for loans in lifelong learning. It summarises what we know about the need for loans, their acceptability to different users and the prospects for an effective system of operation. It also helps to identify what work needs to be done before concrete proposals for a system of loans can be developed.

the agency reports

ISBN 1 85338 645 6

NOTICE

Reproduction Basis

☒ This document is covered by a signed "Reproduction Release (Blanket)" form (on file within the ERIC system), encompassing all or classes of documents from its source organization and, therefore, does not require a "Specific Document" Release form.

☐ This document is Federally-funded, or carries its own permission to reproduce, or is otherwise in the public domain and, therefore, may be reproduced by ERIC without a signed Reproduction Release form (either "Specific Document" or "Blanket").